TOWARDS BEING
THE WORLD'S MOST

TRUSTED FINANCIAL GROUP

ANNUAL REPORT 2020

MUFG Bank (Malaysia) Berhad

www.mufg.jp/english

MUFG

CONTENTS

MISSION, VISION AND VALUES

MISSION

To be a foundation of strength, committed to meeting the needs of our customers, serving society, and fostering shared and sustainable growth for a better world.

VISION

To be the world's most trusted financial group

Work Together to Exceed the Expectations of Our Customers

Strive to understand and respond to the diversified needs of our customers.

Maintain and expect the highest levels of professionalism and expertise, supported by our consolidated strength.

Provide Reliable and Constant Support to Our Customers

Give the highest priority to protecting the interests of our customers.

Promote healthy, sustainable economic growth.

Maintain a robust organization that is effective, professional, and responsive.

Expand and Strengthen Our Global Presence

Leverage our strengths and capabilities to attract a loyal global customer base.

Adapt rapidly to changes in the global economy and their impact on the needs of our customers.

VALUES

Integrity and Responsibility

Strive to be fair, transparent, and honest. Always act responsibly in the best interest of customers and society as a whole, building long term stakeholder relationships and giving back to our communities.

Professionalism and Teamwork

Respect the diversity of our fellow workers and foster a strong spirit of teamwork. Expect the highest levels of professionalism.

Challenge ourselves to Grow

Adopt a global perspective to anticipate trends and opportunities for growth. Create and sustain a responsive and dynamic workplace where everyone can focus on providing outstanding customer service and embrace new challenges.

CORPORATE INFORMATION

MUFG

REGISTERED OFFICE ADDRESS

Level 9, Menara IMC, No. 8 Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel : +603 - 2034 8000
+603 - 2034 8008
Fax : +603 - 2078 8860

https://www.bk.mufg.jp/malaysia/index.html

MANAGEMENT

Takuma Matsuyama
Chief Executive Officer/President and Executive Director

Yoichi Aoki
Managing Director

Foo See Hee
Managing Director

Christopher Danker
Managing Director

Goh Kiat Seng
Managing Director

COMPANY SECRETARY

Wong Lai Kuan
(MAICSA 7032123)
SSM PC: 201908003903

AUDITORS

KPMG PLT
Level 10, KPMG Tower
8 First Avenue, Bandar Utama
478000 Petaling Jaya, Selangor

BANK'S PROFILE

The Bank of Tokyo, Ltd. (Kuala Lumpur Branch) successfully managed to strengthen economic ties between Malaya and Japan and played a crucial role in the economic development of Malaysia by encouraging large number of Japanese foreign direct investment into this new emerging economy.

MUFG Bank (Malaysia) Berhad, celebrated its 60th Anniversary in Malaysia in 2017. The journey of the Bank in Malaysia has been long and continuously successful. The Bank of Tokyo, Ltd. set up its first representative office in the then Malaya in October 1957 and subsequently obtained its banking license in June 1959, making it the first Japanese bank to provide a full range of banking services.

The Bank of Tokyo, Ltd. (Kuala Lumpur Branch) successfully managed to strengthen economic ties between Malaya and Japan and played a crucial role in the economic development of Malaysia by encouraging large number of Japanese foreign direct investment into this new emerging economy. Further to Malaysian Government's "Look East Policy" in the 80's to attract Japanese investments, the Bank's International Trade and Investment Bureau which was set up in 1979, played a bigger role in disseminating vital information to attract more Japanese investors into Malaysia.

On June 1, 1994, Bank of Tokyo (Malaysia) Berhad was locally incorporated, pursuant to the provision of the Banking and Financial Institutions Acts, 1989 (BAFIA 1989). The locally incorporated entity took over the banking operations from The Bank of Tokyo, Ltd. on July 1, 1994 and became a fully owned subsidiary of its Parent Bank in Tokyo.

On April 1, 1996, The Bank of Tokyo, Ltd. and The Mitsubishi Bank, Limited merged in Japan on an equal-term basis to form The Bank of Tokyo-Mitsubishi, Ltd. To reflect the merger, the Bank's name was changed then to Bank of Tokyo-Mitsubishi (Malaysia) Berhad. To further strengthen its presence globally, in October of 2005, the Mitsubishi UFJ Financial Group ("MUFG") was formed through the integration of Mitsubishi Tokyo Financial Group (MTFG) and the UFJ Group, uniting The Bank of Tokyo-Mitsubishi, Ltd, Mitsubishi UFJ Trust & Banking Corporation and Mitsubishi UFJ Securities under a single financial holding company.

Consequently, The Bank of Tokyo-Mitsubishi UFJ, Ltd was established on 1st January 2006 from the merger of Bank of Tokyo-Mitsubishi Ltd and UFJ Bank, marking the birth of the largest bank in the world in terms of total assets. On the same day, Bank of Tokyo-Mitsubishi (Malaysia) Berhad was renamed to Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad ("BTMU (M)").

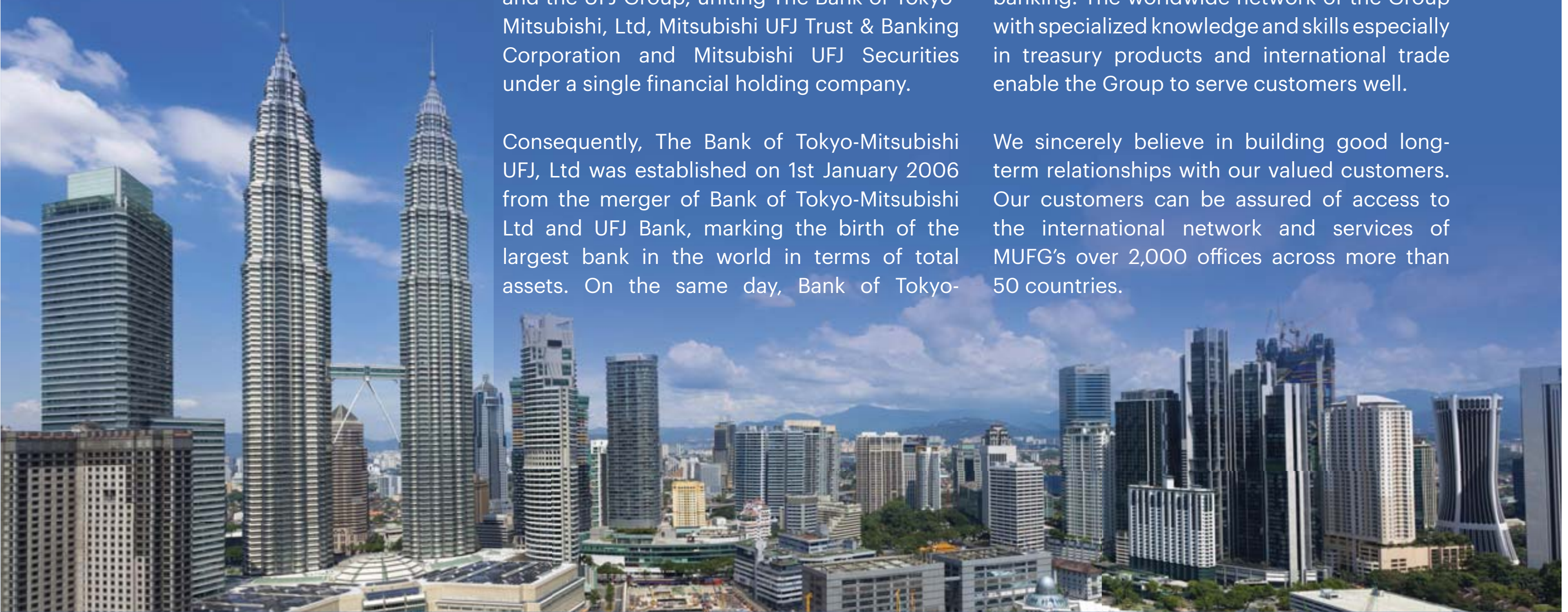
The global network since then has grown tremendously and paving a way for a new opportunities for growth. In line with the group's overall strategy utilise the globally recognised group brand and to provide clear defining roles and functions of each of the subsidiaries under the Mitsubishi UFJ Financial Group ("MUFG"), effectively on the 2 April 2018, the Bank is now known as MUFG Bank (Malaysia) Berhad.

The positive synergies and economies of scale has continuously kept the bank on the leading edge of new products development and service capabilities for the benefit of its clients worldwide. MUFG Bank has further strengthen its presence in Malaysia with the increased number of customers and its long-term relationship with the existing large number of Japanese investors especially in the manufacturing, construction and services sectors. From 2006 onwards, a strategic alliance with a leading regional financial institution has further strengthened our presence in Malaysia and as a leading banking institution in the region.

MUFG Bank (Malaysia) Berhad opened its first branch in Penang in July 2012. The Penang branch caters for the fast growing economy in the northern region of Peninsula Malaysia and continues to extend better quality service to the new and existing customers.

MUFG Bank (Malaysia) Berhad also continuously enjoys strong support and backing of its Parent Bank and its Group with 125 years tradition of pioneer ship in international and domestic banking. The worldwide network of the Group with specialized knowledge and skills especially in treasury products and international trade enable the Group to serve customers well.

We sincerely believe in building good long-term relationships with our valued customers. Our customers can be assured of access to the international network and services of MUFG's over 2,000 offices across more than 50 countries.



BANKING SERVICES

CORPORATE BANKING

- Export Credit Refinancing
- Loans - Term Loans
  - Revolving Credit
  - Foreign Currency Loan
- Loans to Small & Medium Enterprise
- Bankers Acceptance
- Letter of Guarantee
- Account Receivables Purchases
- Vendors Financing

DEBT CAPITAL MARKET

- Advising on Private Debt Securities (both Conventional and Islamic)
- Advising on Asset Securitisation

DEPOSIT

- Current Account
- Savings Account
- Money Market Deposit
- Fixed Deposit
- Cashier's Order
- Domestic Remittance
- Foreign Currency Account
- Standing Order Service

HOUSING LOAN

- Housing Loans

STRATEGIC RESEARCH

- Strategic Research

INTERNATIONAL TRADE FINANCE AND SERVICES

- Export and Import
  - Documentary against Payment/ Acceptance
  - Letter of Credit

REMITTANCE

- Outward Remittance
- Inward Remittance
- Clean Bills for Collection

TREASURY

- Foreign Exchange: Spot and Forward
- Derivatives and Options
- Money Market

ISLAMIC BANKING

Financing

- Commodity Murabahah Financing-i
  - Revolving Credit
  - Term Financing
- Ijarah Financing-i
- Invoice Financing-i
- Mudarabah Financing-i
- Murabahah Working Capital Financing-i
- Step Up Fixed Rate Financing-i
- Synthetic Foreign Currency Financing-i
- Wakalah Financing-i

Deposit

- Commodity Murabahah Deposit
  - Call Money-i
  - Islamic Fixed Deposit
  - Islamic Money Market Deposit
- Current Account-i
- Foreign Currency Account-i

Guarantee

- Bank Guarantee-i
- Standby Letter of Credit-i

Treasury

- Islamic Cross Currency Swap
- Profit Rate Swap-i

Service

- Shariah Advisory Business

CASH MANAGEMENT SERVICES

- Cash Forecasting Service
- COMSUITE Receivable Manager
- Cross Border Actual Pooling Service
- Domestic Actual Pooling Service
- GCMS Plus (Corporate Internet Banking)
- Global Payment Hub (Host to Host)
- Interest Optimisation Scheme
- Payment Email Notification Service for GIRO, JomPAY and DuitNow Service

BOARD OF DIRECTORS

Y.Bhg Dato' Mohd Sallehuddin bin Othman
Chairman and Independent Director

Takuma Matsuyama
Chief Executive Officer/President and Executive Director

Ismail bin Mahbob
Independent Director

Y.Bhg Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani
Independent Director

BOARD OF DIRECTORS

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Y.Bhg Dato' Mohd Sallehuddin bin Othman
Chairman and Independent Director

Takuma Matsuyama
Chief Executive Officer/President and Executive Director

Ismail bin Mahbob
Independent Director

Y.Bhg Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani
Independent Director

AUDIT COMMITTEE

Y.Bhg Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani
Chairman

Y.Bhg Dato' Mohd Sallehuddin bin Othman

Ismail bin Mahbob

RISK MANAGEMENT COMMITTEE

Ismail bin Mahbob
Chairman

Y.Bhg Dato' Mohd Sallehuddin bin Othman

Y.Bhg Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani

NOMINATION COMMITTEE

Y.Bhg Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani
Chairman

Y.Bhg Dato' Mohd Sallehuddin bin Othman

Takuma Matsuyama

Ismail bin Mahbob

REMUNERATION COMMITTEE

Ismail bin Mahbob
Chairman

Y.Bhg Dato' Mohd Sallehuddin bin Othman

Y.Bhg Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani

SHARIAH COMMITTEE

Assoc. Prof. Dr. Abdul Karim bin Ali
Chairman

Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi
Member

Prof. Dato' Dr Mohd Azmi bin Omar
Member

Assoc. Prof. Dr. Mohamad Zaharuddin bin Zakaria
Member

CHAIRMAN'S STATEMENT

Despite the challenging business environment in 2019, MUFG Bank (Malaysia) Berhad managed to achieve satisfactory results in FY 2019/2020.

The Bank's performance is attributable to its rigorous efforts and strategy to remain focused on its core corporate banking business and further build on the intrinsic strengths derived from the fast growing investment banking and Islamic financing business, largely as new channels for growth.

Dato' Mohd Sallehuddin bin Othman
Chairman

CHAIRMAN'S STATEMENT

The global economic environment deteriorated in 2019 due to the ongoing US-China trade war, with growth across and within regions dampened by various factors. In the advanced economies, United States economy continued to show signs of slowing down and the euro area struggled with stagnation and increased deflation risk. In Asia, the economic slowdown in China continued as exports slowed while other Asian countries registered modest economic growth. Looking ahead, although the pace of growth is expected to be less robust as compared to previous years, the long-term prospects in Asia remain positive.

In 2019, the Malaysian economy maintained its resilience, underpinned by continued expansion in domestic demand and growing investments by the private sector. As a result, the Malaysian economy recorded moderate growth of 4.3% in 2019.

Going forward, Malaysia's economic environment has become even more challenging following the outbreak of the COVID-19 pandemic. The situation has been further worsened by the slump in global crude oil prices and disruption in the global supply chain. Domestic demand has dropped tremendously and many sectors have been impacted severely by the Movement Control Order since 18th March 2020. Although investment activity is expected to slow down drastically, a number of measures announced in the stimulus packages will continue to support growth. On the external front, while growth is expected to decline due to the impact of the pandemic, demand for goods will continue to grow amid the anticipated global economic recovery upon lifting of the COVID-19 lockdown globally in the second half of 2020.

Despite the challenging business environment in 2019, MUFG Bank (Malaysia) Berhad managed to achieve satisfactory results in FY 2019/2020. The Bank's performance is attributable to its rigorous efforts and strategy to remain focused on its core corporate banking business and further build on the intrinsic strengths derived from the fast growing investment banking and Islamic financing business, largely as new channels for growth.

> **"However, the implementation of the Economic Recovery Plan and the large infrastructure projects will give respite to the overall gloomy picture.**

CHAIRMAN'S STATEMENT

However, the Bank remains cautious in the light of uncertainties in the global economy and will continue to be prudent to maintain sustainable growth. With the Bank's resilient track record of financial performance as well as strong asset quality and backed by firm capital structure, the Bank is well prepared to grasp opportunities arising from the next phase of growth. As the banking landscape continues to evolve and change, the bank will continue to be steadfast and focused building a sustainable business that has the strength to support its customers through economic cycles and seize new opportunities when they arise.

Looking ahead, the Bank will aggressively continue to grow its customer base, specific segments and fee-based income through introduction of new products and schemes. Basically this will further strengthen the Bank's position in the market and increase its presence regionally. The prospect for the Bank is very encouraging as it has ventured beyond conventional banking, including into Islamic and alternative financing schemes using our global network and product expertise.

In anticipation of increased challenges in business and higher compliance requirements, the Bank has further strengthened the Bank's operational efficiency and its delivery system. The Bank with its established regional support in Penang, will continue to invest in the latest technology that enables the Bank to manage its growth efficiently and to deliver its products and services in the most cost-effective manner. Stringent health and safety measures have also been implemented to ensure our staff and customers are protected from the pandemic.

Moving into 2020, we expect a more volatile business environment with headwinds from the external sector and slower growth domestically. However, the implementation of the Economic Recovery Plan and the large infrastructure projects will give respite to the overall gloomy picture. Despite the challenging market conditions, the government's stimulus packages and continuation of developmental projects will definitely bring positive vibes into the market via intense capital market activities, a more buoyant stock market, industry consolidations activities and renewed interest in joint ventures which would spur business activities for the Bank.

I am grateful and would like to express my sincere appreciation to each and every stakeholder including all the employees who had jointly upheld their trust in the Bank with strong unwavering commitment to remain in the forefront of the Malaysian banking and financial industry. Thanks to their continuous and unflinching support, the Bank has successfully continued to achieve higher levels of profitability.

As the Bank forges ahead with the next phase of growth, the Bank believes in maintaining good relations with the community and strives to create an image of a good corporate citizen that cares for the society and the community. Over the years, the Bank has undertaken numerous ESG initiatives in line with the United Nation's sustainable development goals ("SDG") taking into consideration the interest of the community, employees, environment, our parent Bank and all other stakeholders. The Bank will continue to work on more ESG activities in line with our Bank's aspiration to give back to the community.

Finally, on behalf of the Board of Directors, I present to you the financial results of MUFG Bank (Malaysia) Berhad for the year ended 31 March 2020.

Notwithstanding the many challenges and volatility in external demands, for the financial year ended 31 March 2020, the Bank managed to register an operating income of RM 475.7 million. The pre-tax profit was RM 230.2 million while the net profit after tax was RM 158.8 million. The operating income was attained with the continuous effort to increase business volume, number of transactions, market share and pro-active participation in financing activities related to large corporate deals partly attributable to the Bank's strategic plan and focus on profitable segments. Despite the challenging operating environment, the Bank continued to expand its reach and further augment our presence through swift and concerted policy, conscientiously implemented to service our customers located nation-wide.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to thank everyone involved with the Bank, especially the CEO and his management team and all staff of the Bank, my colleagues on the Board, the Shariah Committee and our valued customers. Our progress over the years would not have been possible without the trust, commitment, dedication and integrity of our people. They have certainly contributed much to the positive results that I have just had the pleasure of highlighting to our shareholder and other stakeholders. Last but not least, my sincere thanks and appreciation to Bank Negara Malaysia, PIDM and all other relevant authorities for their support and guidance.

Dato' Mohd Sallehuddin bin Othman
Chairman

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Amid these unprecedented economic challenges, the Bank will remain focused on strengthening its solid business foundation and competitive strength for sustained business growth.

Its corporate strategy will remain centered on the values of integrity, professionalism, accountability and corporate responsibility.

Takuma Matsuyama
Chief Executive Officer ("CEO")/
President and Executive Director

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Despite the challenging global economic environment, Malaysian economy recorded a higher than expected growth of 4.3% in 2019 mainly supported by the continued strength in domestic demand and external trade.

Moving forward into year 2020, the unexpected outbreak of the COVID-19 pandemic is continuously posing major challenges to the economy, the country and MUFG Bank Malaysia ("The Bank") operating environment. This pandemic had inflicted significant economic disruption across the world as most countries, including Malaysia. Malaysia have taken an unprecedented but necessary control measures such as movement control to contain further spread of the outbreak.

Malaysian Government has promptly imposed Movement Control Order ("MCO"), an unprecedented measure to flatten the curve and has implemented substantial fiscal measures, as well as financial and monetary support to mitigate the downside pressure on the nation. Bank Negara Malaysia ("BNM") has also responded promptly with series of operating procedure for the Banks to continue to deliver essential service to the public while maintaining safety of Bank personnel and the public.

The Bank has also joined the collaborative efforts and played its part as a responsible corporate citizen by offering loan moratorium to borrowers in need and has supported monetary contribution in kind to provide relief to the community under MCO.

To further protect all stakeholders from the outbreak, the Bank implemented strict standard operating procedures ("SOP") for all staffs and customers to follow such as hygiene control using masks, shield, sanitizers while practicing 1-m social distancing rule to help curb the spread of infection. The Bank has also initiated flexible work-from-home arrangement ("WFH") and split operations to further strengthen our business continuity operations for sustainable delivery of our essential services to customers during MCO period.

The Bank deeply appreciate and salute all staff endeavours and efforts and has strictly adhered to the SOP to continue with smooth operations of the Bank. The dedication and sacrifices of the staffs, loved ones, families in helping to curb the spread of the pandemic are held in highest regard.

"The Bank has also joined the collaborative efforts and played its part as a responsible corporate citizen by offering loan moratorium to borrowers in need and has supported monetary contribution in kind to provide relief to the community under MCO.

For year 2020, the adverse impact of the pandemic is likely to affect the overall economy for the most part of the year. Coupled with the plunge in global oil prices and disruption to global supply chain, the Malaysian economy is expected to be significantly impacted for most part of this year. For the banking industry, the reductions in Overnight Policy Rate will result in higher pressure on net interest margins.

The domestic economy is already facing the economic effects from the necessary actions taken to contain COVID-19 locally such as MCO and continued supply disruptions in the commodities sector. These shocks, particularly the significant economic repercussions induced by the unprecedented COVID-19 health crisis, are expected to weigh in significantly on growth prospects for the year. The containment measures undertaken by authorities globally and domestically, which are critical and necessary, are projected to weigh on growth in the first half of the year.

When the health crisis is eventually addressed, growth will continue to be supported by the gradual improvement and recovery in household spending, further progress in the implementation of transport-related projects and higher public sector expenditure. The monetary policy responses and economic stimulus measures undertaken in the first half of the year will provide additional support to growth. The economy is subsequently expected to normalize in 2021, which in line with the projected recovery in the global economy according to IMF forecast.

Amid these unprecedented economic challenges, the Bank will remain focused on strengthening its solid business foundation and competitive strength for sustained business growth. Its corporate strategy will remain centered on the values of integrity, professionalism, accountability and corporate responsibility. Creating, delivering and enhancing values to the stakeholders will continue to be the Bank's approach as it continues to deliver its corporate mission of sustaining the position of being the world's most trusted bank.

Over the years, the Bank has received tremendous support from shareholders and customers. We are also thankful to the Board of Directors and all employees for their dedication and commitment in growing the Bank from strength to strength. Our gratitude as well to BNM and the relevant authorities for their continuous guidance and support.

The Bank, with its proven track record of profitability and strong asset quality, as well as healthy liquidity profile, will remain resilient in this challenging operating environment. MUFG Malaysia has confidence that it has the capability to overcome such challenges and is in a strong position moving into 2020.

Going forward, the Bank's business strategy during these uncertain times is to continue to emphasize on transformation for operational efficiencies to deliver superior valued-added proposition to customers while implementing effective and disciplined cost control and maintaining healthy balance sheet management. The Bank will remain prudent in its risk appetite while driving more market share by offering competitively priced products and solutions as well as innovative product.

The Bank also aims to expand its corporate lending business by leveraging on its existing clientele with good track record and acquire targeted new corporate clients in growth and resilient sectors.

The Bank will also continue to work closely to fulfil our customers' needs to remain competitive, comprehensive and relevant to customers' needs. In addition, the Bank will continue to expand on the new business channels and continue to grow fee income segment through foreign exchange related transactions and transactional banking services.

The Bank will continue to build on its strengths to further develop its business and sustain its market position. The Bank will continue to focus on sustaining operational excellence and efficiency, adopting prudent and responsible financing practices, while upholding strong and robust corporate governance and compliance culture as well as sound risk management practices.

Given the challenging market environment, the Bank's treasury and capital market operations will continue to ensure that sound market conduct, risk management practice and maintain strong liquidity positions.

During the year through the Islamic Banking arm, the Bank has recorded a few remarkable and epoch-making financing deals from both domestic and overseas markets.

The Bank continues to acts as the Islamic Finance Hub for the MUFG Group by collaborating with affiliates in exploring potential deals that covers South East Asia, Middle East and Japan. We stacked another milestone to Japanese's market through our capability in Islamic capital market to further contribute towards the internationalization of Islamic finance.

The Bank successfully delivered and financially closed of Islamic project financing facility for Indonesian state-owned energy company. The deal was awarded as Oil & Gas of The Year 2019 by Project Finance International (PFI) Awards and Indonesia Best Deal of the Year 2019 by Islamic Financial News (IFN) Awards.

Another notable achievement of the Bank is Sukuk investment from Japan. A proactive approach resulted in MUFG successfully obtaining clarification on the tax treatment for Sukuk investment in Japan. The final outcome resulted in successful subscription of Sukuk issued in Malaysia by Japanese investor with the Bank taking the lead manager role.

The Bank is also seriously looking at sustainable growth given evolving trends such as slowing economic growth, demographic shifts and technological advancements, as well as incorporating emerging environmental, social and governance ("ESG") considerations into our longer-term strategic aspirations.

Internally the Bank has initiated several ESG initiatives such as introduction of proper segregation of office waste to promote recycling and environmental-friendly use of materials in office. The office premise are also equipped with the use of brighter energy-saving LED lighting and use of environmentally friendly paper for office usage. All of these are in line with the Bank's aspiration to promote green and sustainable environment.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Pre-tax profit
RM230.2
million

Net profit after taxation
RM158.8
million

Return on equity
4.9%

Total capital ratio
23.56%

In line with the United Nation's sustainable development goals the Bank has also embarked on external initiatives to adopt the principles of responsible banking. The Bank has successfully launched the first Islamic Sustainability-Linked Financing which incorporated the climate-related financial risk and climate smart lending to a telecommunications company in Malaysia and continued promotion of Sustainable Finance to all of our customers in line with our aspiration to support climate change initiatives.

To expand business further, the Bank continues to tap into its own global network and the extensive network provided by strategic alliance partners such as Morgan Stanley group and hybrid partnership banks in Asean such as Krungsri, Danamon, Security Bank etc via their wide array of innovative financial products, solutions and other delivery channels such as internet banking and regional business development offices to widen our outreach to support our customers.

Going forward, the Bank believes that it is positioned well to adapt to the changes or disruptions and continuously attain customer acceptance and confidence in our services and products. Further, by leveraging on MUFG's strengths, namely its global network, strong financial standing, sound risk management practices, and dedicated and productive workforce, the Bank is poised to be able to serve all our customers better.

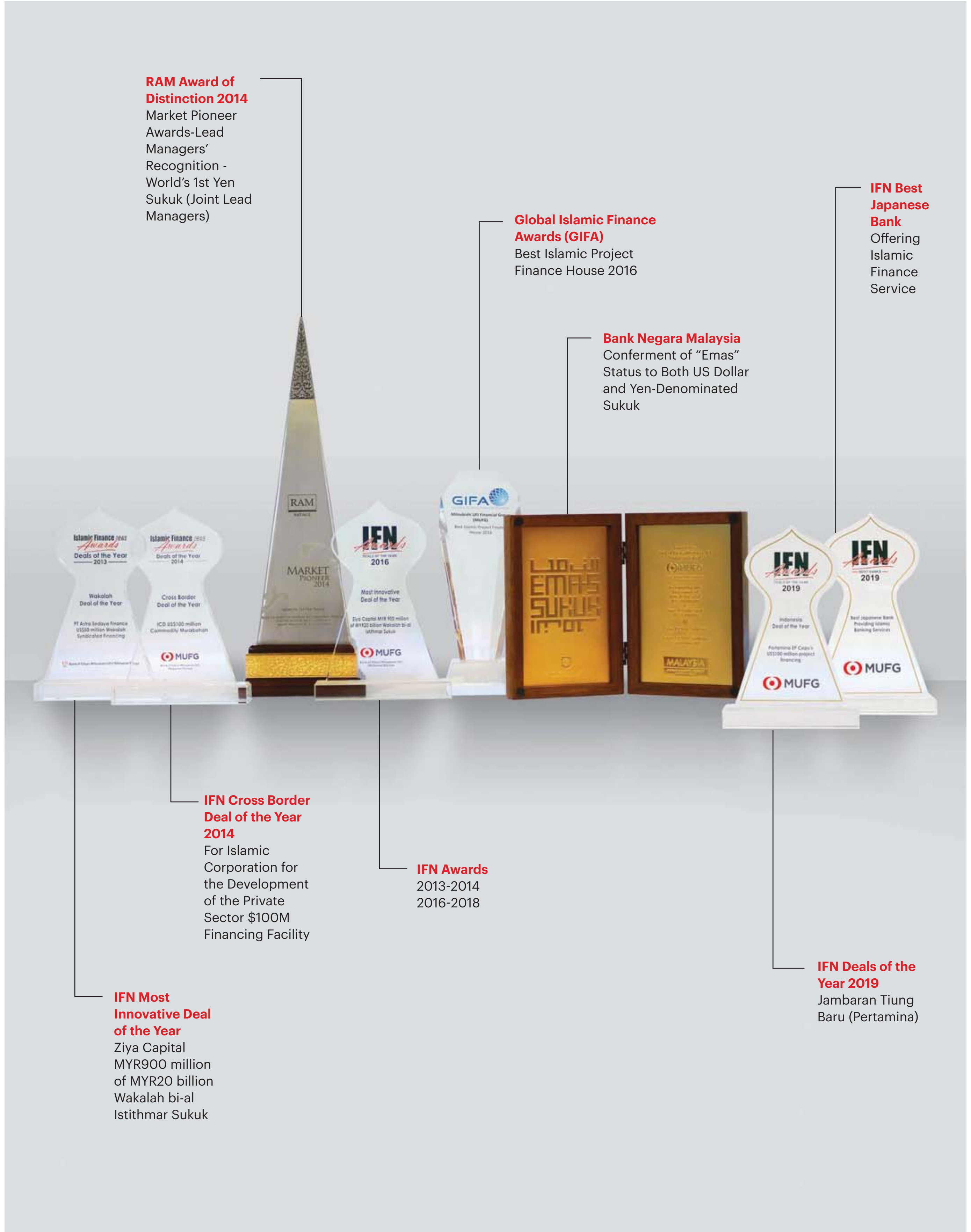
For the financial year ended 31 March 2020, the Bank registered a pre-tax profit of RM230.2 million. Net profit after taxation was RM 158.8 million. Return on equity remained satisfactory at 4.9%. The Bank remains strongly capitalised with the total capital ratio of 23.56%, well above the industry average. While, shareholders' funds increase to RM 3.3 billion, total loans and advances maintained at RM 10.0 billion.

We express our sincere thanks, gratitude and appreciation to all our valued customers for their continuous support and also to our staffs for their effort and dedication throughout the year. We also extend our heartfelt thanks and appreciation to Bank Negara Malaysia and other relevant authorities for their kind assistance and guidance.

August, 2020

Takuma Matsuyama
CEO/President and Executive Director

AWARDS & ACCOLADES



CSR ACTIVITIES

Each year we will embark on carefully thought Corporate Social Responsibility programmes. This year, MUFG continues its pledge to support in encouraging extracurricular educational experience to kindle curiosity and interests in students to develop a positive attitude towards education. 30 special needs students were taken on a school trip to National Zoo where they had the opportunity to bond with peer groups, MUFG volunteers, teachers and also in an interactive tour with the zoo facilitator. They also participated in several quizzes and animal show specially designed by Zoo Negara Malaysia.

The programme ended successfully with all smiles from students and volunteers. MUFG is committed to education and conservation of nature and wildlife

CONTENTS

DIRECTOR'S REPORT

FOR THE FINANCIAL ENDED 31 MARCH 2020

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 March 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Bank during the year are banking and related financial services, including Islamic Banking business. There has been no significant change in the nature of the principal activities during the financial year.

HOLDING COMPANIES

The Bank is a subsidiary of MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. ("MUFG"), which are incorporated in Japan, and regarded by the Directors as the Bank's immediate holding and ultimate holding company, during the financial year and until the date of this report.

RESULTS

	31.03.2020 RM'000
Profit after tax for the year	158,794

In the opinion of the Directors, the results of the operations of the Bank for the financial year ended 31 March 2020 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

RESERVES AND PROVISIONS

The Bank has transferred RM14.2 million from retained profits to regulatory reserve account. There were no other material transfers to or from reserves and provisions during the financial year under review other than as disclosed in the statement of changes in equity to the financial statements.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year ended 31 March 2020.

ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued and paid up share capital of the Bank during the financial year.

There were no issues of debentures during the financial year.

DIRECTORS OF THE BANK

Directors who served during the financial year until the date of this report are:

Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Chairman)
En. Ismail bin Mahbob
Mr. Takuma Matsuyama
Y. Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Appointed on 1 June 2019)
Y.Bhg. Dato Abdul Rahim bin Osman (Retired as Chairman and resigned as Independent Director on 31 May 2019)
Mr. Hiroaki Demizu (Resigned on 6 September 2019)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in Note 32 to the financial statements or the fixed salary of a full-time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

None of the other Directors holding office at 31 March 2020 had any interest in the shares in the Bank and of its related corporations during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Bank during the financial year.

BUSINESS STRATEGY AND OUTLOOK

OVERVIEW OF THE ECONOMY AND PROSPECTS FOR 2020

GLOBAL ECONOMY

The global economy and global trade expanded by 2.9% and 1.0%, respectively in 2019 (2018: 3.6% and 3.7%, respectively), which were the lowest since 2009. The sharp moderation in growth of both economic and trade activities was due mainly to the protracted and unresolved global trade tensions which exacerbated the cyclical downturn in global manufacturing and investment activities.

The cycles of intensification and de-escalation of trade tensions in 2019 generated significant uncertainties, which affected business sentiments and resulted in intermittent spikes in financial market volatility. Throughout the year, the trade dispute between the US and PR China expanded to encompass more products and moved beyond tariffs on goods to include company specific sanctions, particularly in the technology industry. Increasingly, the trade dispute has led multinational corporations to reassess their global production strategies, prompting a reconfiguration of global value chains.

The trade dispute compounded the ongoing cyclical downturn in global trade and dampened investment activity. Amidst weak demand conditions, the automotive industry was severely affected by supply disruptions, while the tech cycle was on a downturn. Investment activity in many major economies was thus weakened by the concurrent effects of a poor near-term business outlook and uncertainties surrounding the trade dispute.

Despite weaker trade and investment activities, steady consumption demand provided some support to global growth. Domestic demand in major economies was supported by resilient private consumption, underpinned by favourable labour market conditions with stable wage growth and lower unemployment rates. Expansionary fiscal policies in the US and most emerging market economies also helped to cushion growth.

Going into year 2020, the outbreak of the COVID-19 pandemic became a major challenge to the economy globally. The pandemic has inflicted significant economic disruption across the world as most countries, including Malaysia, have taken unprecedented but necessary control measures such as country wide lockdowns, Movement Control Orders ("MCO") and total border closures to contain the spread of the outbreak.

MALAYSIAN ECONOMY

For the whole of 2019, gross domestic product ("GDP") growth stood at 4.3 percent. Malaysia's economy expanded at a much slower pace in the second half of 2019, growing at 4.4 percent in Q3 and decelerating further to 3.6 percent in Q4. Private consumption remains the key driver of growth, anchored by positive income and employment growth. Growth in private investment remained slow on lower capital spending across economic sectors. Public investment remained in contraction, reflecting lower capital spending by both the federal government and public corporations.

DIRECTOR'S REPORT

BUSINESS STRATEGY AND OUTLOOK (CONTD)

OVERVIEW OF THE ECONOMY AND PROSPECTS FOR 2020 (CONTD)

MALAYSIAN ECONOMY (CONTD)

Meanwhile supply disruptions continued to affect the commodities and agriculture sectors. Growth was also significantly affected by a deeper contraction of net exports of 1.3 percent and 3.3 percent in Q3 and Q4, respectively. Exports of electrical and electronics ("E&E") products were affected by the cyclical slowdown in the global technology cycle, while commodity exports were affected by a sharp contraction in liquefied natural gas exports. Growth of intermediate and capital imports shrank during the second half of 2019 on lower imports of intermediate E&E equipment and slower investment in machineries and transport equipment.

In the second half of the year, the economy was affected by supply disruptions in the commodities sector. Private consumption remained firm in 2019. Household spending was supported by continued income and employment growth. Lower income households also benefitted from key Government measures such as the increase in minimum wage and cash transfers.

In addition to lower global demand, investment activity in Malaysia was weighed down by weak investor sentiments. While foreign direct investment ("FDI") remain sustained, investments by the private sector were affected by the highly uncertain global outlook, a broad-based decline in corporate profitability and continued weakness in the domestic property market. Meanwhile, investments by the public sector were particularly weak due mainly to lower capital spending by public corporations and the review of some large projects. However, weakness in investment activity was mitigated by several factors. First, large multiyear investment projects in the resource-based and E&E manufacturing subsectors continued to make steady progress. Second, the resumption of several rail transport projects, mainly in the second half of the year, provided some lift to investment growth. Third, broadly stable global oil prices in 2019 also supported further capital outlay by companies in the mining sector.

The domestic economy continued to be affected by supply disruptions in the production of key commodities in 2019. Following the severe supply disruptions in 2018, growth in the agriculture and mining sectors rebounded in the first half of 2019 driven mainly by the recovery in oil palm and natural gas production. In the second half of the year, however, growth in the agriculture sector contracted as the lagged impact of dry weather conditions and a cutback in fertiliser application in the early part of the year affected oil palm yields.

Similarly, growth in the mining sector also declined as facility closures and maintenance work had affected both crude oil and natural gas output. The lower commodity production compounded the subdued external demand and ongoing trade tensions, resulting in a decline of 1.7% in Malaysia's gross exports in 2019 (2018: 7.3%).

The decline in external demand and investment activity resulted in lower demand for imports, which declined by 3.5% in 2019 (2018: 5.2%). In tandem with the decline in exports, imports for further processing as well as imports for re-export activity were subdued in 2019. The lower investment activity also reduced demand for capital imports, particularly machinery and transport equipment.

The larger contraction in goods imports vis-à-vis weak export growth contributed towards a higher current account surplus of RM49.7 billion or 3.3% of GDP (2018: RM30.6 billion or 2.1% of GDP). The higher current account surplus was also attributable to an increase in tourism receipts. This was further supported by a lower primary income deficit, in line with more moderate FDI income during the year.

Going into year 2020, the outbreak of COVID-19 pandemic had not only adversely impacted the global economy but has resulted in unprecedented unemployment issues due to severe damage to specific sectors such as the airlines, tour operators, hotels and related service providers. The pandemic is therefore likely to affect the economy for the most part of the year. Coupled with the plunge in global oil prices, the Malaysian economy is expected to be significantly impacted this year. For the banking industry too, the reductions in Overnight Policy Rate ("OPR") will result in higher pressure on net interest margins.

The domestic economy is already facing the economic effects from the necessary actions taken to contain COVID-19 locally and continued supply disruptions in the commodities sector. These shocks, particularly the significant economic repercussions induced by the unprecedented COVID-19 health crisis, are expected to weigh significantly on growth prospects for the year. The containment measures undertaken by authorities globally and domestically, which are critical and necessary, are projected to weigh on growth in the most part of the year.

STRATEGIES AND DIRECTIONS

In facing these uncertain times, the Bank will continue to emphasise on operational efficiencies to deliver superior financial performance, including implementing effective cost control and balance sheet management. The Bank will remain prudent in its cost management regime whilst maintaining balance sheet efficiencies, driving market share by offering competitive pricing and attractive terms as well as innovative product features.

DIRECTOR'S REPORT

BUSINESS STRATEGY AND OUTLOOK (CONTD)

OVERVIEW OF THE ECONOMY AND PROSPECTS FOR 2020 (CONTD)

STRATEGIES AND DIRECTIONS (CONTD)

The Bank will continue to build on its strengths to further develop its business and sustain its market position. The Bank will continue to focus on sustaining its operational excellence and efficiency, adopting prudent and responsible financing practices, while upholding strong corporate governance and compliance culture as well as sound risk management practices.

The Bank aims to expand its corporate lending business by leveraging on its existing clientele with good track record and acquire targeted new corporate clients in growth and resilient sectors.

Given the challenging market environment, the Bank's treasury and capital market operations will continue to ensure that risk management and liquidity positions remain strong.

The Bank will continue to work closely to fulfil our customers' needs to remain competitive, comprehensive and relevant to customers' needs. In addition, the Bank will continue to expand on the new business channels and continue to grow fee income segment through foreign exchange related transactions and transactional banking services.

With the rapid advancement in technology in the banking space, the Bank will stay agile in response to the digital banking evolution and will further enhance its digital capabilities to better serve its customers' needs. The Bank will continue to leverage on its strong corporate branding as a reputable, safe and efficient commercial bank while expanding its businesses organically.

The Bank is seriously looking at sustainable growth given evolving trends such as slowing economic growth, demographic shifts and technological advancements, as well as incorporating emerging environmental, social and governance ("ESG") considerations into our longer-term strategic aspirations.

While environmental sustainability is important, social issues such as the financial needs of the business communities that we serve, and topics of governance such as transparency of business practices and compliance to regulations, are equally important. Without addressing such issues, it may not be possible to address environmental sustainability.

The Bank recognises that ESG is an important agenda and view the integration of ESG factors into our business operations as a meticulous journey that demands meaningful and significant steps to be taken progressively over a period of time. In 2019, the Bank has incorporated ESG principles into our lending decisions, in the form of Risk Acceptance Criteria, for high ESG risk sectors such as forestry and logging, oil and gas, palm oil and mining and quarrying and it will be progressively rolled out to other sectors such as power, chemical and shipping.

OUTLOOK FOR 2020

GLOBAL ECONOMY OUTLOOK

The global economy is projected to register a negative growth in 2020

In early 2020, the United States has signed a partial trade agreement with China. But the simmering conflicts and uncertainty over trade continues to drag down the global economy. Tensions between the world's two biggest economies continue to persist as Beijing and Washington enter a second round of trade talks that are expected to be more difficult than the "phase one" process. Further, the European Union is also locked in its own trade dispute with the United States that has strained ties between the preeminent western powers. United Kingdom break with Europe brings with it a slew of challenges as the country attempts to forge a new relationship with its largest export market.

Although President Donald Trump had heralded the "phase one" US-China trade deal as a significant breakthrough, US officials however believe the agreement reduced only some tariffs and allow Beijing to avoid additional taxes on almost $160 billion of the country's goods. The Trump administration did however receive commitments from China to purchase billions worth of agricultural goods and crack down on intellectual property. The trade war between US and China continues to adversely affect the global economy.

Complicating the scenarios, the ongoing COVID-19 pandemic has significantly weakened global growth prospects further, with the outlook heavily contingent on how countries across the world successfully contain the pandemic over the remainder of the year. The IMF is expecting a recession in 2020 that is at least as bad as during the global financial crisis in 2009, and is projecting a recovery in 2021. Global growth and trade activity look to be further dampened as the number of global cases continues to rise exponentially. This marks a significant revision in IMF's global outlook for the year as COVID-19 worsens globally.

DIRECTOR'S REPORT

BUSINESS STRATEGY AND OUTLOOK (CONTD)

OUTLOOK FOR 2020 (CONTD)

GLOBAL ECONOMY OUTLOOK (CONTD)

The global economy is projected to register a negative growth in 2020 (Contd)

While China was the epicentre of the outbreak, it appears the number of domestic new cases has started to decline. In recent weeks, it was reported that there were no new domestic cases except for imported cases. As a result, the Chinese Government has eased some restrictions, which could lead to resumption of economic activity. Expectations are that China's demand for goods will recover in 2Q of 2020 not only due to recovering domestic consumption needs but also potentially replenish dwindling stocks following the disruption to its supply chain.

On the other hand, cases outside of China continue to surge. Economies of the most stricken countries are likely to decline much further in 2Q of 2020. These include particularly Europe and the US, among others. The economic shock is expected to dampen domestic demand across the world.

On the support side, significant rate cuts and large-scale stimulus measures to contain the economic fallout should prevent global trade from faltering. In fact, most countries facing the pandemic are implementing some kind of stimulus as fear of a global recession is becoming increasingly clear. The effect, however, will only become more visible after the lockdown is slowly relaxed in the hard-hit countries, particularly those in Europe. For the US, the impact is not as certain at this juncture, as the virus spread may still be in the early stages. In any case, a negative impact should be seen in the world trade performance.

MALAYSIAN ECONOMY OUTLOOK

Global economic and financial conditions, which deteriorated sharply in the first quarter as the COVID-19 pandemic escalated, are expected to deteriorate further, with significant impact on the Malaysian economy.

According to the Bank Negara Malaysia (BNM)'s Economic & Monetary Review 2019, Malaysian economy is expected to be severely affected by a slowing economy. In its 2020 economic outlook, BNM is projecting the GDP growth to be between -2.0% and 0.5% in 2020 (2019: 4.3%), signalling an economy on the verge of a recession. BNM sees the unprecedented containment measures to curb the COVID-19 pandemic to have triggered a simultaneous demand and supply shock, evidenced by worsening of latest economic indicators in many advanced and developing economies. This reflects the projected sharp decline in exports of goods and services (-13.6%, 2019:-1.1%) on the back of weak global demand, supply chain disruptions, and falling foreign tourist receipts, dragging the overall GDP growth to the brink of a recession.

BNM expects private consumption to remain an anchor of growth for 2020, though it is projected to slow to 4.2% (2019: 7.6%), supported by an aggressive policy measures including the RM250.0b stimulus package, monetary policy easing and continued progress of mega infrastructure projects. To cushion the downturn, BNM expects the economy to be supported by a rebound in public sector expenditure which is projected at 1.3% (2019: -2.7%) and to partly take up the slack from overall private expenditure which is projected to sharply shrink to 1.1% (2019: 6.2%). It sees the economic stimulus package to add 2.8 ppt to GDP growth in 2020.

Against the grim growth outlook, BNM reiterates that it will flexibly adjust its broad range of policy arsenal surrounding the goal of hindering a lasting impact of COVID-19 on the economy. Though there is space for BNM to cut the OPR by 50 bps and the SRR by 100 bps, the Bank views that the probability of doing so has been reduced, given the aggressive monetary and fiscal easing recently and that BNM may want to save its bullets for future needs.

With the domestic economy facing grim economic effects from the necessary actions taken to contain COVID-19 locally and continued supply disruptions in the commodities sector, these shocks, particularly the significant economic repercussions induced by the unprecedented COVID-19 health crisis, are expected to weigh significantly on growth prospects for the year. The containment measures undertaken by authorities globally and domestically, which are critical and necessary, are projected to weigh on growth in the first half of the year. When the health crisis is eventually addressed, growth will be supported by the gradual improvement in household spending, further progress in the implementation of transport-related projects and higher public sector expenditure. The monetary policy responses and economic stimulus measures undertaken in the first half of the year will provide additional support to growth. The economy is subsequently expected to normalise in 2021, in line with the projected recovery in the global economy.

Due to the adverse economic conditions, Malaysia could slip into a technical recession, exacerbated by the ongoing external headwinds and domestic challenges. The effects from the COVID-19 pandemic are expected to taper off by the end of the second quarter this year. The domestic economy is projected to contract in first-quarter 2020 (Q1 2020) by 2.8% – the first contraction since Q3 2009. For Q2, it is expected to shrink by 1.8%. The adverse impact is expected to affect all the economic activities following a 'partial lockdown' by the government in view of the increasing severity of the virus impact.

DIRECTOR'S REPORT

BUSINESS STRATEGY AND OUTLOOK (CONTD)

OUTLOOK FOR 2020 (CONTD)

MALAYSIAN ECONOMY OUTLOOK (CONTD)

It has been observed that prior to the outbreak of the coronavirus, the manufacturing sector has been in continuous decline, impacted by the trade tensions between the United States and China. Further following the outbreak of the novel coronavirus, there has been a severe disruption of global supply chain and shipping as well as total trade. There has also been downward revisions to the country's GDP growth forecasts to between 3.2% and 4.2%, and the fiscal deficit upwards to 3.4% of GDP from 3.2% under Budget 2020.

To make matters worse, Malaysia's major trading partners such as the US and China are expected to be in recession in the first half of 2020. The E&E sector will continue to be impacted by the global semiconductor down cycle. The sharp decline in oil and commodity prices plus financial market volatility will severely weigh on the domestic economic performance.

The Malaysian domestic economy is likely to enter normalisation phase in the second half of this year mainly driven by the coordinated efforts by the global economy, to support growth through monetary and fiscal stimulus measures, which should start yielding positive results. If the global situation stabilizes as projected, Malaysia's full-year GDP growth may range from +0.5% with the downside at -1.0%. Given the significant downside risks to the economy arising from COVID-19 and the after effect of the extended MCO, it is expected that the Malaysian economy may take a longer time to recover.

The government announced two economic stimulus packages totalling an RM 250 billion injection into the economy and has revised down its growth forecast and raised its deficit projection. Among the measures announced are a temporary cash transfer program of RM 10 billion (Bantuan Prihatin Nasional, or BPN) a salary subsidy package of RM 5.9 billion, as well as the reduction of the minimum workers' contribution to the Employees Provident Fund ("EPF"). BNM pre-emptively reduced its policy rate and lowered the statutory reserve requirement ratio to ensure adequate levels of liquidity in the banking system. In addition, special loan funds have also been established and almost all banks have also announced moratoriums on loan repayments.

Domestic financial markets have been severely affected by heightened risk aversion, reflecting concerns about the impact of the outbreak. Between January and mid-March 2020, the FBM KLCI dropped by 24 percent and the ringgit depreciated by 7 percent against the U.S. dollar.

PROSPECT FOR 2020

The ongoing COVID-19 outbreak has led to major negative spillovers in the domestic economy. At the initial stage of the outbreak, the impact was mainly on the E&E manufacturing sector, which is closely integrated into China-centric production networks, and in the tourism and retail industries due to lower tourist arrivals. More recently, as the outbreak became widespread with higher community transmission, the government announced a four-week MCO, which includes general prohibition of mass gatherings, restrictions of travel, and closures of schools, universities, and government and private premises except those involved in essential services.

Against the backdrop of growing uncertainty over the duration and overall impact of the COVID-19 outbreak, Malaysian's GDP growth forecast for 2020 has been significantly lowered from 4.5 percent to 1.0 percent. This marked reduction incorporates the slower growth momentum from the second half of 2019, but more significantly, it reflects the impact of the outbreak under a scenario where the current large-scale disruption of economic activities would extend for most of the year, before a partial recovery toward the year end. It is important to note that this estimate has a large degree of uncertainty, conditional on the rapid developments of the outbreak domestically and globally, and the subsequent policy responses.

On the impact of the OPR cut on banks' net interest margin ("NIM"), it will likely be muted because like most financial institutions, the Bank has already adjusted the pricing and strategies accordingly, in anticipation of the rate cut. This is also due to relaxation of regulatory requirements, Liquidity Coverage Ratio and Net Stable Funding Ratio, which means there is less need for most banks to compete for deposits. Overall impact on the Bank's portfolio is also expected to be minimal.

On the trade front, net exports and investments are expected to experience a larger contraction in 2020, while private consumption is expected to grow at a much slower pace, from 7.6 percent in 2019 to 1.6 percent in 2020. Government expenditure is expected to increase on various measures, including the economic stimulus package and other key expenditures and initiatives to mitigate the economic and health impact of the outbreak, but the bulk of stimulus activities are expected to be off-budget in nature.

DIRECTOR'S REPORT

BUSINESS STRATEGY AND OUTLOOK (CONTD)

PROSPECT FOR 2020 (CONTD)

Downside Risks and Challenges

The large degree of uncertainty over the outcome of the pandemic outbreak presents a major downside risk to the economy. A second wave or an uncontained deterioration of the outbreak would result in more severe or prolonged restrictions on overall economic activities, posing a further drag on growth into 2021.

These following challenges could pose further downside risks to growth.

A prolonged pandemic situation may cause further economic contraction and decline in the performance of specific industries and sectors, which may consequently affect the Bank's portfolio and may cause deterioration to the Bank's asset quality. However at this juncture, the impact on the Bank's portfolio is expected to be minimal as we foresee the economy moving into recovery stage.

The other major challenge faced by the Bank is another reduction in the OPR, as BNM has limited fiscal policy space to respond to the crisis.

Another challenge is the uncertainty created by the country's political instability following the change in the ruling coalition and the government's ability to manage the pandemic.

While the stimulus packages could help to mitigate the immediate impact of the outbreak, a deeper economic policy response would be needed should the health crisis deepen and result in a longer duration of economic disruption.

Going forward, more targeted fiscal policy interventions would be needed to help mitigate the impact of the crisis on vulnerable households and businesses, as well as increase public health capacity. This is further complicated by the plunge in commodity prices, which would put additional strain on fiscal space and in turn may increase the burden on monetary policy as a key policy tool.

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

The Bank's Board of Directors ("The Board") has always maintained the highest standards of corporate governance to protect and enhance the interest of all stakeholders, which include depositors and borrowers, shareholders and employees. The Board is responsible for the strategic direction of the Bank, formulation of policies and stewardship of its resources. The policies of the Bank will not only continue to exist in their present form but will continually be reviewed and enhanced. The Board ensures effective application of the principles and standards established by BNM in the Guidelines on Corporate Governance ("CG") and is reflective of good corporate governance best practices set out in the Malaysian Code on Corporate Governance 2017.

The Board consists of four (4) members, with one (1) Executive Director and who is the Chief Executive Officer ("CEO"), and three (3) Independent Directors.

The Independent Directors are (1) Y.Bhg. Dato' Mohd Sallehuddin bin Othman; (2) En. Ismail bin Mahbob; and (3) Y. Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani.

Director's Profile

Dato' Mohd Sallehuddin bin Othman

Dato' Mohd Sallehuddin bin Othman (Dato' Sallehuddin), was appointed as a Director of the Bank on 20 November 2013. He was appointed as the Chairman of the Board on 1 June 2019. He is also a member of the Risk Management Committee, Audit Committee, Nomination Committe and Remuneration Committee. He graduated from MARA Institute of Technology with ACCA qualification and from Luton College of Technology, UK with ICMA qualification. He holds a M. Sc in Administrative Sciences from City University of London, UK.

Dato' Sallehuddin started his career with various audit firms before taking up accounting and finance positions from 1975 to 1980 in Lembaga Padi & Beras Negara (now known as BERNAS) and Pernas Charter Management (part of MMC Group). From 1981 to 1986, he was a Control Officer in Controllers Department, Asian Development Bank ("ADB") based in Manila in Philippines in charge of disbursement functions of various projects in Asia Pacific countries financed by ADB.

Dato' Sallehuddin later joined Permodalan Nasional Berhad from 1986 to 1994 as Senior Manager of Corporate Services in charge of monitoring of performance of various invested companies, and subsequently as General Manager of Human Resources Department.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Director's Profile (Contd)

Dato' Mohd Sallehuddin bin Othman (Contd)

From 1994 to 2000, Dato' Sallehuddin was with UMW Holdings Berhad, a public listed company on Bursa Malaysia initially as Executive Director of Automotive Division (principally with oversight functions over UMW Toyota and Perodua) since 1994. Subsequently, he was appointed as Group Managing Director with an overall responsibility of fiduciary duty as a Board member of various UMW Group of companies and day-to-day managing the operations of the Group.

From 2001 until his retirement in July 2006, he served as Group Managing Director of Malaysian Industrial Finance Berhad ("MIDF"), a publicly listed company at that time. His main responsibilities included being a Director of MIDF Group of companies (in asset management, stock-broking, investment bank, issuing house, development finance, and property), and in charge of day-to-day operations of the Group.

After retirement, Dato' Sallehuddin served as an Independent Director of Al Rajhi Banking & Investment Corporation (M) Berhad for 3 years until April 2011; and AXA Affin Life Insurance Malaysia Berhad from December 2006 until December 2017.

Currently, Dato' Sallehuddin is also a Non-Independent Chairman of MSIG Insurance (M) Berhad, and Public Interest Director of Federation of Investment Managers Malaysia and a Board Director of several private limited companies.

Mr. Takuma Matsuyama

Mr. Takuma Matsuyama (Mr. Matsuyama), was appointed as CEO/President and Executive Director of the Bank on 6 October 2018. Mr. Matsuyama is a member of the Nomination Committee. He graduated with a B.A. in Business Administration from the COE College in USA.

Mr. Matsuyama started his career in Mitsubishi Bank of Koujimachi Branch Ltd in July 1990. He has 28 years of experience in holding various positions in Japan, a branch in Hong Kong as well as regional office in Singapore.

Prior to Mr. Matsuyama's appointment as CEO/President and Executive Director of the Bank, he was the General Manager of Strategic Alliance Office in Corporate Planning Division in Japan overseeing strategic alliance; development of relationship and synergies with Morgan Stanley; bringing business collaboration and best practice sharing into MUFG UFJ Financial Group, Inc. investment management of MUFG as the largest shareholder to MS Strategic Alliance Committee; Global Steering Committee; and sales plan for managing MUFG's share proportion.

En. Ismail bin Mahbob

En. Ismail bin Mahbob (En. Ismail) was appointed as an Independent Director of the Bank on 20 June 2014. He is the Chairman of the Risk Management Committee and the Remuneration Committee; and also a member of the Audit Committee and Nomination Committee. En. Ismail holds a Diploma in Marketing from the Chartered Institute of Marketing, UK and an associate of the Association of Chartered Islamic Finance Professional ("ACIFP") from the International Centre for Education in Islamic Finance, Malaysia ("INCEIF"). En. Ismail is a Fellow of Chartered Professional in Islamic Finance ("F.CPIF") from Chartered Institute of Islamic Finance Malaysia ("CIIF"). He was an Adjunct Fellow of College of Business, University Utara Malaysia ("UUM") till end 2018.

En. Ismail started his professional career with the insurance industry in 1977. He had served in senior positions of various sectors of the industry in the capacity of a broker, insurer, reinsurer and a retakaful operator. His last position was as the President/Chief Executive Officer of MNRB Retakaful Malaysia Berhad, Malaysia from 2007 till his retirement in 2012.

En. Ismail also served as an Independent Director ("ID") of Export-Import Bank (Malaysia) Berhad from August 2012 to August 2019 and an ID of Saudi Reinsurance Company, Saudi Arabia from December 2012 to May 2020. On 15 August 2020, En. Ismail was appointed Chairman/Independent Non-Executive Director of Syarikat Takaful Malaysia Am Berhad, a wholly owned subsidiary of public listed company, Syarikat Takaful Malaysia Keluarga Berhad.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Director's Profile (Contd)

Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani
Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Datuk Seri Dr. Nik), was appointed as an Independent Director of the Bank on 1 June 2019. He is the Chairman of the Audit Committee and the Nomination Committee; and also member of the Risk Management Committee and Remuneration Committee.

Datuk Seri Dr. Nik holds a Ph.D. in Law from the School of Oriental and African Studies ("SOAS"), University of London, United Kingdom and a Master in Law from Queen Mary College, University of London, United Kingdom. He read law at the University of Buckingham, United Kingdom. He also holds a post-graduate Diploma in Syariah Law and Practice (with Distinction) from the International Islamic University Malaysia. He is a Barrister of Lincoln's Inn and an Advocate and Solicitor of the High Court of Malaya. He was called to the Bar of England and Wales in 1985 and returned to the Malaysian Bar in 1986. He was a Visiting Fulbright Scholar, Harvard Law School in 1996 to 1997, and was formerly the Acting Dean/Deputy Dean of the Faculty of Laws, International Islamic University Malaysia. He is also a Fellow of the Financial Services Institute of Australasia (FINSIA) since 2006. Previously, he was working in a firm of accountants and in a bank at Kuala Lumpur.

Currently, he is the Chairman and Senior Partner of Messrs Zaid Ibrahim & Co. (a member of ZICO Law). Prior to joining Messrs Zaid Ibrahim & Co., he was with Messrs Baker & McKenzie (International Lawyers), Singapore.

Datuk Seri Dr. Nik is the Chairman of T7 Global Berhad and he also sits on the Board of Directors of Amanah Saham Nasional Berhad ("ASNB") and Cagamas Holdings Berhad.

Datuk Seri Dr. Nik was appointed as the Chairman of Board of Directors of IIUM Holdings Sdn Bhd, a subsidiary of International Islamic University Malaysia on 1 March 2020. Datuk Seri Dr. Nik has ceased as Independent Director of Pengurusan Aset Air Berhad and Chin Hin Group Berhad.

Roles and Responsibilities

The members of the Board are professionals in their own rights and they possess wide-ranging experiences, skills and expertise in the private sector as well as the banking industry. The members of the Board are persons of high calibre and integrity and they fulfilled the Standards on Fit and Proper Criteria under the Financial Services Act 2013 ("FSA 2013").

The roles of the Chairman and CEO are independent with clearly defined roles and responsibilities, authority and accountability to ensure proper balance of responsibility and authority. The independent directors are distinct from management and do not have any business or other relationship that could materially interfere with the exercise of their independent judgement. The Chairman is not involved in the daily management of the Bank.

(a) Roles and Responsibilities of the Board

- Review and approve strategies, business plans, other initiatives which would singularly or cumulatively, have a material impact on the Bank's risk profile, significant policies and monitor Senior Management's performance in implementing them;
- Ensure that the Bank establishes comprehensive risk management policies, processes, infrastructure and resources, to manage the various types of risks;
- Ensure the effectiveness of Risk Management Framework by taking into consideration the changes in business environment to control the Bank's risk taking activities. Also, to provide constructive challenge on the credibility and robustness of the framework;
- Establish periodic review on quantity and quality of the Risk Management reporting;
- Oversee and approve the recovery and resolution as well as business continuity plans for the Bank to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress;
- Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial and management audit;
- Establish a rigorous process for the appointment and removal of directors;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(a) Roles and Responsibilities of the Board (Contd)

- Oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank;
- Establish a written policy to address Directors' actual and potential conflict of interest;
- Establish and ensure the effective functioning of various Board committees;
- Promote Shariah compliance in accordance with expectations set out in BNM's Shariah Governance Policy Document and ensure its integration with the Bank's business and risk strategies;
- Ensure the effective management of the Bank's capital and capital adequacy levels to ensure fulfillment of regulatory and internal requirements;
- Ensure that the relevant stakeholders discharge their responsibilities for the development and effective implementation of the Bank's capital management policies and processes;
- Approve credit transactions to connected parties based on Guidelines on Credit Transactions and Exposures with Connected Parties;
- Engage with Chief Compliance Officer ("CCO") on a regular basis to provide the opportunity for the CCO to discuss issues faced by the compliance function. The Board should also consider engaging the CCO without the presence of other members of Senior Management from time to time;
- Provide the CCO with direct and unimpeded access to the Board;
- Ensure that the CCO is supported with sufficient resources, including competent officers, to perform his/her duties effectively;
- Oversee the implementation of the Bank's governance framework and internal control environment, and periodically review whether these remain appropriate in the light of material changes to the size, nature and complexity of the Bank's operations;
- Promote, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour;
- Promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- Promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank;
- Undertake the Board's duties and responsibilities as well as oversight functions as stipulated in the Companies Act 2016 ("CA 2016"), FSA 2013, Islamic Financial Services Act 2013 ("IFSA 2013"), BNM Policy Documents and Guidelines and any other regulations or directives issued by BNM from time to time;
- Undertake the Board's duties and responsibilities and oversight functions as stipulated in Section 28.2 of the BNM Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") – Banking and Deposit-Taking Institutions (Sector 1) Guideline;
- Undertake and exercise the Board's duties, responsibilities and oversight functions as stipulated in paragraph 8.1 to paragraph 8.6, paragraphs 10.41 and 10.51 of the BNM's Risk Management in Technology (RMiT) Policy Documents;
- Exercise oversight accountability over Shariah governance and compliance to ensure the processes reflect the integration of Shariah governance considerations within the business and risk strategies of the Bank as per outlined under the BNM's Shariah Governance Policy Document or any other regulations or directives issued by BNM from time to time; and
- Provide board veto clearance for large exposures based on Credit Policy of the Bank. Where such veto clearance was obtained via circulation the loan/financing exposures to be collectively deliberated and ratified in the subsequent Board meeting.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(b) Performance Criteria used to assess the Board as a whole and individually

The effectiveness of the Board is measured against the Bank's performance in terms of profitability, internal controls, compliance, risk management and cost effectiveness.

(c) Directors' Training

The Board acknowledges the importance of continuing education for its Directors to ensure each Director possesses the knowledge and skills necessary to fulfil their responsibilities.

During the financial year ended 31 March 2020, the Directors have attended various training programmes, conference, seminars, briefing and/or workshop on issues relevant to their duties and responsibilities to further enhance their skills and knowledge and keep abreast with the latest developments in the industry and changes in the new statutory and regulatory requirements as follows:

No.	Training Programmes	Attended by
1	Directors' Training	Dato' Sallehuddin
2	Financial Industry Conference 2019	Dato' Sallehuddin Mr. Matsuyama
3	Malaysia National Strategy for Financial Literacy	Dato' Sallehuddin
4	FIMM 2019 Annual Convention	Dato' Sallehuddin
5	Cyber Security Framework by Mr. Oohinata, MUFG Group Chief Information Security Officer	Dato' Sallehuddin Datuk Seri Dr. Nik En. Ismail Mr. Matsuyama
6	MFRS9 - Briefing by Deloitte	En. Ismail
7	Workshop on Banking Operations and Professional Ethics	En. Ismail
8	Seminar - "Expandability/Upscaling of Takaful Business - Going Forward"	En. Ismail
9	Financial Institution Directors' Education - Corporate Governance Programme - Module A & Module B	Mr. Matsuyama
10	Khazanah Megatrends Forum	Mr. Matsuyama
11	In-House Director's Orientation Programme	Datuk Seri Dr. Nik
12	Beyond Paradigm Summit 2019	Datuk Seri Dr. Nik
13	The 2nd Malaysia-China Youth Civilizational Dialogue on Islam and Confucianism	Datuk Seri Dr. Nik
14	MITI Consultative Dialogue 2019	Datuk Seri Dr. Nik
15	Education session on Cybersecurity	Dato' Sallehuddin Datuk Seri Dr. Nik En. Ismail
16	PB 2: Business Lending Workshop (Group 1)	En. Ismail
17	PB 5: International Trade Finance Workshop	En. Ismail
18	Islamic Finance for Board of Directors' Programme	Datuk Seri Dr. Nik
19	Corporate Liability Under MACC Act 2009 (Amended 2018)	Datuk Seri Dr. Nik
20	Audit Committee Institute Breakfast Roundtable 2019	Dato Abdul Rahim
21	BNM-FIDE FORUM Dialogue with the Deputy Governor on the draft Risk Management in Technology Policy	Dato Abdul Rahim
22	Rethinking Strategy	Dato Abdul Rahim
23	Securities Commission Malaysia – World Bank – IOSCO Asia Pacific Hub Conference 2019 - Islamic Finance: A Catalyst For Financial Inclusion	Dato Abdul Rahim
24	CG Watch: How Does Malaysia Rank	Dato Abdul Rahim

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(d) Tenure of Independent Directors

The Board considers that fundamentally the independence of Directors are based on their capacity to put the best interests of the Bank and its shareholder ahead of other interests, that Directors are capable of exercising objective independent judgement.

The Board shall ensure that the length of service of the Directors does not impair the independent judgement of decision making or materially interfere with the Directors ability to act in the best interest of the Bank.

The tenure limits for Independent Director should generally not exceed nine (9) years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the Bank.

(e) Frequency and Conduct of Board Meetings

Board meetings are conducted not less than six (6) times a year to discuss key issues of the Bank including review of the financial performance, operations and risk management of the Bank and to deliberate on matters that require the Board's decision and approval.

A total of six (6) Board meetings were held during the financial year ended 31 March 2020. The details of attendance of each member at the Board meetings held during the financial year ended 31 March 2020 are as follows:

Director	Number of Meetings	
	Held	Attended
Y.Bhg. Dato' Mohd Sallehuddin bin Othman *Independent Director* *(Appointed as Chairman on 1 June 2019)*	6	6
Mr. Takuma Matsuyama *CEO/President and Executive Director*	6	6
En. Ismail bin Mahbob *Independent Director*	6	6
Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani *Independent Director* *(Appointed on 1 June 2019)*	5	5
Y.Bhg. Dato Abdul Rahim bin Osman (Dato Abdul Rahim) *(Retired as Chairman and resigned as Independent Director on 31 May 2019)*	1	1
Mr. Hiroaki Demizu *Non-Independent Executive Director* *(Resigned on 6 September 2019)*	3	2

The Board established Board Committees to oversee critical and major functional areas of the Bank.

The function and terms of reference of Board Committees as well as authority delegated by the Board to the Committees have been approved by the Board and are revised from time to time to ensure that they are relevant and up-to-date.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES

(a) Nomination Committee ("NC")

The composition of NC is as follows:

Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Chairman)(Appointed on 1 June 2019)
Mr. Takuma Matsuyama (Member)
Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Member)
En. Ismail bin Mahbob (Member)
Y.Bhg. Dato Abdul Rahim bin Osman (Member)(Retired on 31 May 2019)

The NC shall meet at least 4 times a year or as and when required.

During the financial year ended 31 March 2020, the NC held five (5) meetings.

The details of attendance of each member at the NC meetings held during the financial year ended 31 March 2020 are as follows:

NC Member	Number of Meetings	
	Held	Attended
Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani *Chairman* *(Appointed on 1 June 2019)*	4	4
Mr. Takuma Matsuyama *Member*	5	5
Y.Bhg. Dato' Mohd Sallehuddin bin Othman *Member*	5	5
En. Ismail bin Mahbob *Member*	5	5
Y.Bhg. Dato Abdul Rahim bin Osman *Member* *(Retired on 31 May 2019)*	1	1

NC is responsible for the following matters:

- to establish the minimum requirements for the Board on the required mix of skills, experience, qualifications and other core competencies of a Director and CEO. The requirements and criteria shall be approved by the full Board;
- to assess and recommend to the Board the nominees for appointment; re-appointment upon the expiry of terms of appointment as approved by BNM; or removal of Directors, Senior Management and Shariah Committee members if he/she no longer meets the minimum requirements set out in paragraphs 10.2 to 10.5 and 17.2 to 17.4 of CG respectively and paragraphs 33(c) and (d) of the IFSA 2013, or has been assessed to be ineffective, errant or otherwise unsuited to carry out his/her responsibilities;
- to assess and recommend to the Board the nominees for appointment or removal of Company Secretary if he/she is disqualified under Section 238 of the CA 2016 or no longer complied with the Fit and Proper requirements;
- to oversee the overall composition of the Board and Board Committees in terms of appropriate size, required mix of skills, experience and core competencies and adequate balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review;
- to establish the mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO as well as other Senior Management and Company Secretary. The annual assessment to be conducted shall be based on objective performance criteria as approved by the full Board;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(a) Nomination Committee ("NC") (Contd)

- to ensure that all Directors receive appropriate continuous training programmes in order to keep abreast with the latest developments in the industry and changes in the new statutory and regulatory requirements;
- to support the Board oversight on the appointment, succession planning and performance evaluation of Senior Management, Shariah Committee ("SC") members and Company Secretary;
- to assess on an annual basis that the Directors/CEO, Senior Management and Shariah Commitee members are not disqualified under Section 59 of the FSA 2013 and Section 68 of IFSA 2013 and that the Directors/CEO and Shariah Committee members continue to comply with the standards for 'fit and proper' criteria as approved by the Board;
- to assess and to ensure Independent Directors comply with the definition of Independent Director as defined in the CG;
- to carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time;
- to assess and nominate the appointment or renewal of appointment of Expatriates Officers consistent with the qualifications, experience and criteria applicable in BNM's guidelines; and
- to monitor the effectiveness of transfer of skills and expertise from expatriates employed in Senior Management and specialist positions to staff of the Bank as well as the industry generally.

(b) Remuneration Committee ("RC")

The composition of RC is as follows:

En. Ismail bin Mahbob (Chairman)
Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Member)
Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Member) (Appointed on 1 June 2019)
Y.Bhg. Dato Abdul Rahim bin Osman (Member) (Retired on 31 May 2019)

The RC shall meet at least once a year or as and when required.

During the financial year ended 31 March 2020, the RC held three (3) meetings.

The details of attendance of each member at the RC meetings held during the financial year ended 31 March 2020 are as follows:

RC Member	Number of Meetings	
	Held	Attended
En. Ismail bin Mahbob *Chairman*	3	3
Y.Bhg. Dato' Mohd Sallehuddin bin Othman *Member*	3	3
Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani *Member (Appointed on 1 June 2019)*	3	3
Y.Bhg. Dato Abdul Rahim bin Osman *Member (Retired on 31 May 2019)*	*	*

* There was no meeting held prior to Dato Abdul Rahim's retirement

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(b) Remuneration Committee ("RC") (Contd)

The RC is responsible for the following matters:

- to review periodically and recommend to the Board the remuneration policy of the Bank, including material changes made to the policy to ensure that the remuneration remains appropriate to each Director, Member of SC, CEO and other members of *Senior Management and other Material Risk Taker's contribution, taking into account the level of expertise, commitment and responsibilities undertaken;
- to review annually the remuneration for each Director, CEO and other members of *Senior Management and other Material Risk Takers;
- to recommend to the Board a framework of remuneration for Directors, SC members, CEO and other members of *Senior Management covering fees, salaries, allowances, bonuses and benefits-in-kind in discharging their duties;
- to recommend to the Board the adjustments in remuneration package reflecting the SC members, Executive Directors and CEO's contributions for the year; and which are competitive and consistent with the Bank's culture, objectives and strategy;
- to ensure that the level of remuneration for Non-Executive Directors and Independent Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board; and
- to carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time.

* "Senior Management" and "other Material Risk Takers" comprise persons as defined/stated in the Bank's Remuneration Policy.

(c) Audit Committee ("AC")

The composition of AC is as follows:

Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Chairman) (Appointed on 1 June 2019)
Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Member)
En. Ismail bin Mahbob (Member)
Y.Bhg. Dato Abdul Rahim bin Osman (Member) (Retired on 31 May 2019)

The AC shall meet at least four (4) times a year.

During the financial year ended 31 March 2020, eight (8) meetings were held.

The External Auditors may request a meeting with or without the presense of the Management.

The AC may at their discretion invite any Director, Executive Directors or any person to attend the meeting.

The details of attendance of each member at the AC meetings held during the financial year ended 31 March 2020 are as follows:

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(c) Audit Committee ("AC") (Contd)

AC Member	Number of Meetings	
	Held	Attended
Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani *Chairman (Appointed on 1 June 2019)*	5	5
Y.Bhg. Dato' Mohd Sallehuddin bin Othman *Member*	8	8
En. Ismail bin Mahbob *Member*	8	8
Y.Bhg. Dato Abdul Rahim bin Osman *Member (Retired on 31 May 2019)*	3	3

The terms of reference of the AC include the reinforcement of the independence and objectivity of the internal audit function and the specification of the scope and review of the Bank's financial statements which includes the findings of both the Internal and External Auditors. The AC also recommends the appointment and re-appointment of the External Auditors as well as reports to the Board on the maintenance of sound internal control system and adequacy of risk management processes and the fulfilment of regulatory compliances.

The primary objectives of the AC are:

- to support the Board in ensuring that there is reliable and transparent financial reporting process within the Bank;
- to oversee the effectiveness of the internal audit function of the Bank;
- to foster a quality audit of the Bank by exercising oversight over external auditors in accordance with the expectations set out in the policy document on external auditor;
- to act as a committee of the Board to assist in discharging the Board's responsibilities in relation to the Bank's good governance, management and internal controls, accounting policies and financial reporting;
- to provide, by way of regular meetings, a line of communication between the Board and the external auditors; and
- to enhance the perceptions held by other interested parties (such as shareholders, regulators and other financial institutions) of the credibility and objectivity of financial reports.

The AC is authorised by the Board:

- to be provided with sufficient support and resources to investigate any matter within their mandates;
- to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the AC; and
- to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, and the cost of such advice shall be borne by the Bank.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(c) Audit Committee ("AC") (Contd)

The functions and responsibilities of the AC are:

Internal Audit

- to approve on the appointment, performance appraisal, transfer and dismissal of the Chief Internal Audit ("CIA");
- to review and make recommendation to the Board on the remuneration of CIA;
- to review and approve the audit plan, audit charter, procedure manual and budgeted man-days;
- to review and approve the audit scope, procedure and frequency, and to confirm that Management has placed no restrictions on the scope of audits;
- to establish a mechanism to assess the performance and effectiveness of the internal audit function;
- to ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank and to ensure coordination between the internal and external auditors;
- to consider the findings of the Banking Supervision Department of BNM, if any and Management's response;
- to review the key audit reports; and ensuring that Senior Management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the Internal Audit and other control functions; and
- to note the significant disagreements between the CIA and the rest of the Senior Management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings.

External Auditors

- to make recommendation to the Board on the appointment/re-appointment, removal and remuneration of the external auditors;
- to monitor and assess the independence of the external auditors including by approving the provisions of non-audit services by external auditors subject to the Policy of Provision of Non-Audit Services of the Bank;
- to monitor and assess the effectiveness of the external auditors including by meeting with the external auditors without the presence of Management at least annually;
- to ensure Senior Management takes necessary corrective actions in a timely manner to address external audit findings and recommendations; and
- to maintain regular, timely, open and honest communication with the external auditors, and requiring the external auditors to report to the AC on significant matters.

Financial Reporting

- to review the accuracy and adequacy of the Chairman's statement in the Directors' report, corporate governance disclosure and interim financial statements and preliminary announcements in relation to the preparation of financial statements;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(c) Audit Committee ("AC") (Contd)

Financial Reporting (Contd)

- to review the quarterly and annual financial statements before submission to the Board, focusing particularly on:
  (i) any changes in accounting policies and practices;
  (ii) major judgemental areas;
  (iii) significant adjustments resulting from the audit;
  (iv) the going concern assumption;
  (v) compliance with applicable financial reporting standards;
  (vi) compliance with BNM and legal requirements; and
  (vii) adequacy of provision for contingencies and impairment allowances.
- to review the adequacy and effectiveness of the Bank's governance processes, risk management and internal controls prior to endorsement by the Board;

Risk Management and Governance

- to review third-party opinions on the design and effectiveness of the Bank's internal control framework; and
- to monitor compliance with the Board's conflicts of interest policy which at a minimum must:
  (i) identify circumstances which constitute or may give rise to conflicts of interests;
  (ii) clearly define the process for directors to keep the Board informed on any change in his circumstances that may give rise to a conflict of interests;
  (iii) identify those responsible for maintaining updated records on each Director's conflicts of interest; and
  (iv) articulate how any non-compliance with the policy will be addressed.

Related Party Transactions

- to review and update the Board on all related party transactions and conflicts of interest situations that may arise within the Bank including any transaction, procedure or conduct that raises questions of management integrity.

Other matters

- to consider other matters as the AC considers appropriate or as authorised by the Board.

(d) Risk Management Committee ("RMC")

The primary objectives of the RMC are to oversee the Bank's activities in managing credit, market, liquidity, operational, legal, compliance and other risks; and to ensure that a risk management process is in place and functioning.

RMC is authorised to assist the Board in ensuring that the overall objectives of the Bank in risk management are achieved.

The composition of RMC is as follows:

En. Ismail bin Mahbob (Chairman)
Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Member)
Y. Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Member) (Appointed on 1 June 2019)
Y.Bhg. Dato Abdul Rahim bin Osman (Member) (Retired on 31 May 2019)

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee ("RMC") (Contd)

The RMC shall meet at least once every quarter.

The RMC held six (6) meetings during the financial year ended 31 March 2020.

The details of attendance of each member at the RMC meetings held during the financial year ended 31 March 2020 are as follows:

RMC Member	Number of Meetings	
	Held	Attended
En. Ismail bin Mahbob *Chairman*	6	6
Y.Bhg. Dato' Mohd Sallehuddin bin Othman *Member*	6	6
Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani *Member (Appointed on 1 June 2019)*	5	5
Y.Bhg. Dato Abdul Rahim bin Osman *Member (Retired on 31 May 2019)*	1	1

The RMC's functions and responsibilities are to oversee the managing of key risk areas of the Bank covering credit risk, market risk, liquidity risk, operational risk and information security risk; and to ensure that the risk management process is in place and is functioning effectively. Its responsibilities include the review of risk policies and risk tolerance. A comprehensive Risk Management Policy approved by the Board has been implemented. It also reviews and assesses the adequacy of risk management process to identify, measure, monitor, control and manage the overall risk profile of the Bank.

The RMC's responsibilities and functions are:

Risk Governance

- to review and recommend risk management strategies, policies and risk tolerance for Board's approval;
- to review and assess adequacy of risk management and compliance policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;
- to review periodic reports from respective departments which include Risk Management Units, Compliance (including compliance issues), Housing Loan, Treasury, etc;
- to ensure infrastructure, resources and systems are in place for risk management and compliance i.e. ensure that the staff responsible for implementing risk management and compliance systems and performing those duties independently of the Bank's risk taking activities;
- to oversee the formal development of policies (including Credit risk, Market risk, Liquidity risk and Operational risk policies, Compliance related policies etc.) within the Bank, encompassing all products and businesses; and ensuring the development of policy manual and procedures;
- to execute oversight role regarding implementation of the Bank's Internal Capital Adequacy Assessment Process ("ICAAP");
- to approve credit transactions with connected parties based on Guidelines on Credit Transactions and Exposures with Connected Parties (at least 2 non-executive Directors who are independent of the transaction) as delegated by the Board;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee ("RMC") (Contd)

The RMC's responsibilities and functions are: (Contd)

Risk Governance (Contd)

- to adhere to the BNM's 'Risk Management in Technology (RMiT) Guidelines', including but not limited to Part B Policy requirements clause 8 Governance item 8.1 to 8.6 on Responsibilities of the Board of Directors, item 10.41 and 10.51 on effective oversight on Third Party service provider and cloud services;
- to adhere to items 28.2 under Section 28 of BNM's Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Banking and Deposit-Taking Institutions (Sector 1);
- to provide input to the design and implementation of the remuneration system to ensure that risk exposures and risk outcomes are adequately considered;
- to approve the appointment, performance review and remuneration, and dismissal of the Chief Risk Officer ("CRO"); and
- to provide constructive challenge to Senior Management and critically review the risk information and developments affecting the Bank.

Risk Strategy

- to evaluate and assess the adequacy of strategies to manage the overall risk associated with the Bank's activities;
- to ensure strategies, policies and procedures of the ICAAP as well as internal capital target, trigger and risk appetite are reviewed annually under a formal review process that is well documented;
- to ensure that the capital management policies and activities are effectively integrated into the overall risk management framework;
- to recommend to the Board on the appropriateness and suitability of the risk appetite; and
- to review the capital planning and funding strategy.

Risk Management & Control

- to review management's periodic reports on risk exposures, risk portfolio composition and risk management activities, adherence to risk appetite; and the implementation of risk management and compliance policies, processes, and controls within the Bank in managing the key risks to the Bank as well as emerging risks;
- to monitor, assess and advise on the credit risk portfolio composition of the Bank;
- to evaluate risks under stress scenarios and the capacity of the Bank's capital to sustain such risks;
- to assess the risk-return trade-off;
- to review reports of the credit review process, asset quality and ensure that corrective action is taken;
- to review and evaluate the various credit products engaged by the Bank to ensure that it is conducted within the standards and policies set by the Board;
- to evaluate and assess risk concerning development and introduction of new products and services;
- to review and evaluate business continuity management and processes;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee ("RMC") (Contd)

The RMC's responsibilities and functions are: (Contd)

Risk Management & Control (Contd)

- to oversee capital quantification and scenario analysis methodologies;
- to review the IT risk management framework of the Bank;
- to review the Bank's Single Counterparty Exposure Limit ("SCEL");
- to review the Threshold Limits for Business Sectors;
- to oversee the risk management for Islamic banking;
- to ensure that the cyber security risk of the Bank is properly managed; and
- to at least annually, evaluate the effectiveness of the Bank's overall management of compliance risk, having regard to the assessments of senior management and internal audit, as well as interactions with the Chief Compliance Officer ("CCO").

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The risk management within the Bank is governed by a risk management and internal control framework, which sets out the risk management governance and infrastructure, risk management processes and control responsibilities. In the Bank, effective risk management is inculcated by a risk awareness culture across all levels of staff in the Bank through effective communication, training, clear policies and procedures as well as organisational structure, which clearly defined roles and responsibilities of all employees.

The adequacy and effectiveness of the risk management and internal control framework are subject to periodic review by the Bank's control functions including Risk Management, Internal Audit and Compliance to ensure continuous improvements in operational efficiency while taking into consideration changes in risk appetite, external environment and regulatory requirements.

Notwithstanding the risk management and internal control framework that have been put in place, they provide reasonable, but not absolute assurance that the Bank will not be adversely affected by any event that may be reasonably foreseen.

Overall Risk Management Policy

The risks faced by the Bank are broadly divided into two categories:

- credit and market risks that are inherent in our profit-seeking activities; and
- risks associated with the Bank's operations.

The Bank's goal is to achieve a balance between earnings and risks. For this purpose, the Bank has instituted an integrated Risk Management Policy to identify, measure, monitor, control and manage risks using consistent standards and techniques in each of the Bank's business.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

Outline of risk management and control responsibilities:

- the Board is ultimately responsible for the management of risks; the Board through the RMC maintains overall responsibility for risk oversight of the Bank;
- the RMC oversees Senior Management's functions in managing the key risk areas of the Bank in order to ensure that the risk management process is in place and functioning effectively. The Committee is responsible for the risk oversight for the major areas of risk covering credit risk, market risk, liquidity risk, operational risk and information security risk. Its responsibilities also include the review and recommendation of the risk management strategies, policies and risk tolerance. It also reviews and assesses adequacy of risk management policies and framework in identifying, measuring, monitoring, controlling and managing the overall risk; and
- dedicated independent risk management and control committees are responsible for identification, monitoring of risks and monitoring of compliance with the risk policies.

The independent risk management committees which comprise members of the management team, relevant heads of department and chaired by CRO are as follows:

(a) Assets & Liabilities Management and Market Risk Committee
(b) Operational Risk Management and Control Committee ("ORMCC")
(c) Credit Risk Management Committee ("CRMC")

The AC, supported by Internal Audit Department ("IAD"), is to provide an independent assessment of the adequacy and reliability of the risk management processes, and compliance with risk policies and regulatory guidelines of the above risk management committees.

The Shariah Committee is responsible to provide Shariah decision, views and opinions relating to Islamic financial business of the Bank including the endorsement of product-related documentation and Shariah-related policies and procedures.

The Bank has established, within its risk management policy, a structured approach to enterprise wide risk management which balances risk and return, and integrating risk management processes for credit risk, market risk, liquidity risk, operational risk and information security risk for more effective risk management. The risk management process is categorised into the following processes:

- Risk Identification, Assessment and Measurement; and
- Risk Control, Mitigation and Monitoring.

(a) CREDIT & CORPORATE RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- A comprehensive Credit Rating system is used to grade the quality of loans/financing and track changes in credit risk profile of the loan portfolio;
- An independent assessment of loans/financing applications are performed by the holding company;
- Regular review of watch list borrowers and delinquent accounts are conducted to monitor progress of recovery;
- Stress testing of loans/financing portfolio are performed to test the Bank's capability to absorb stimulate shocks on the adverse scenarios from credit risk factors;
- Reverse stress testing is conducted annually to identify unviable scenario and potential vulnerable areas; and
- Under ICAAP, the material risk assessment is conducted annually and perform the Bank's capital adequacy assessment, under both normal and stress scenario, over the next 3 years.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(a) CREDIT & CORPORATE RISK MANAGEMENT (CONTD)

(ii) Risk Control, Mitigation and Monitoring

- Credit Policy documents the core credit processes including the process of credit risk rating and collateral policy;
- Impairment Policy documents the general requirements for classification of credit-impaired loans/financing and provisioning and the circumstances under which a loans/financing can be rescheduled/restructured/written off;
- Analysis and reporting to the Board/RMC/CRMC on the loans/financing exposure, asset quality, concentration level, movement of credit-impaired loans and expected credit losses of credit portfolio;
- Review of counterparty limits of money market activities, foreign exchange activities and other business activities;
- Review of Internal Capital Adequacy Assessment Process was performed by Regional Risk Office, ARMO;
- SCEL Policy documents the requirements in managing and monitoring exposures to a single counterparty and persons connected to it; and
- Periodic monitoring and reporting of Risk Appetite Statements ("RAS") limits/thresholds set on key risk exposures.

(b) MARKET RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Mark-to-market technique is used to revalue marketable securities, equities, interest rate and foreign currency positions; and
- Exposures such as position size, Value-at-Risk and loss amounts are computed as a measurement of market risks.

(ii) Risk Control, Mitigation and Monitoring

- The market risk limits are set after taking into consideration the risk appetite of the Bank and the risk-return relationship;
- Market risk exposures of both the trading and banking book positions are monitored against pre-determined market risk limits;
- Both the utilisation and compliance status of market risk limits are regularly reported to Assets & Liabilities Management and Market Risk Committee by the Market Risk Management Department ("MRMD");
- Regular reviews on interest rate outlook, vulnerability of net interest income to movement in interest rates and development of strategies to mitigate interest rate risks;
- Changes in market value of investment and dealing securities due to interest rate movements are monitored and reported; and
- Stress testing of trading and banking portfolios are performed to test the Bank's capability to absorb simulated shocks from market risk factors.

(c) LIQUIDITY RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- The Bank's assets and liabilities as well as off-balance sheet positions are included in liquidity risk measurement;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(c) LIQUIDITY RISK MANAGEMENT (CONTD)

(i) Risk Identification, Assessment and Measurement (Contd)

- The primary tools for assessing liquidity risk are the maturity mismatch analysis, assessment on the concentration of funding and the availability of unencumbered assets; and
- Establish Early Warning Indicator to identify potential warning signs in relation to the Bank's funding liquidity risk position.

(ii) Risk Control, Mitigation and Monitoring

- Internal liquidity risk management limits are set;
- Compliance with BNM's Liquidity Coverage Ratio and internal liquidity risk management policy are monitored and reported to Assets & Liabilities Management and Market Risk Committee;
- Liquidity contingency funding plans are in place and documented;
- Monitoring of changes in the Bank's funding structure, if any;
- Stress testing of assets and liabilities are performed to test the Bank's capability to absorb simulated shocks from liquidity risk factors; and
- Monitoring and reporting of Liquidity Coverage Ratio requirements.

(d) OPERATIONAL RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Implementation and utilisation of Risk Control Self Assessment ("RCSA") and Global Control Self Assessment ("GCSA") process;
- Implementation of Enterprise Governance Risk and Compliance ("E-GRC") solution to automate the overall Operational Risk Management environment;
- Review of new and existing procedures by ORMCC prior to implementation and approval;
- Collecting Loss Event Data ("LED") and analyse causes and preventative actions taken on losses from fraud and control lapses;
- Review of systems and network confidentiality, integrity and availability;
- Review of New and Existing Products and Services to identify and minimise risk;
- Implementation and review of Business Continuity Management ("BCM") Programme and coordinate simulation runs;
- Implementation of System Risk Evaluation to identify and manage system risk;
- Identify the potential Operational Risk based on the results of Self-Inspection findings, RCSA, GCSA and Outsourcing review activities; and
- Development of Shariah Risk Register to assist in risk identification for Islamic business transactions.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(d) OPERATIONAL RISK MANAGEMENT (CONTD)

(ii) Risk Control, Mitigation and Monitoring

- Procedures and methods established to control and mitigate operational risk;
- Regular risk and Key Risk Indicator (generic/specific "KRI" of Business Units and BNM's Operational Risk Integrated Online Network) reporting on operational risk matters via ORMCC and RMC;
- Implementation of periodic User ID and Access Management review process in adherence to the principle of segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes;
- Implementation of Post Incident Reporting process to review the effectiveness of countermeasures committed to minimise risk of operational incidents and to identify weaknesses in operational processes and procedures;
- Implementation of Annual Review on Products and Services to manage and minimise risk;
- Execution of Testing and Exercising as planned in ensuring back-up procedures and contingency plans are up-to-date;
- Review on the Outsourcing Management process to manage risks from service providers on outsourced operations;
- Overall assurance on the adequacy and reliability of the operational risk management system by IAD; and
- Analyse and monitor countermeasures of Self-Inspection findings to minimise operational risk.

(e) INFORMATION SECURITY RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Use of self-assessment checklist; and
- Review of Information Security Incident reports to identify weaknesses in Information Security processes and procedures.

(ii) Risk Control, Mitigation and Monitoring

- Review and report on information security discussed at regular meetings of IT Steering Committee ("ITSC") chaired by Head of Operations, System and Planning Unit;
- Exceptions will be reported to ORMCC and RMC regularly; and
- Comprehensive and up-to-date documentation of Information Security Standards and Procedures.

(f) COMPLIANCE RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Compliance Risk Assessment ("CRA") is performed utilising CRA tools for determining the key areas of compliance focus, allocation of compliance resources and deployment of compliance monitoring, testing and training;
- Established compliance risk assessment plan and schedule from applicable compliance risk universe;
- Determination of residual risk and risk ratings by utilising a standardised methodology (including taking into consideration the business activity) in a consistent manner; and
- Comprehensive risk assessment is performed annually with quarterly refresh.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(f) COMPLIANCE RISK MANAGEMENT (CONTD)

(ii) Risk Control, Mitigation and Monitoring

- Implement Core Compliance Policies and Financial Crime Policies consistent with Group's direction and local regulation;
- Develop and maintain regulatory inventory, i.e. to keep track on changes to laws, rules and regulations ("LRR") that may result in changes to the Bank's risk profile and operation;
- Conduct periodic monitoring and testing based on key focus areas and/or triggered events;
- Inform Senior Management regarding key issues and concerns around compliance related events and development;
- Implement issue management guidelines to enable effective identification, escalation, reporting and remediation of compliance issues;
- Raise compliance awareness through training and various compliance culture program;
- Adopts the strategy of constructive engagement with regulatory authorities; and
- Regulatory compliance team that provide compliance advise to the business areas as well as assisting to resolve regulatory issues.

Internal Audit

Internal Audit is an independent and objective function to assist the AC of the Board in discharging the responsibilities defined in the terms of reference of the AC. Reviews are conducted on the operations, activities, systems, procedures and practices of the Bank and reports on the findings are submitted with recommendations to the AC. Such reporting serves to provide the desired status of independence for the Internal Auditors to determine adequate coverage of audit and to be impartial and unbiased in performing audit examinations.

In carrying out its responsibilities, the IAD has full, free and unrestricted access to all activities, records, property and personnel. The Internal Auditors are encouraged to be consulted for advice such as to provide comments based on lessons learnt from past audit experience which could be beneficial when new systems are planned to be introduced incorporating significant changes in internal control processes and standards. Such advice does not exempt the subjects from being audited subsequently for possible additional improvements.

Internal Audit is governed by the policies and objectives of the Bank, applicable laws and regulations such as the FSA 2013, IFSA 2013, BNM's Guidelines on Minimum Audit Standards for Internal Auditor of Financial Institutions and the Institute of Internal Auditors' International Standards for Professional Practice of Internal Auditing.

Responsibilities

Internal Audit is entrusted with the responsibility to appraise the appropriateness and effectiveness of the internal control system of the Bank's operations, activities, systems, procedures and practices and for advising Management on their condition. The Department will include the evaluation of the following in its scope of work to effectively discharge its responsibilities:

- Compliance with internal policies, applicable laws and regulations;
- Adequacy and effectiveness of risk management, internal controls and governance process;
- Appropriateness of Management's approach to risk and control in relation to the Bank's objectives;
- Reliability, integrity and continuity of the information technology, payment systems and electronic delivery channels;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Internal Audit (Contd)

Responsibilities (Contd)

- Adequacy and effectiveness of the system of assessing capital and robustness of stress testing procedures;
- Reliability, integrity and timeliness of regulatory reporting, accounting records, financial reports and management information;
- Adequacy and effectiveness of anti-money laundering measures;
- Compliance with Shariah principles as determined by the Shariah Committee;
- Provide independent assurance on the adequacy and effectiveness of departments entrusted to oversee the compliance function and responsible for oversight of the risk management function;
- Conduct ad-hoc/special assignments/reviews as requested by Management or AC;
- Planning audit assignments and presenting the annual audit plan for approval by AC; and
- Monitor progress of rectification actions by auditees.

SHARIAH COMMITTEE ("SC")

The Bank's SC was established to ensure that the Bank's Islamic banking objectives and operations, business, affairs and activities are in compliance with Shariah rules and principles. The roles and responsibilities of the Bank's SC are as prescribed in the Shariah Governance Policy Document issued by BNM and in compliance with the respective members' letter of appointment.

The key roles and responsibilities of the SC include:

- To advise and provide input to the Board on Shariah matters including regular update or reporting, and attending the Board meeting whenever required by the Board;
- To advise the Bank on Shariah matters in ensuring the Bank's Islamic banking operations comply with Shariah principles at all times;
- To endorse Shariah and other relevant policies and procedures for Islamic banking operations and to ensure that the contents are Shariah compliant;
- To approve the Bank's Islamic banking products including the relevant documentations as follows:

  (i) The terms and conditions contained in the forms, contracts, agreements or legal documentations used in executing the transactions; and

  (ii) The product manuals, advertisements, sales illustrations and brochures used to describe the product.
- To perform an oversight role on Shariah compliance related matters to the Bank's Islamic banking operations including assessing the work carried out by Shariah Review and Shariah Audit to ensure Shariah compliance;
- To provide report as part of the Bank's annual report on the state of Shariah compliance by confirming the appropriate tests, procedures and review works have been performed;
- To provide necessary assistance on Shariah matters to the Bank's related parties such as legal, compliance, auditors or consultants etc. in ensuring Shariah compliance;

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

SHARIAH COMMITTEE ("SC") (CONTD)

The key roles and responsibilities of the SC include: (Contd)

- To advise on matters to be referred to the Shariah Advisory Council ("SAC") of BNM and/or SAC of Securities Commission Malaysia ("SCM") for matters that could not be resolved (whenever necessary); and
- To provide written Shariah opinions in circumstances where the Bank makes reference to the SAC of BNM and/or SAC of SCM for further deliberation, or where the Bank submits applications to BNM for new product approval as outlined in BNM guidelines.

The SC of the Bank consists of four (4) members and their profiles are as follows:

Assoc. Prof. Dr. Abdul Karim bin Ali
Associate Professor Dr. Abdul Karim obtained his Bachelor of Shariah (First Class Honours) from the University of Malaya in 1990 and Ph.D in Islamic Studies from the University of Edinburgh, Scotland in 1996. At present, he is a lecturer at the Academy of Islamic Studies, University of Malaya. Previously, he was the Deputy Director (Undergraduate) at the Academy of Islamic Studies, University of Malaya (2010-2014) and the Head of Fiqh and Usul Fiqh Department at the Academy of Islamic Studies, University of Malaya (2009-2010). He has been a member of the SC of the Bank since 2008.

Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi
Associate Professor Dr. Syed Musa obtained his Diploma in Business Studies from Ngee Ann Polytechnic, Singapore in 1984, Bachelor of Business Administration (First Class Honours) from the International Islamic University Malaysia ("IIUM") in 1989 and Doctor in Business Administration ("DBA") from University of Strathclyde, Glasgow, United Kingdom in 1994. IIUM. At present he is a lecturer at the IIUM Institute of Islamic Banking and Finance(" IIiBF"). Previously, he was the Dean of the IIiBF, and Dean of Graduate School of Business, University Tun Abdul Razak. Currently, he serves as a member of Shariah Supervisory Council of Labuan Financial Services Authority since 2014. He has served as a member of Shariah Advisory Council of Securities Commission Malaysia ("SAC") from 2017 until 2020. He had also served as Accounting and Auditing Standards Committee of Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and was engaged as consultant to Islamic Financial Services Board ("IFSB") Transparency and Market Discipline standard. He has been a member of the SC of the Bank since 2012.

Prof. Dato' Dr. Mohd Azmi bin Omar
Professor Dato' Dr. Mohd Azmi obtained his Bachelor of Science (Finance) in 1983 and Master of Business Administration from the Northern Illinois University, United States of America in 1985 and PhD in Finance from the Bangor University, Wales, United Kingdom in 1994. At present, he is the President and Chief Executive Officer at International Centre for Education in Islamic Finance (INCEIF) - The Global University of Islamic Finance since October 2017. Prior to his current position, he served as the Director-General at Islamic Research and Training Institute ("IRTI"), Islamic Development Bank Group, Jeddah, Kingdom of Saudi Arabia. He is a member of Board of Trustees of Responsible Finance Institute (RFI Foundation and formerly a member of the External Advisory Group for the International Monetary Fund ("IMF") Interdepartmental Working Committee on Islamic Finance. He accumulated vast experiences in International Islamic University Malaysia (IIUM), having served in various capacities including Deputy Rector (Academic & Research), Dean of IIUM Institute of Islamic Banking and Finance (IIiBF) and Dean of Faculty of Economics and Management Sciences. Currently, he also serves as a member of Shariah Committee to Bank Rakyat Malaysia, Etiqa Takaful Malaysia and an Islamic Finance Expert to the Autoriti Monetari Brunei Darussalam. He has been a member of the SC of the Bank since June 2020.

Assoc. Prof. Dr. Mohamad Zaharuddin bin Zakaria
Associate Professor Dr. Mohamad Zaharuddin obtained his Bachelor of Shariah and Judiciary (First Class honours) from Universiti Sains Islam Malaysia ("USIM") in 2005 and Master of Islamic Judiciary from University of Jordan in 2008 and PhD in Fiqh and Usul Fiqh from the International Islamic University Malaysia ("IIUM") in 2014. At present, he is a lecturer at the Faculty of Shariah and Law, USIM. He also serves as the Coordinator of the Centre for Awqaf and Zakat, USIM. Currently, he serves as a member of SC at Bank Simpanan Nasional. He has been a member of the SC of the Bank since June 2020.

The SC meets at least once in every two (2) months.

The SC held seven (7) meetings during the financial year.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

SHARIAH COMMITTEE ("SC") (CONTD)

The details of attendance of each member at the SC meetings held during the financial year ended 31 March 2020 are as follows:

SC Member	Number of Meetings	
	Held	Attended
Assoc. Prof. Dr. Abdul Karim bin Ali *Member (Appointed as Chairman effective 1 October 2019)*	7	7
Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi *Member*	7	7
Dr. Safinar binti Salleh *Member (Term ended on 31 May 2020)*	7	7
Dr. Noor Suhaida binti Kasri *Member (Term ended on 31 May 2020)*	7	6
Dr. Luqman bin Haji Abdullah *Chairman (Resigned effective 1 October 2019)*	4	4

REMUNERATION STRATEGY

The Bank's Remuneration Policy, which has been endorsed by the Bank's Remuneration Committee and approved by the Board, applies to all of the Bank and acts as a guiding principle in relation to the design and management of our remuneration programmes.

The overall purpose of the Reward Philosophy is to attract, motivate and retain high-performing individuals in a manner that supports robust governance in line with MUFG's risk appetite; is aligned with MUFG's business strategy, objective, values and long term interests and ensure the franchise is sustainable and that the firm's financial resources are aligned to the principals of safety and soundness.

In order to achieve this, MUFG's remuneration programs are designed around the following core principles:

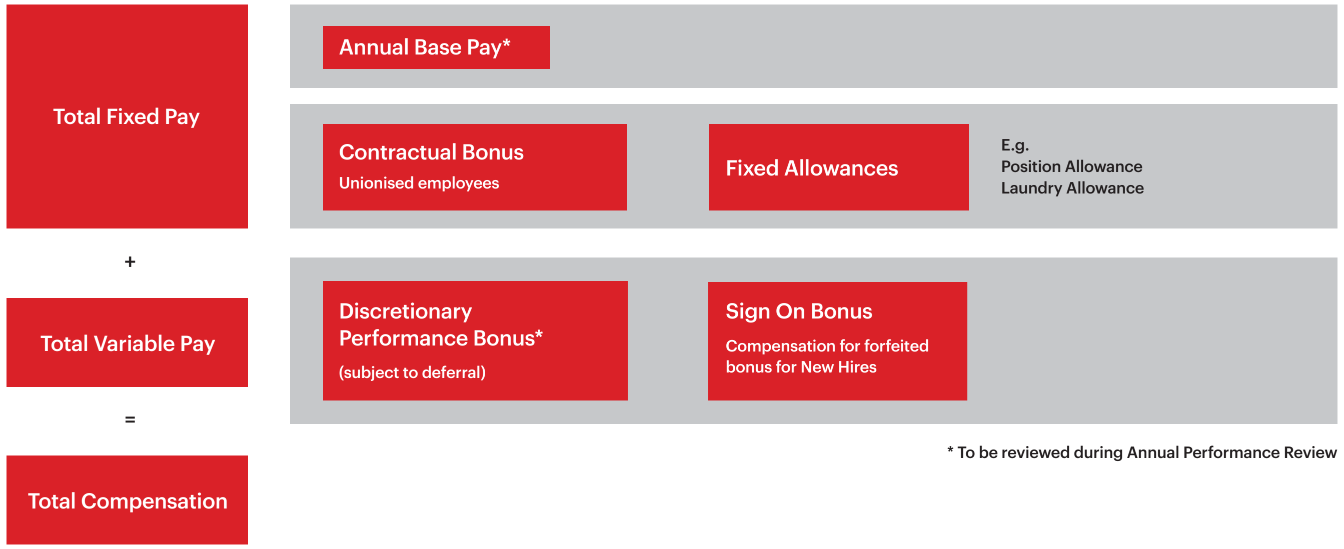
- Pay for Performance: There shall be a link between performance and remuneration to identify and reward top performance. Performance measurements include both the "what" and the "how";
- Total Compensation: Remuneration is to be determined and evaluated on a Total Compensation basis, including Base Salary, Fixed Allowance and discretionary Variable Pay;
- Align to MUFG's Values: Remuneration decisions shall be linked to and support MUFG's values;
- Support Prudent Risk Taking: Ensure that remuneration arrangements are designed to appropriately balance risk and financial results in a manner that does not encourage employees to expose the firm to excessive or imprudent risk;
- Market Competitive: Provide awards that are competitive and attractive in the market place;
- Fair and Transparent: Employees are to be treated fairly and remuneration decisions should be made free from any form of discrimination and/or inequity. The approach to remuneration shall be transparent, clearly communicated and well understood; and
- Regulatory Compliance and Governance: Remuneration arrangements must comply with all applicable regulatory and legal requirements.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

REMUNERATION STRATEGY (CONTD)

(a) COMPONENTS OF REMUNERATION



* To be reviewed during Annual Performance Review

The Discretionary Performance Bonus is accrued in the current financial year and paid in the following financial year. Total Compensation is computed by adding the total fixed pay in the financial year and total variable pay mainly from Discretionary Performance Bonus.

Fixed	Consist of base salary and fixed allowances	Fixed Pay strategy a) MUFG has the ability to pay across the full Peer Group Market Range. b) MUFG Fixed Pay strategy employs a long-term approach to determine desired pay levels for each role considering the said role's fixed pay market position and preceding years' Performance Reviews on the following: i. Consistent Exceptional Performer may have a target pay at the upper end; and ii. Consistent Poor Performers may have a target pay at the lower end of the Market Range.
Variable	Payable annually through cash bonus	a) Bonus will be differentiated towards top performances to ensure Total Compensation reflects their performance for the year. Bonus should be differentiated enough to reward top performers financial aligning to MUFG's culture and not encourage excessive risk taking and/ or inappropriate behaviours; b) Bonus are not linked to current Fixed Pay or Base Salary levels; c) Variable Pay differentiated at a Department and Individual Level based on performance; d) Discretionary differentiated bonuses to be awarded during Annual Pay Review exercise; e) Poor Performers to receive zero variable pay; and f) To safeguard the independence and authority of individuals engaged in control functions, MUFG shall ensure that the remuneration of such individuals is based principally on the achievement of control functions objectives, and determined in a manner that is independent from the business lines they oversee.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

REMUNERATION STRATEGY (CONTD)

(b) MEASUREMENT OF PERFORMANCE

The Bank's performance is determined in accordance with a balanced scorecard which includes key measures on profitability, cost, capital, shareholder's return, medium to long-term strategic initiatives, as well as, audit and compliance positions.

The Bank's key measures are cascaded to the business units and functions accordingly, and subsequently to the Key Performance Indicator ("KPI") scorecards of individuals.

For each employee in the Bank, performance is tracked through KPIs of Standardised Bank Performance Management Format in a balanced scorecard. In addition to financial targets, KPIs in the balanced scorecard could include measures or customer experience, risk management and operational efficiency process controls, audit and compliance findings, as well as development related measures.

At the end of the year, performance of each individual is then holistically assessed through the Bank's performance management framework which is based on the balanced scorecard and the individual's competencies.

(c) DETERMINATION OF VARIABLE REMUNERATION

Based on the Bank's performance, the Management will determine the overall variable remuneration pool taking into consideration key performance measures. The Bank's pool will be allocated by the Management to the business units and function based on their respective performance and adjustment in view of market relevance of the employment remuneration.

Variable remuneration of each individual employee is determined based on individual assessment and the adequacy of bonus pool allocated to the business unit function to which the individual belongs.

The control functions of Audit, Compliance, and Risk functions operate independently from the business units in the Bank, and have appropriate authority to carry out their individual functions without intervention from the business units. To prevent conflict of interest, remuneration of employees in these control functions are not dictated by business units that they support. Remuneration of the CEO, CRO, CCO and CIA are approved by the Board and the relevant Board Committees.

(d) DIRECTORS' REMUNERATION

This is disclosed in Note 32 of the financial statements.

DIRECTOR'S REPORT

CORPORATE GOVERNANCE (CONTD)

REMUNERATION STRATEGY (CONTD)

(e) REMUNERATION DISCLOSURE FOR SENIOR MANAGEMENT AND OTHER MATERIAL RISK TAKERS

	31 March 2020			31 March 2019		
Total value of remuneration awards for the financial year	**Unrestricted**	**Deferred**	**Number of Officers**	**Unrestricted**	**Deferred**	**Number of Officers**
Senior Management	**RM'000**	**RM'000**		**RM'000**	**RM'000**	
Fixed remuneration						
• Cash based	6,456	-	11	5,582	-	13
• Others	1,181	-	8	902	-	10
Variable remuneration						
• Cash based	4,003	376	8	1,209	376	10
• Others	269	-	3	254	-	3
Sub total	11,909	376	30	7,947	376	36
Other material risk takes ("ORMT")						
Fixed remuneration						
• Cash based	4,380	-	12	5,008	-	14
• Others	744	-	12	772	-	14
Variable remuneration						
• Cash based	1,910	-	11	1,707	-	14
Sub total	7,034	-	35	7,487	-	42
Total	18,943	376	65	15,434	376	78

There are no shares and share linked instruments granted to Senior Management and other material risk takers during the financial year.

RELATED PARTY TRANSACTIONS

Payments made on services rendered by the holding company are on documented contractual terms and there is no related party transaction with the Board of Directors or Senior Management.

RATING BY EXTERNAL RATING AGENCIES

On 6 December 2019, RAM Rating Services Berhad has assigned the Bank a long-term rating of AA1 and a short-term rating of P1 with stable outlook.

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that BNM's expectations on financial reporting have been complied, including those as set out in the Guidelines on Financial Reporting.

DIRECTOR'S REPORT

INDEMNITY AND INSURANCE

The Directors and Officers of the Bank are covered by Directors and Officers liability insurance for any liability incurred in the discharge of their duties, provided that they have not acted fraudently or dishonestly or derived any personal profit or advantage. The total amount of indemnity taken by the Bank is RM7.0 million (2019: RM 7.0 million).

OTHER STATUTORY INFORMATION

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts; and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts of the Bank inadequate to any substantial extent; or

(ii) that would render the value attributed to current assets in the financial statements of the Bank misleading; or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate; or

(iv) not otherwise dealt with in this report or financial statements that would render any amount stated in the financial statements of the Bank misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

No contingent liability or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 March 2020 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occured in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 31 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors on 5 November 2020.

Takuma Matsuyama
Director

Y.Bhg. Dato' Mohd Sallehuddin bin Othman
Director

Kuala Lumpur, Malaysia

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Takuma Matsuyama and Y.Bhg. Dato' Mohd Sallehuddin bin Othman, being two of the Directors of MUFG Bank (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 55 to 142 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2020 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors on 5 November 2020.

Takuma Matsuyama
Director

Y.Bhg. Dato' Mohd Sallehuddin bin Othman
Director

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, Takuma Matsuyama, the Director primarily responsible for the financial management of MUFG Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 55 to 142 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Takuma Matsuyama, passport no: TK3127779, at Kuala Lumpur in the Federal Territory on 5 November 2020.

Takuma Matsuyama
Director

Before me:

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Most Gracious, the Most Merciful. All praise is due to Allah, prayers and peace be upon the Allah's Prophet Muhammad, his kin and his companions.

In carrying out the roles and responsibilities as the Shariah Committee of MUFG Bank (Malaysia) Berhad as prescribed in the Shariah Governance Policy Document issued by Bank Negara Malaysia ("the SGP"), the Bank's policy on Shariah governance and term of reference of the Shariah Committee, we hereby submit our Shariah Committee Report for the financial year ended 31 March 2020.

In accordance to the SGP, it is the responsibility of the Bank's Management to ensure that the Bank's Islamic banking operations, business, affairs and activities are in accordance with the Shariah rules and principles. As the Bank's Shariah Committee, it is our responsibility to provide an independent view on the status of Shariah compliance conduct of the Islamic banking operations and to produce this report.

For the financial year ended 31 March 2020, the Shariah Committee has held seven (7) meetings and that in each meeting the committee reviewed various products, dealings, contracts, policies, procedures and related transactions presented by the Bank, through the Bank's Shariah unit that examined the Shariah requirements to be adhered to in such undertakings, to ensure conformity with Shariah requirements.

We have also performed the oversight role through the Shariah review, Shariah risk management and Shariah audit functions in ensuring that the Bank's Islamic banking operations comply with the Shariah principles and rulings issued by the Shariah Advisory Council of Bank Negara Malaysia as well as Shariah policy endorsement and product approval by us.

In discharging our duties, we had obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated the Shariah rules and principles in all transactions that has been presented to us with regard to Islamic banking operations and business activities.

Pursuant to the above, we, the Shariah Committee of Bank, while perceiving on several areas are being improved, are of the view that:

1 the products, dealings, contracts, policies, procedures and related transactions proposed and entered into by the Bank during the financial year ended 31 March 2020 are generally in compliance with the Shariah rules and principles;

2 the allocation of profits and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;

3 no earning has been realised from sources or by means prohibited by the Shariah principles within the financial year; and

4 the Bank is not required to pay zakat for the financial year ended 31 March 2020 because its shareholder has no obligation to do so.

On that note, we, the Shariah Committee of MUFG Bank (Malaysia) Berhad, do hereby confirm that, at our level best while perceiving on several areas are being improved, the Islamic banking operations and business activities of the MUFG Bank (Malaysia) Berhad for the financial year ended 31 March 2020 have, in general, been conducted in conformity with the Shariah rules and principles.

We pray to Allah the Almighty to grant us success and the right path of straight-forwardness.

Assoc. Prof. Dr. Abdul Karim bin Ali
Chairman of the Shariah Committee

Assoc. Prof. Dr.Syed Musa bin Syed Jaafar Alhabshi
Member of the Shariah Committee

Kuala Lumpur, Malaysia
5 November 2020

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF MUFG BANK (MALAYSIA) BERHAD (Registration No. 199401016638 (302316-U)) (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MUFG Bank (Malaysia) Berhad, which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 142.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2020, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

Our opinion on the financial statements of the Bank does not cover the Directors' Report and Shariah Committee's Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and Shariah Committee's Report and, in doing so, consider whether the Directors' Report and Shariah Committee's Report are materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report and Shariah Committee's Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

INDEPENDENT AUDITORS' REPORT (CONTD)

TO THE MEMBER OF MUFG BANK (MALAYSIA) BERHAD (Registration No. 199401016638 (302316-U)) (Incorporated in Malaysia)

Report on the Audit of the Financial Statements (Contd)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

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

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Siew Chin Kiang @ Seow Chin Kiang
Approval Number: 02012/11/2020 J
Chartered Accountant

Petaling Jaya, Malaysia

5 November 2020

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Note	31.03.2020 RM'000	31.03.2019 RM'000
ASSETS			
Cash and short-term funds	3	4,050,436	5,314,486
Deposits and placements with financial institutions	4	1,745,811	952,641
Financial assets at fair value through profit or loss	5	164,115	-
Financial investments at fair value through other comprehensive income	6	670,843	430,995
Loans, advances and financing	7	9,994,120	7,568,611
Embedded loans measured at fair value through profit or loss	8	15,501,577	14,935,811
Purchased receivables	9	772,992	434,516
Collateral deposits placed	10	160,214	143,022
Derivative financial assets	11	537,866	795,338
Statutory deposits with Bank Negara Malaysia	12	42,397	87,648
Other assets	13	14,653	280,530
Property, plant and equipment	14	26,975	18,436
Intangible assets	15	60,955	27,307
Right-of-use assets	16	8,907	-
Current tax assets		1,081	24,792
Deferred tax assets	17	9,078	-
TOTAL ASSETS		33,762,020	31,014,133
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	18	9,042,773	8,319,682
Deposits and placements of banks and other financial institutions	19	1,059,209	1,683,104
Collateral deposits received	10	19,630,557	16,941,590
Derivative financial liabilities	11	536,502	785,695
Other liabilities	20	192,409	127,496
Lease liabilities	21	8,865	-
Deferred tax liabilities	17	-	27,261
TOTAL LIABILITIES		30,470,315	27,884,828
SHARE CAPITAL	22	200,000	200,000
RESERVES	23	3,091,705	2,929,305
SHAREHOLDER'S FUNDS		3,291,705	3,129,305
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		33,762,020	31,014,133
COMMITMENTS AND CONTINGENCIES	24	74,879,582	78,669,767

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Note	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Operating revenue	26	475,692	449,638
Interest income	27	442,077	522,887
Interest expense	28	(217,210)	(299,386)
Net interest income		224,867	223,501
Net income from embedded loans measured at FVTPL	29	51,566	157,677
Net income from Islamic Banking operations	41	11,031	2,506
Other operating income	30	188,228	65,954
Operating income		475,692	449,638
Other operating expenses	31	(176,820)	(171,878)
Operating profit before allowance for impairment		298,872	277,760
(Allowance for)/Reversal of impairment on financial instruments	33	(68,701)	7,487
Profit before tax		230,171	285,247
Tax expense	34	(71,377)	(21,942)
Profit after tax for the year		158,794	263,305
Other comprehensive income/(loss), net of tax			
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value reserve:			
- Debt instruments at FVOCI	35	3,594	(724)
Change in expected credit loss reserve	35	12	14
Other comprehensive income/(loss) for the year, net of tax		3,606	(710)
Total comprehensive income for the year		162,400	262,595
Profit attributable to:			
Owner of the Bank		158,794	263,305
Total comprehensive income attributable to:			
Owner of the Bank		162,400	262,595
Basic earnings per share (sen)	36	79.40	131.65

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

		<------ Non-distributable					------>	Distributable	
	Note	Share Capital RM'000	Statutory Reserve RM'000	Regulatory Reserve RM'000	Defined Benefit Reserve RM'000	ECL Reserve RM'000	Fair Value Reserve RM'000	Retained Profits RM'000	Total RM'000
At 1 April 2018									
- As previously stated		200,000	-	164,349	(5,801)	-	1,656	2,271,854	2,632,058
- Effect of change in accounting policies		-	-	(100,492)	-	323	22,188	312,633	234,652
At 1 April 2018, restated		200,000	-	63,857	(5,801)	323	23,844	2,584,487	2,866,710
Change in fair value of financial assets at fair value through other comprehensive income	35	-	-	-	-	-	(724)	-	(724)
Change in expected credit loss of financial assets at fair value through other comprehensive income	6	-	-	-	-	14	-	-	14
Transfer of retained profits to regulatory reserve		-	-	29,221	-	-	-	(29,221)	-
Total other comprehensive income/(loss) for the year		-	-	29,221	-	14	(724)	(29,221)	(710)
Profit for the year		-	-	-	-	-	-	263,305	263,305
Total comprehensive income/(loss) for the year		-	-	29,221	-	14	(724)	234,084	262,595
At 31 March 2019		200,000	-	93,078	(5,801)	337	23,120	2,818,571	3,129,305
At 1 April 2019		200,000	-	93,078	(5,801)	337	23,120	2,818,571	3,129,305
Change in fair value of financial assets at fair value through other comprehensive income	35	-	-	-	-	-	3,594	-	3,594
Change in expected credit loss of financial assets at fair value through other comprehensive income	6	-	-	-	-	12	-	-	12
Transfer of retained profits to regulatory reserve	23(b)	-	-	14,206	-	-	-	(14,206)	-
Total other comprehensive income/(loss) for the year		-	-	14,206	-	12	3,594	(14,206)	3,606
Profit for the year		-	-	-	-	-	-	158,794	158,794
Total comprehensive income for the year		-	-	14,206	-	12	3,594	144,588	162,400
At 31 March 2020		200,000	-	107,284	(5,801)	349	26,714	2,963,159	3,291,705
		Note 22				Note 6			

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Note	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Cash Flows From Operating Activities			
Profit before tax		230,171	285,247
Adjustments for:			
Depreciation of property, plant and equipment	14	4,986	4,737
Amortisation of intangible assets	15	12,017	10,813
Loss on disposal of property, plant and equipment		76	321
Loss on disposal of intangible assets		115	-
Depreciation of right-of-use assets	16	3,556	-
Allowance for/(Reversal of) impairment on financial instruments	33	68,701	(7,487)
Defined benefit plan	31	4,104	4,098
Dividend income	30	(1,481)	(221)
Interest income from financial assets at fair value through other comprehensive income	27	(17,475)	(17,288)
Finance cost on lease liabilities		396	-
Unrealised gain on changes in trading securities	30	(745)	-
Unrealised loss on changes in fair value of financial assets at fair value through profit or loss	29	53,447	43,841
Unrealised (gain)/loss on changes in fair value of derivative financial instruments	30	(14,209)	18,612
Operating profit before working capital changes		343,659	342,673
(Decrease)/Increase in operating assets:			
Financial assets at fair value through profit or loss		(1,126)	382
Financial investments at fair value through other comprehensive income		(12,404)	88,590
Loans, advances and financing		(2,492,851)	(337,475)
Embedded loans measured at fair value through profit or loss		(612,319)	(2,644,360)
Collateral deposits placed		(17,192)	216,328
Purchased receivables		(338,755)	(208,617)
Derivative financial assets		415,801	721,051
Statutory deposits with Bank Negara Malaysia		45,251	(81,872)
Other assets		(539,753)	(770,783)
Increase/(Decrease) in operating liabilities:			
Deposits from customers		723,091	(371,941)
Deposits and placements of banks and other financial institutions		(623,895)	948,972
Derivative financial liabilities		(400,208)	(775,874)
Collateral deposits received		2,688,967	2,394,148
Other liabilities		76,437	25,695
Cash used in operations		(745,297)	(453,083)
Income tax paid		(85,144)	(100,596)
Payment of staff benefits	20 (i)	(3,098)	(1,637)
Net cash used in operating activities		(833,539)	(555,316)

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020 (CONTD)

	Note	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Cash Flows From Investing Activities			
Purchase of property, plant and equipment	14	(13,609)	(2,427)
Purchase of intangible assets	15	(45,780)	(1,818)
Proceeds from disposals of property, plant and equipment		8	17
Proceeds from disposals of intangible assets		-	113
Proceeds from sale of financial assets at fair value through profit or loss		1,413,976	500,978
Purchase of financial assets at fair value through profit or loss		(1,576,220)	(501,360)
Proceeds from disposal of trading securities		180,000	-
Proceeds from sale of financial assets at fair value through other comprehensive income		(404,689)	-
Purchase of financial assets at fair value through other comprehensive income		-	(59,970)
Interest received from financial assets at fair value through other comprehensive income		18,318	18,544
Dividend received	30	1,481	221
Net cash used in investing activities		(426,515)	(45,702)
Cash Flows From Financing Activity			
Repayment of lease liabilities		(3,996)	-
Net cash used in financing activity		(3,996)	-
Net decrease in cash and cash equivalents		(1,264,050)	(601,018)
Cash and cash equivalents at beginning of year	3	5,314,486	5,915,504
Cash and cash equivalents at end of year	3	4,050,436	5,314,486
Cash outflows for leases as a lessee			
Included in net cash from operating activities:			
Payment relating to short-term leases		467	-
Payment relating to leases of low-valued assets		815	-
Interest paid in relation to lease liabilities		396	-
Included in net cash from financing activities:			
Payment of lease liabilities		3,996	-
Total cash outflows for lease		5,674	-

Reconciliation of movements of liabilities to cash flows arising from financing activties

	Impact of MFRS16	Cash outflows	Acquisition	Other changes	Year ended 31.03.2020
Lease liabilities	11,897	(3,996)	629	335	8,865

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

NOTES TO THE FINANCIAL STATEMENTS

MUFG Bank (Malaysia) Berhad is a limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Bank is Level 9-10, Menara IMC, No. 8 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia.

The principal activities of the Bank during the year are banking and related financial services including Islamic Banking business. There has been no significant change in the nature of the principal activities during the financial year.

The Bank is a subsidiary of MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. ("MUFG"), which are incorporated in Japan, and regarded by the Directors as the Bank's immediate holding and ultimate holding company, during the financial year and until the date of this report.

These financial statements were authorised for issue by the Board of Directors on 5 November 2020.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement and MFRS 7, Financial Instruments: Disclosures –Interest Rate Benchmark Reform*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 June 2020

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases – Interest Rate Benchmark Reform – Phase 2*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION (CONTD)

(a) Statement of compliance (Contd)

The Bank plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 April 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for amendments to MFRS 3, *Business Combinations – Definition of a Business* which is not applicable to the Bank.
- from the annual period beginning on 1 April 2021 for the amendment that is effective for annual periods beginning on or after 1 June 2020.
- from the annual period beginning on 1 April 2021 for those amendments that are effective for annual periods beginning on or after 1 January 2021.
- from the annual period beginning on 1 April 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022, except for amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework* and amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)* which are not applicable to the Bank.
- from the annual period beginning on 1 April 2023 for the accounting standard and amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17, *Insurance Contracts* which is not applicable to the Bank.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Bank.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, unless otherwise indicated in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand ("RM'000"), unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than as follows:

(i) Fair value estimation of loans, advances and financing and embedded loans measured at fair value through profit or loss ("FVTPL")

The fair values are estimated based on future expected cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date. Fair values for loans and embedded loans are determined based on external valuation party valuation method (Note 39).

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION (CONTD)

(d) Use of estimates and judgements (Contd)

(ii) Impairment allowance on financial assets

Expected credit loss ("ECL") are outputs of complex models with a number of underlying assumptions. The significant judgements in determining ECL include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk;
- Grouping of similar financial assets for the purposes of measuring ECL;
- Internal credit grading model, which assigns Probability of Defaults ("PD") to the individual grades;
- Development of ECL models, including the choice of inputs relating to macroeconomic variables;
- Determination of associations between macroeconomic scenarios and economic inputs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings; and
- Determination of loss given default ("LGD") in the ECL model.

In determining lifetime ECL credit impairment for financial assets which are credit-impaired, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral value.

(iii) Selection of cover deals for embedded loans measured at fair value through profit or loss ("FVTPL")

Cover deals are identified from the existing outstanding interbank deals in the main trading portfolio. The significant judgements in selecting cover deals include:

- Matching of interest rate risk, currency basis risk, tenor basis risk or other risks that are defined under Market Risk Limits;
- Segregation of tenor bucket;
- Sensitivity analysis; and
- Determination of net open position between embedded loan risk and cover deals risk within the stipulated risk limit.

(iv) Fair value estimation of financial investments at fair value through other comprehensive income ("FVOCI")

Fair values for unquoted equity securities held for socio economic reasons (classified as Level 3) are determined based on the net tangible assets of the companies.

(v) Defined benefit plan

The defined benefit obligation is determined based on an actuarial valuation. The actuarial valuation involves making assumptions regarding the discount rate, future salary increases and attrition rates. Due to the long term nature of the defined benefit plan, such estimates are subject to significant uncertainty. The amount of defined benefit asset recognised in the statement of financial position is limited to the present value of economic benefits in the form of refunds or reductions in future contributions to the fund. The levels of future contributions to the plan which are used to assess this limit is subject to some uncertainty due to other assumptions made regarding fund membership levels and future salary increases.

(vi) Extension options and incremental borrowing rate in relation to leases

The Bank assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. The Bank considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Bank also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. The Bank first determines the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by the Bank as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 42 to the financial statements.

(a) Recognition of Interest and Financing Income and Expense

Interest and financing income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest and financing income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest and financing on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest and financing on financial assets at fair value through other comprehensive income calculated on an effective interest basis.

Interest and financing on all trading assets and liabilities were considered to be incidental to the Bank's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in other operating income.

Interest and financing on other financial assets and financial liabilities carried at FVTPL were presented in net income from financial instruments at FVTPL.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Recognition of Fees and Other Income

Loan/Financing processing and arrangement, management and participation fees, commissions and service charges/fees are recognised as income when the related services are performed and conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income over time based on the commitment period.

(c) Investment Income

Investment income comprises gains less losses related to financial assets and liabilities, and includes all realised and unrealised fair value changes, gain or loss on disposal, interest, dividends and foreign exchange differences.

(d) Dividend Income

Dividend income is recognised in profit or loss on the date that the Bank's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(e) Net Income from Other Financial Instruments measured at Fair Value through Profit or Loss

Net income from other financial instruments measured at FVTPL relates to non-trading derivatives that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest and foreign exchange differences.

(f) Financial Instruments

(i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance.

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Bank categorises and measures financial instruments as follows:

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI - debt investment, FVOCI - equity investment or FVTPL.

Categories of financial assets are determined on initial recognition and not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVOCI

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(f) Financial Instruments (Contd)

(ii) Financial instrument categories and subsequent measurement (Contd)

Financial assets (Contd)

Financial assets at FVTPL

All other financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI")

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' or 'profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(f) Financial Instruments (Contd)

(ii) Financial instrument categories and subsequent measurement (Contd)

Financial assets (Contd)

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI") (Contd)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

- **Contractually linked instruments**

  The Bank has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

  - the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;

  - the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and

  - the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

- **Financial assets at FVTPL**

  These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- **Financial assets at amortised cost**

  These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

  Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(g)(i)) where the effective interest rate is applied to the amortised cost.

- **Debt investments at FVOCI**

  Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(f) Financial Instruments (Contd)

(ii) Financial instrument categories and subsequent measurement (Contd)

Financial assets (Contd)

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI") (Contd)

- **Debt investments at FVOCI (Contd)**

  Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit-impaired financial assets (see Note 2(g)(i)) where the effective interest rate is applied to the amortised cost.

- **Equity investments at FVOCI**

  This category comprises investment in equity that is not held for trading, and the Bank irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see Note 2(g)(i)).

Financial liabilities

The categories of financial liabilities at initial recognition are as follows:

- **Fair value through profit or loss**

  Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

  On initial recognition, the Bank may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

  (a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

  (b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel; or

  (c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

  Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

  For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Bank recognises the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(f) Financial Instruments (Contd)

(ii) Financial instrument categories and subsequent measurement (Contd)

Financial liabilities (Contd)

- **Amortised cost**

  Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

  Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers.*

Liabilities arising from financial guarantees are presented together with other provisions.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date or settlement date accounting.

Trade date accounting refers to:
(a) the recognition of an asset to be received and the liability to be paid for it on the trade date; and
(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Settlement date accounting refers to:
(a) the recognition of an asset on the day it is received by the Bank, and
(b) derecognition of an asset and recognition of any gain or loss on disposal on the day that is delivered by the Bank.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is accounted in the same way as it accounts for the acquired asset.

Generally, the Bank applies settlement date accounting unless otherwise stated for the specific class of asset.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(f) Financial Instruments (Contd)

(vi) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(g) Impairment

(i) Financial assets

- **Financial instruments**

  The Bank recognises loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at FVOCI, financial guarantee contracts issued and loan commitment issued. Expected credit losses ("ECL") are a probability-weighted estimate of credit losses.

  The Bank measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

  (a) debt securities that are determined to have low credit risk at the reporting date; and
  (b) other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

  When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the informed credit assessment and including forward-looking information.

  The Bank assumes that the credit risk on a financial asset has increased significantly if the credit ratings downgraded by one notch as compared to the last reporting date.

  The Bank considers a financial asset to be in default when:

  (a) principal or interest or both are past due for 90 days or more; or
  (b) where an impaired loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(g) Impairment (Contd)

(i) Financial assets (Contd)

- **Financial instruments (Contd)**

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers this to be Ba2 or higher (for Japanese corporates) and B1 or higher (for Global corporates) per Moody's.

12-month ECLs are the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

- **Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

(a) financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
(b) financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows less any collateral withheld by the Bank;
(c) undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
(d) financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

- **Credit-impaired financial assets**

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

(a) significant financial difficulty of the borrower or issuer;
(b) a breach of contract such as a default or being more than 90 days past due;
(c) the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for a security because of financial difficulties.

A loan/financing that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(g) Impairment (Contd)

(i) Financial assets (Contd)

- **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Loss allowances for off-balance sheet items measured at amortised cost are added on the gross carrying amount of other liabilities.

For debt securities at FVOCI, the ECL allowance is charged to profit or loss and is recognised in OCI.

- **Write-off**

The gross carrying amount of a financial asset is written off when the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Bank has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Bank individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Bank expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(ii) Other assets

At the end of each reporting date, the Bank reviews the carrying amounts of its other assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit ("CGU").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Property, Plant and Equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(h) Property, Plant and Equipment (Contd)

(i) Recognition and measurement (Contd)

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" and "other operating expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are measured at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is not depreciated.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Freehold land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings and leasehold improvements	6 - 50 years
Computer equipment	5 years
Furniture, fixtures and equipment	4 - 20 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period, and adjusted as appropriate.

(i) Leases

The Bank has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings at 1 April 2020. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year

(i) Definition of lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(i) Leases (Contd)

Current financial year (Contd)

(i) Definition of lease (Contd)

- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Bank is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Bank is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The Bank excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Subsequent measurement

As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(i) Leases (Contd)

Current financial year (Contd)

(iii) Subsequent measurement (Contd)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Previous financial year

Operating lease

Leases, where the Bank did not assume substantially all the risks and rewards of ownership were classified as operating leases and, except for property interest held under operating lease, the leased assets were not recognised on the statement of financial position.

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to profit or loss in the reporting period in which they were incurred.

(j) Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

(k) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(k) Income Tax (Contd)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Employee Benefits

(i) Short-term employee benefits

Short-term employee benefits obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Defined contribution plans

The Bank's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, exclude interest) are recognised immediately in other comprehensive income. The Bank determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(m) Cash and Short-Term Funds

Cash and short-term funds consist of notes and coins on hand, unrestricted balance held with BNM and deposits and placements with financial institutions that are readily convertible into cash without significant risk of changes in value less than 3 months.

Cash and short-term funds are carried at amortised cost in the statement of financial position in accordance with Note 2(f)(ii).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(n) Obligations on Securities Sold under Repurchase Agreements

Obligations on securities sold under repurchase agreements are securities which the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statement of financial position.

(o) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Intangible Assets

Intangible assets, comprising computer software that are not an integral part of a tangible asset, are measured at cost less any accumulated amortisation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g)(ii). Intangible assets are recognised only if it is probable that the future economic benefits that are attributable to such assets will flow to the Bank and the costs of such assets can be measured reliably.

Amortisation is based on cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods for the computer software are 5 years.

(q) Contingencies

(i) Contingent assets

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

(ii) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Earnings Per Ordinary Share

Earnings per ordinary share ("EPS") is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD)

(s) Fair Value Measurements

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Bank recognises transfers between levels of the fair value hierachy as of the date of the event or change in circumstances that caused the transfers.

3. CASH AND SHORT-TERM FUNDS

	31.03.2020 RM'000	31.03.2019 RM'000
Amortised cost		
Cash and balances with banks and other financial institutions	17,322	53,319
Money at call and deposit placements maturing within three months	4,033,114	5,261,167
	4,050,436	5,314,486

4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31.03.2020 RM'000	31.03.2019 RM'000
Amortised cost		
Licensed bank		
• Malaysia	1,229,321	768,391
• Other countries	516,490	184,250
	1,745,811	952,641

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	31.03.2020 RM'000	31.03.2019 RM'000
Money market instruments:		
Malaysian Government Securities	164,115	-

6. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	31.03.2020 RM'000	31.03.2019 RM'000
Money market instruments:		
Malaysian Government Securities	428,146	201,260
Sukuk	213,721	204,215
	641,867	405,475
Non-money market instruments:		
Unquoted bonds	-	27
Unquoted shares	28,976	25,493
	28,976	25,520
Total	670,843	430,995

Movements in allowances for impairment which reflect the expected credit loss ("ECL") computed by impairment model and recognised in ECL reserve are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
12-Month ECL Stage 1		
At 1 April 2018		-
Effects of adopting MFRS 9		323
At 1 April	337	323
Allowance made due to changes in credit risk	16	18
Deferred tax impact (Note 17)	(4)	(4)
At 31 March	349	337

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS, ADVANCES AND FINANCING

(a) By type:

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Overdrafts	12,278	9,109
Term loans		
• Housing loans	10,883	11,561
• Other term loans	4,195,563	3,813,578
Revolving credits	5,061,852	3,601,109
Bills receivable	125,752	132,624
Claims on customers under acceptance credits	562,099	3,234
Staff loans	7,231	7,929
	9,975,658	7,579,144
Unearned interest	(4,154)	(154)
Gross loans, advances and financing at amortised cost	9,971,504	7,578,990
Impairment allowances on loans, advances and financing		
• Stage 1 - 12 month ECL	(13,619)	(5,461)
• Stage 2 - lifetime ECL not credit-impaired	(13,381)	(4,781)
• Stage 3 - lifetime ECL credit-impaired	(50,777)	(137)
Net loans, advances and financing at amortised cost	9,893,727	7,568,611
At fair value		
Other term loans	100,393	-
Net loans, advances and financing	9,994,120	7,568,611
Gross loans, advances and financing		
At amortised cost	9,971,504	7,578,990
At fair value	100,393	-
	10,071,897	7,578,990

(b) By maturity structure:

	31.03.2020 RM'000	31.03.2019 RM'000
Maturing within one year	6,059,366	3,985,803
More than one year to three years	1,329,210	463,877
More than three years to five years	1,452,362	1,999,024
More than five years	1,230,959	1,130,286
	10,071,897	7,578,990

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS, ADVANCES AND FINANCING (CONTD)

(c) By type of customer:

	31.03.2020 RM'000	31.03.2019 RM'000
Domestic non-bank financial institutions	616,595	788,016
Domestic business enterprises		
• Small medium enterprises	443,271	1,916,743
• Others	6,280,510	3,271,693
Individuals	17,791	19,062
Foreign entities	2,713,730	1,583,476
	10,071,897	7,578,990

(d) By interest/profit rate sensitivity:

	31.03.2020 RM'000	31.03.2019 RM'000
Variable rates	10,067,555	7,573,727
Fixed rate		
• Staff loans	4,342	5,263
	10,071,897	7,578,990

(e) By economic sector:

	31.03.2020 RM'000	31.03.2019 RM'000
Agricultural, hunting, forestry and fishing	734,098	670,442
Mining and quarrying	191,117	-
Manufacturing	1,837,829	1,759,531
Electricity, gas and water	1,729,798	380,390
Construction	244,657	925,920
Wholesale, retail trade, restaurants and hotels	687,341	651,694
Transport, storage and communication	2,129,517	2,082,583
Finance, insurance, real estate and business services	2,047,077	1,088,940
Households	18,115	19,490
Others	452,348	-
	10,071,897	7,578,990

(f) By geographical location:

	31.03.2020 RM'000	31.03.2019 RM'000
Malaysia	8,435,637	6,684,766
Other countries	1,636,260	894,224
	10,071,897	7,578,990

NOTES TO THE FINANCIAL STATEMENTS

7. LOANS, ADVANCES AND FINANCING (CONTD)

(g) Credit-impaired loans by economic sector are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Household	698	732
Manufacturing	424,922	-
	425,620	732

(h) Credit-impaired loans by geographical location are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Malaysia	425,620	732

(i) Movements in credit-impaired loans, advances and financing are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
At 1 April	732	4,702
Classified as credit-impaired during the year	475,499	1,241
Amount recovered	(10,578)	(35)
Reclassified as performing	(39,998)	(1,350)
Amount written off	(35)	(3,826)
At 31 March	425,620	732

7. LOANS, ADVANCES AND FINANCING (CONTD)

(j) Movements in impairment allowances on loans, advances and financing:

	12 month ECL	Lifetime ECL		
		Not credit-impaired	Credit -impaired	
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
At 1 April 2019	5,461	4,781	137	10,379
Transfer to 12-Month ECL (Stage 1)	157	(119)	-	38
Transfer to lifetime ECL credit-impaired (Stage 3)	(717)	-	20,690	19,973
New financial assets originated	6,352	13,380	29,890	49,622
Financial assets derecognised (other than write-off)	(2,039)	(4,661)	(8)	(6,708)
Net remeasurement due to changes in credit risk	4,405	-	103	4,508
Amount written off	-	-	(35)	(35)
At 31 March 2020	13,619	13,381	50,777	77,777
At 1 April 2018				104,286
Effects of adopting MFRS 9				(82,879)
At 1 April 2018, as restated	7,343	10,181	3,883	21,407
Transfer to 12-Month ECL (Stage 1)	1	-	(3)	(2)
Transfer to lifetime ECL credit-impaired (Stage 3)	(1)	-	-	(1)
New financial assets originated	2,749	4,665	-	7,414
Financial assets derecognised (other than write-off)	(3,736)	(9,827)	-	(13,563)
Net remeasurement due to changes in credit risk	(895)	(238)	58	(1,075)
Amount written off	-	-	(3,801)	(3,801)
At 31 March 2019	5,461	4,781	137	10,379

8. EMBEDDED LOANS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	31.03.2020 RM'000	31.03.2019 RM'000
At fair value		
Embedded loans	15,501,577	14,935,811

Loans measured at FVTPL included RM15,144,972,000 (2019: RM14,486,293,000) of outstanding balance for loans, advances and financing, and fair value for derivative financial assets and liabilities of RM356,605,000 (2019: RM449,518,000).

Included in embedded loans are fair value from derivative financial assets and derivative financial liabilities transacted with the holding company and related companies amounting to RM5,604,000 (2019: RM3,517,000) and RM17,968,000 (2019: RM16,026,000) respectively.

(a) By maturity structure:

	31.03.2020 RM'000	31.03.2019 RM'000
Maturing within one year	5,243,158	5,889,367
More than one year to three years	3,683,628	5,231,756
More than three years to five years	5,533,338	1,805,690
More than five years	1,041,453	2,008,998
	15,501,577	14,935,811

NOTES TO THE FINANCIAL STATEMENTS

8. EMBEDDED LOANS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL") (CONTD)

(b) By type of customer:

	31.03.2020 RM'000	31.03.2019 RM'000
Domestic non-bank financial institutions	8,834,156	6,922,232
Domestic business enterprises		
• Small medium enterprises	14,954	587,372
• Others	6,710,141	7,426,207
	15,559,251	14,935,811
Domestic financial institutions *	(45,310)	-
Foreign entities *	(12,364)	-
	15,501,577	14,935,811

(c) By interest rate sensitivity:

	31.03.2020 RM'000	31.03.2019 RM'000
Variable rates	15,501,577	14,935,811

(d) By economic sector:

	31.03.2020 RM'000	31.03.2019 RM'000
Mining and quarrying	3,145	5,181
Manufacturing	928,027	933,211
Electricity, gas and water	2,128,957	2,208,030
Construction	923,236	1,133,790
Wholesale, retail trade, restaurants and hotels	974,047	961,117
Transport, storage and communication	382,757	1,387,690
Finance, insurance, real estate and business services	10,146,835	8,295,606
Others	14,573	11,186
	15,501,577	14,935,811

(e) By geographical location:

	31.03.2020 RM'000	31.03.2019 RM'000
Malaysia	15,513,941	14,935,811
Other countries *	(12,364)	-
	15,501,577	14,935,811

* The credit balances are exposure after netting off with the identified cover deals (see Note 1 (d)(iii)).

NOTES TO THE FINANCIAL STATEMENTS

9. PURCHASED RECEIVABLES

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Purchased receivables	773,319	434,564
Impairment allowances on purchased receivables		
• Stage 1 - 12 month ECL	(258)	(44)
• Stage 2 - lifetime ECL not credit-impaired	(59)	(4)
• Stage 3 - lifetime ECL credit-impaired	(10)	-
	772,992	434,516

Purchased receivables relate to receivables acquired by the Bank under the account receivables purchasing and vendors financing product. These amounts owing from obligors have a tenure of within three months. Included in purchased receivables are non-recourse bills receivables amounting to RM741,621,000 (2019: RM404,328,000).

(a) Movements in impairment allowances on purchased receivables which reflect the ECL model on impairment during the financial year are as follows:

	12 month ECL	Lifetime ECL Not credit-impaired	Lifetime ECL Credit-impaired	
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 April 2019	44	4	-	48
New financial assets originated	258	59	10	327
Net remeasurement due to changes in credit risk	(44)	(4)	-	(48)
Amount written off	-	-	-	-
At 31 March 2020	258	59	10	327
At 1 April 2018				185
Effects of adopting MFRS 9				(138)
At 1 April 2018, as restated	-	47	-	47
New financial assets originated	44	4	-	48
Financial assets derecognised (other than write-off)	-	(47)	-	(47)
At 31 March 2019	44	4	-	48

10. COLLATERAL DEPOSITS

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Cash collaterals placed	160,214	143,022

The cash collaterals placed are recognised at amortised cost. These deposits are placed in respect of derivative balances pursuant to agreements in accordance with International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") entered into with respective counterparties.

Cash collaterals received	19,630,557	16,941,590

The cash collaterals received are recognised at amortised cost. These are received in respect of derivative balances pursuant to agreements in accordance with ISDA and CSA entered into with respective counterparties, and Cash Collateral Scheme entered into with a branch of the holding company amounting to RM19,488,714,000 (2019: RM16,728,449,000).

NOTES TO THE FINANCIAL STATEMENTS

11. DERIVATIVE FINANCIAL ASSETS / LIABILITIES

The table below shows the Bank's derivative financial instruments measured at their fair value together with their corresponding contract/notional amounts as at the reporting date. The notional amounts of these derivative financial instruments refer to the underlying contract values on which changes in the fair value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the financial year but are not indicative of either the market risk or credit risk inherent in the derivative contracts. The risks associated with the use of derivative financial instruments, as well as management's policy for managing these risks are set out in Note 38 to the financial statements.

	31.03.2020			31.03.2019		
	Contract/ Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000	Contract/ Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000
At Fair Value						
Trading Derivatives *						
Foreign exchange related contracts						
• Forwards	7,527,316	100,449	71,150	10,870,314	56,071	44,508
• Swaps	7,019,698	252,364	300,383	18,062,934	686,950	590,079
Interest rate related contracts						
• Swaps	10,088,024	184,084	164,435	25,281,881	45,194	144,555
Other derivatives						
• Currency options	195,850	934	499	148,538	660	570
• Premium yielder investments	1,723,000	35	35	3,351,907	6,463	5,983
	26,553,888	537,866	536,502	57,715,574	795,338	785,695

*Included in trading derivatives are derivative financial assets and derivative financial liabilities transacted with the holding company and related companies amounting to RM117,795,000 (2019: RM41,182,000) and RM129,944,000 (2019: RM98,798,000) respectively.

12. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia ("BNM") in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined as a set percentage of total eligible liabilities.

13. OTHER ASSETS

	31.03.2020 RM'000	31.03.2019 RM'000
Accrued interest receivable	4,290	5,568
Other receivables, deposits and prepayments	10,403	275,005
	14,693	280,573
Impairment allowances on other assets		
• Stage 3 - lifetime ECL credit-impaired	(40)	(43)
	14,653	280,530

Movements in impairment allowances on other assets which reflect the ECL model on impairment are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Lifetime Credit-impaired ECL Stage 3		
At 1 April	43	53
Amount recovered	(3)	(10)
At 31 March	40	43

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land RM'000	Buildings and Leasehold Improvements RM'000	Computer Equipment RM'000	Furniture, Fixtures and Equipment RM'000	Motor Vehicles RM'000	Total RM'000
31.03.2020						
Cost						
At 1 April 2019	2,963	11,477	30,520	8,701	1,839	55,500
Additions	-	5,873	7,689	47	-	13,609
Disposals	-	(75)	(530)	(436)	-	(1,041)
At 31 March 2020	2,963	17,275	37,679	8,312	1,839	68,068
Accumulated Depreciation						
At 1 April 2019	-	7,381	21,486	7,248	949	37,064
Charge for the year	-	834	3,416	429	307	4,986
Disposals	-	(75)	(446)	(436)	-	(957)
At 31 March 2020	-	8,140	24,456	7,241	1,256	41,093
Carrying Amount	2,963	9,135	13,223	1,071	583	26,975
31.03.2019						
Cost						
At 1 April 2018	2,963	14,146	29,054	8,378	1,329	55,870
Additions	-	42	1,491	384	510	2,427
Disposals	-	(2,711)	(25)	(61)	-	(2,797)
At 31 March 2019	2,963	11,477	30,520	8,701	1,839	55,500
Accumulated Depreciation						
At 1 April 2018	-	8,988	18,179	6,904	715	34,786
Charge for the year	-	771	3,332	400	234	4,737
Disposals	-	(2,378)	(25)	(56)	-	(2,459)
At 31 March 2019	-	7,381	21,486	7,248	949	37,064
Carrying Amount	2,963	4,096	9,034	1,453	890	18,436

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS

Intangible assets comprised computer software which are in itself not integral to any other tangible assets.

	31.03.2020 RM'000	31.03.2019 RM'000
Cost		
At 1 April	78,563	77,068
Additions	45,780	1,818
Disposals	(210)	(323)
At 31 March	124,133	78,563
Accumulated Amortisation		
At 1 April	51,256	40,653
Charge for the year	12,017	10,813
Disposals	(95)	(210)
At 31 March	63,178	51,256
Carrying Amount	60,955	27,307

16. RIGHT-OF-USE ASSETS

	Buildings and Leasehold Improvements RM'000	Total RM'000
At 1 April 2019 (Note 42)	11,897	11,897
Addition	629	629
Depreciation	(3,556)	(3,556)
Derecognition	(63)	(63)
At 31 March 2020	8,907	8,907

Extension options

Some leases of office buildings contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where applicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Significant judgements and assumptions in relation to leases

The Bank assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. The Bank considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Bank also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. The Bank first determines the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

17. DEFERRED TAX ASSETS/(LIABILITIES)

	31.03.2020 RM'000	31.03.2019 RM'000
At 1 April	(27,261)	1,293
Effect of adopting MFRS 9	-	(54,588)
At 1 April	(27,261)	(53,295)
Recognised in profit or loss (Note 34)	37,478	25,810
Recognised in other comprehensive income (Note 35)	(1,139)	224
At 31 March	9,078	(27,261)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same fiscal tax authority on the same taxable entity.

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net tax assets/(liabilities)	
	31.03.2020 RM'000	31.03.2019 RM'000	31.03.2020 RM'000	31.03.2019 RM'000	31.03.2020 RM'000	31.03.2019 RM'000
Fair value reserve	-	-	(6,765)	(5,549)	(6,765)	(5,549)
Defined benefit reserve	1,392	1,392	-	-	1,392	1,392
ECL reserve	86	-	-	(81)	86	(81)
Property, plant & equipment	-	4,413	(7,456)	-	(7,456)	4,413
Right-of-use assets	-	-	(2,138)	-	(2,138)	-
Lease liabilities	2,127	-	-	-	2,127	-
Other temporary differences	21,832	-	-	(27,436)	21,832	(27,436)
Tax assets/(liabilities)	25,437	5,805	(16,359)	(33,066)	9,078	(27,261)
Set off of tax	(16,359)	(5,805)	16,359	5,805	-	-
Net tax assets/(liabilities)	9,078	-	-	(27,261)	9,078	(27,261)

Movement in temporary differences during the year:

	At 31.03.2018 RM'000	Effects of adopting MFRS 9 RM'000	At 01.04.2018 RM'000	Recognised in profit or loss (Note 34) RM'000	Recognised in other compre-hensive income (Note 35/ Note 6) RM'000	At 31.03.2019 RM'000	Recognised in profit or loss (Note 34) RM'000	Recognised in other compre-hensive income (Note 35/ Note 6) RM'000	At 31.03.2020 RM'000
Fair value reserve	(568)	(5,325)	(5,893)	116	228	(5,549)	(81)	(1,135)	(6,765)
Defined benefit reserve	123	-	123	1,269	-	1,392	-	-	1,392
ECL reserve	-	(78)	(78)	1	(4)	(81)	171	(4)	86
Property, plant & equipment	(2,565)	-	(2,565)	6,978	-	4,413	(11,869)	-	(7,456)
Right-of-use assets	-	-	-	-	-	-	(2,138)	-	(2,138)
Lease liabilities	-	-	-	-	-	-	2,127	-	2,127
Other temporary differences	4,303	(49,185)	(44,882)	17,446	-	(27,436)	49,268	-	21,832
Total	1,293	(54,588)	(53,295)	25,810	224	(27,261)	37,478	(1,139)	9,078

NOTES TO THE FINANCIAL STATEMENTS

18. DEPOSITS FROM CUSTOMERS

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Demand deposits	3,958,082	3,122,530
Money market deposits	1,551,697	1,357,623
Savings deposits	4,386	16,909
Fixed deposits	3,528,608	3,822,620
	9,042,773	8,319,682

(a) The maturity structure of fixed deposits are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Due within six months	3,466,435	3,770,781
More than six months to one year	61,066	44,332
More than one year to two years	1,107	7,507
	3,528,608	3,822,620

(b) The deposits are sourced from the following customers:

	31.03.2020 RM'000	31.03.2019 RM'000
Business enterprises	9,034,767	8,252,850
Individuals	8,006	66,832
	9,042,773	8,319,682

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Licensed banks	1,059,209	1,683,104

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER LIABILITIES

		31.03.2020 RM'000	31.03.2019 RM'000
Provision for retirement benefits	(i)	30,135	29,129
Impairment allowances on commitment and contingencies	(ii)		
• Stage 1 - 12 month ECL		1,303	113
• Stage 2 - lifetime ECL not credit-impaired		241	1,081
• Stage 3 - lifetime ECL credit-impaired		717	-
Accrued interest payable		10,793	18,461
Bills payable		8,038	16,020
Other payables and accruals		141,182	62,692
		192,409	127,496

(i) Provision for retirement benefits

The Bank operates an unfunded defined benefit plan which ended with effect from financial year ended 2018. Actuarial valuation of the plan was performed in April 2018 and is revalue once in three years starting from financial year beginning 1 April 2018.

Movements in provision for retirement benefits are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
At 1 April	29,129	26,668
Included in profit or loss (Note 31)		
Current service cost	2,682	2,796
Interest cost	1,422	1,302
	4,104	4,098
Others		
Benefits paid	(3,098)	(1,637)
	(3,098)	(1,637)
At 31 March	30,135	29,129

Principal actuarial assumptions at the end of the reporting period (expressed as weighted average):

	31.03.2020 %	31.03.2019 %
Discount rate	5.0	5.0
Expected rate of salary increment	6.0	6.0

At 31 March 2020, the duration of the defined benefit obligation was 7.1 years (2019: 8.1 years).

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER LIABILITIES (CONTD)

(i) Provision for retirement benefits (Contd)

Sensitivity analysis

Reasonably possible changes at the reporting date to the following relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Defined Benefit Obligation	
	Increase RM'000	Decrease RM'000
31.03.2020		
Discount rate (1% movement)	(2,396)	2,739
Rate of salary (1% movement)	2,329	(2,079)
31.03.2019		
Discount rate (1% movement)	(2,316)	2,647
Rate of salary (1% movement)	2,481	(2,215)

The sensitivity results above determine their individual impact on the Plan's end of period defined benefit obligation. In reality, the Plan is subject to multiple external experience items which may move the defined benefit obligation in similar or opposite directions, while the Plan's sensitivity to such changes can vary over time.

(ii) Movements in impairment allowances on commitments and contingencies which reflect the ECL model on impairment are as follows:

		Lifetime ECL		
	12 month ECL Stage 1 RM'000	Not credit-impaired Stage 2 RM'000	Credit-impaired Stage 3 RM'000	Total RM'000
At 1 April 2019	113	1,081	-	1,194
Transfer to 12-Month ECL (Stage 1)	177	(586)	-	(409)
Transfer to lifetime ECL not credit-impaired (Stage 2)	-	1	-	1
Transfer to lifetime ECL credit-impaired (Stage 3)	-	-	4	4
New financial assets originated	1,035	83	713	1,831
Financial assets derecognised (other than write-off)	(46)	(262)	-	(308)
Net remeasurement due to changes in credit risk	24	(76)	-	(52)
Amount written off	-	-	-	-
At 31 March 2020	1,303	241	717	2,261
At 1 April 2018				-
Effects of adopting MFRS9				1,288
At 1 April 2018, as restated	175	1,113	-	1,288
Transfer to 12-Month ECL (Stage 1)	16	(292)	-	(276)
Transfer to lifetime ECL not credit-impaired (Stage 2)	(3)	203	-	200
New financial assets originated	54	666	-	720
Financial assets derecognised (other than write-off)	(131)	(128)	-	(259)
Net remeasurement due to changes in credit risk	2	(481)	-	(479)
At 31 March 2019	113	1,081	-	1,194

21. LEASE LIABILITIES

Lease liabilities are payable as follows:

	Future minimum lease payment RM'000	Interest RM'000	Present value of minimum lease payment RM'000
Less than 1 year	3,640	(282)	3,358
1 - 2 years	2,963	(175)	2,788
2 - 5 years	2,813	(94)	2,719
	9,416	(551)	8,865

22. SHARE CAPITAL

	Number of Ordinary Shares		Amount	
	31.03.2020 '000	31.03.2019 '000	31.03.2020 RM'000	31.03.2019 RM'000
Issued and fully paid-up ordinary shares	200,000	200,000	200,000	200,000

23. RESERVES

		31.03.2020 RM'000	31.03.2019 RM'000
Non-distributable			
Fair value reserve		26,714	23,120
Expected credit loss reserve		349	337
Defined benefit reserve	(a)	(5,801)	(5,801)
Regulatory reserve	(b)	107,284	93,078
Distributable			
Retained profits		2,963,159	2,818,571
		3,091,705	2,929,305

(a) The defined benefit reserve is in respect of actuarial gains and losses arising from remeasurement of the Bank's defined benefit plan as disclosed in Note 20 of the financial statements.

(b) The regulatory reserve is maintained in compliance with the requirements under BNM's Policy document on Financial Reporting to maintain, in aggregate, impairment allowance for not credit-impaired exposures (Stage 1 and Stage 2 ECL) and regulatory reserve of not less than 1% of total credit exposures, net of impairment allowance exposures.

NOTES TO THE FINANCIAL STATEMENTS

24. COMMITMENTS AND CONTINGENCIES

The commitments and contingencies exposures and their related counterparty credit risk of the Bank are as follows:

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31.03.2020				
Contingent Liabilities				
Direct credit substitutes	2,275		2,272	1,136
Transaction related contingent items	842,010		419,256	368,772
Short-term self liquidating trade-related contingencies	317,090		63,327	52,831
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	229,926		45,567	45,567
• exceeding one year	169		84	79
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	7,013,689		-	-
Securitisation exposures	15,000		3,000	2,250
	8,420,159		533,506	470,635
Embedded Loans				
Foreign exchange related contracts				
• one year or less	6,045,686	272,432	303,395	181,664
• over one year to five years	14,109,521	469,074	1,488,241	832,226
• over five years	1,437,619	67,314	259,946	177,811
Interest rate related contracts				
• one year or less	6,479,298	13,700	12,403	3,243
• over one year to five years	11,221,810	103,760	192,991	79,153
• over five years	1,571,027	56,772	127,876	45,465
	40,864,961	983,052	2,384,852	1,319,562
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	7,420,328	104,608	216,355	141,808
• over one year to five years	5,059,742	146,775	334,702	288,306
• over five years	2,066,944	101,430	326,341	246,794
Interest rate related contracts				
• one year or less	2,908,754	3,860	4,148	1,725
• over one year to five years	4,926,023	68,703	122,084	80,673
• over five years	2,253,246	111,521	154,914	102,228
Currency options *				
• one year or less	97,925	934	2,403	2,403
Premium yielder investments *				
• one year or less	861,500	35	12,957	2,591
	25,594,462	537,866	1,173,904	866,528
	74,879,582	1,520,918	4,092,262	2,656,725

* Only buy legs are taken into account for counterparty credit risk purposes.

24. COMMITMENTS AND CONTINGENCIES (CONTD)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31.03.2019				
Contingent Liabilities				
Direct credit substitutes	2,275		2,274	1,137
Transaction related contingent items	1,014,310		505,980	448,340
Short-term self liquidating trade-related contingencies	213,504		42,700	43,307
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	221,392		44,272	44,272
• exceeding one year	417		197	148
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	7,403,938		-	-
Securitisation exposures	15,000		3,000	2,250
	8,870,836		598,423	539,454
Embedded Loans				
Foreign exchange related contracts				
• one year or less	1,260,365	21,671	49,782	37,134
• over one year to five years	7,980,022	369,255	1,059,065	951,372
• over five years	1,300,020	94,330	276,693	276,693
Interest rate related contracts				
• one year or less	75,000	70	145	145
• over one year to five years	2,208,600	31,448	43,973	14,594
• over five years	966,219	33,265	78,534	66,004
	13,790,226	550,039	1,508,192	1,345,942
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	16,589,819	193,338	375,365	220,778
• over one year to five years	8,776,387	388,461	1,207,140	708,720
• over five years	3,567,042	161,222	659,862	466,298
Interest rate related contracts				
• one year or less	5,395,562	1,988	9,504	3,749
• over one year to five years	15,748,884	27,357	262,554	128,260
• over five years	4,137,435	15,849	235,282	132,078
Currency options *				
• one year or less	74,269	660	1,774	1,774
Premium yielder investments *				
• one year or less	903,007	2,264	28,053	7,034
• over one year to five years	816,300	4,199	45,014	9,003
	56,008,705	795,338	2,824,548	1,677,694
	78,669,767	1,345,377	4,931,163	3,563,090

* Only buy legs are taken into account for counterparty credit risk purposes.

25. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party and relationships

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial or operating decisions, or if one other party controls both or exercises significant influence over both.

(b) Related party transactions and balances

The related party transactions during the financial year are as follows:

	31.03.2020			31.03.2019		
	Holding Company RM'000	Related Companies RM'000	Total RM'000	Holding Company RM'000	Related Companies RM'000	Total RM'000
Income						
Interest on advances	6	-	6	7	-	7
Other operating income	12,416	153	12,569	11,006	32	11,038
	12,422	153	12,575	11,013	32	11,045
Expenditure						
Interest on advances	422,925	-	422,925	486,779	-	486,779
Interest on deposits	-	-	-	388	-	388
Other fee expenses	1,782	155	1,937	210	141	351
Other operating expenses	5,616	-	5,616	3,866	-	3,866
	430,323	155	430,478	491,243	141	491,384
Amount due from						
Advances	516,490	-	516,490	184,250	-	184,250
Current accounts	532,074	11,858	543,932	381,954	14,292	396,246
Money at call and deposit placements maturing within 1 - 3 months	182	-	182	221	-	221
Cash collaterals	-	948	948	-	-	-
Derivative assets	123,369	30	123,399	41,057	125	41,182
	1,172,115	12,836	1,184,951	607,482	14,417	621,899
Amount due to						
Advances	1,038,099	-	1,038,099	1,612,193	-	1,612,193
Current accounts	732	468	1,200	70,485	451	70,936
Accrued interest payable	2,232	-	2,232	4,050	-	4,050
	1,041,063	468	1,041,531	1,686,728	451	1,687,179
Cash collaterals	19,488,714	-	19,488,714	16,728,367	82	16,728,449
Derivative liabilities	147,072	840	147,912	98,651	147	98,798
	20,676,849	1,308	20,678,157	18,513,746	680	18,514,426
Capital expenditures	15,389	-	15,389	7,038	-	7,038

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTY TRANSACTIONS AND BALANCES (CONTD)

(b) Related party transactions and balances (Contd)

Related companies refer to the holding companies and its subsidiaries as listed below:

Company	Relationship
Mitsubishi UFJ Financial Group Inc.	Ultimate holding company
MUFG Bank, Ltd.	Immediate holding company
MUFG Bank (Europe) N.V.	Subsidiary of immediate holding company
MUFG Bank (China), Ltd.	Subsidiary of immediate holding company
Bank of Ayudhya PCL	Subsidiary of immediate holding company

Interest rates on advances, current accounts and fixed deposits were at normal commercial rates.

The intercompany charges paid to the holding companies and its subsidiaries are relating to other operating expenses as follows:-

Company	Type of Services	Country	31.03.2020 RM'000	31.03.2019 RM'000
MUFG Bank, Ltd	Agency service	Japan	4	7
	Professional fees	Japan	-	37
	Website maintenance service	Japan	969	794
	Information technology services	Japan	4,618	2,967
MUFG Bank, Ltd,	Website maintenance service	USA	-	13
USA Branch	Information technology services	USA	-	2
MUFG Bank, Ltd,	Professional fees	Singapore	25	21
Singapore Branch	Information technology services	Singapore	-	25
			5,616	3,866

(c) Credit transactions and exposures with connected parties

Credit transactions and exposures to connected parties includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and creditworthiness. Due care has been taken to ensure that the creditworthiness of the connected party is not less than that normally required of other persons.

	31.03.2020 RM'000	31.03.2019 RM'000
Outstanding credit exposures with connected parties	664,079	569,484
Total credit exposures	31,807,979	28,800,365
Percentage of outstanding credit exposures to connected parties		
• as a proportion of total credit exposures	2.1%	2.0%
• as a proportion of total capital	20.5%	18.4%

There are currently no exposures to connected parties which are classified as impaired.

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTY TRANSACTIONS AND BALANCES (CONTD)

(d) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank are the Directors and Chief Executive Officer ("CEO").

The remuneration of the CEO included in profit or loss is as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Short-term employee benefits	1,010	1,247

Directors' remuneration is disclosed in Note 32 of the financial statements.

26. OPERATING REVENUE

Operating revenue of the Bank comprises of net interest income, fee and commission income, investment income, income derived from investment securities, net income from embedded loans measured at fair value through profit or loss, gross dividends and other income derived from conventional banking and Islamic Banking operations.

27. INTEREST INCOME

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Loans, advances and financing measured at amortised cost and at fair value	276,190	361,829
Money at call and deposit placements with financial institutions	138,788	142,128
Financial assets at FVTPL	9,624	1,642
Financial investments at FVOCI	17,475	17,288
	442,077	522,887

28. INTEREST EXPENSE

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Deposits and placements of banks and other financial institutions	172,596	126,419
Deposits from customers	44,614	172,967
	217,210	299,386

29. NET INCOME FROM EMBEDDED LOANS MEASURED AT FVTPL

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Interest income	420,520	419,755
Interest expense	(387,688)	(360,830)
Unrealised loss in fair value of embedded loans	(53,447)	(43,841)
Realised gain in fair value of embedded loans	72,181	142,593
	51,566	157,677

30. OTHER OPERATING INCOME

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Fee income		
Commission	1,646	1,840
Guarantee fees	4,050	3,921
Service charges and fees	2,613	1,859
Commitment fees	616	679
Other fee income	20,704	10,166
	29,629	18,465
Net investment income		
Gross dividends	1,481	221
Realised gain/(loss) in fair value of derivative financial instruments	30,290	(55,180)
Realised gain in fair value of trading securities	4,201	1,233
Unrealised gain/(loss) in fair value of derivative financial instruments	14,209	(18,612)
Unrealised gain in fair value of trading securities	745	-
Foreign exchange gain	100,648	115,931
Net premium paid for options	(50)	(18)
	151,524	43,575
Other income		
Other operating income	7,075	3,914
	188,228	65,954

NOTES TO THE FINANCIAL STATEMENTS

31. OTHER OPERATING EXPENSES

		Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Personnel expenses	(i)	107,637	106,676
Establishment related expenses	(ii)	24,813	22,574
Promotion and marketing related expenses	(iii)	2,114	2,473
Administrative and other expenses	(iv)	42,256	40,155
		176,820	171,878

		Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
(i)	**Personnel expenses**		
	Wages, salaries and bonuses	83,410	80,468
	Defined benefit plan (Note 20(i))	4,104	4,098
	Defined contribution plan	8,597	8,791
	Other employee benefits	11,526	13,319
		107,637	106,676
(ii)	**Establishment related expenses**		
	Depreciation of property, plant and equipment	4,986	4,737
	Amortisation of intangible assets	12,017	10,813
	Depreciation of rights-of-use assets	3,556	-
	Hire of equipment	815	882
	Repair and maintenance	585	391
	Expenses relating to short-term leases and leases of low-value assets/Rental of premises	1,886	4,848
	Others	968	903
		24,813	22,574
(iii)	**Promotion and marketing related expenses**		
	Advertising and publicity	239	352
	Others	1,875	2,121
		2,114	2,473
(iv)	**Administrative and other expenses**		
	Cash collateral fees	4,907	16,200
	Communication expenses	1,193	1,151
	Legal and professional fees	4,053	1,921
	Auditors' remuneration		
	• Statutory audit	390	390
	• Non audit related services		
	- KPMG PLT	70	65
	- Local affiliates of KPMG PLT	283	350
	Others	31,360	20,078
		42,256	40,155

NOTES TO THE FINANCIAL STATEMENTS

32. DIRECTORS' REMUNERATION

Remuneration in aggregate for all directors charged to profit or loss for the year are as follows:

	Year ended 31.03.2020						Year ended 31.03.2019					
	Salary RM'000	Fee RM'000	Bonus RM'000	Benefits-in-Kind RM'000	Other Remuneration RM'000	Total RM'000	Salary RM'000	Fee RM'000	Bonus RM'000	Benefits-in-Kind RM'000	Other Remuneration RM'000	Total RM'000
Executive Directors / CEO												
Mr. Takuma Matsuyama	614	-	275	121	-	1,010	271	-	115	43	-	429
Mr. Yuta Uchiyama	-	-	-	-	-	-	628	-	96	94	-	818
Non-Executive Directors												
Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Chairman)	-	70	-	-	131	201	-	70	-	-	106	176
En. Ismail Bin Mahbob	-	70	-	-	87	157	-	70	-	-	98	168
Y. Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani	-	58	-	-	78	136	-	-	-	-	-	-
Y.Bhg. Dato Abdul Rahim bin Osman (Resigned on 31 May 2019)	-	12	-	-	20	32	-	70	-	-	144	214
	614	210	275	121	316	1,536	899	210	211	137	348	1,805

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind, during the financial year amounted to RM1,010,000 (2019: RM1,247,000).

Other remuneration consists of Chairman's allowance, Committee Member allowance and Meeting allowance.

NOTES TO THE FINANCIAL STATEMENTS

33. ALLOWANCE FOR/(REVERSAL OF) IMPAIRMENT ON FINANCIAL INSTRUMENTS/LOANS, ADVANCES AND FINANCING

		Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
(a)	**Allowance for/(Reversal of) impairment on loans, advances and financing**		
	Stage 1 and 2 expected credit losses made during the year	24,294	7,415
	Stage 1 and 2 expected credit losses written back	(7,536)	(14,697)
	Stage 3 expected credit losses made during the year	50,683	55
	Stage 3 expected credit losses written back	(43)	(279)
	Impaired loans, advances and financing written off	14	181
	Other movements	(70)	-
	Bad debts written back	-	(77)
		67,342	(7,402)
(b)	**Allowance for/(Reversal of) impairment on purchased receivables**		
	Stage 1 and 2 expected credit losses made during the year	317	48
	Stage 1 and 2 expected credit losses written back	(48)	(47)
	Stage 3 expected credit losses made during the year	10	-
		279	1
(c)	**Allowance for/(Reversal of) impairment on off-balance sheet exposures**		
	Stage 1 and 2 expected credit losses made during the year	1,320	942
	Stage 1 and 2 expected credit losses written back	(970)	(1,036)
	Stage 3 expected credit losses made during the year	717	-
		1,067	(94)
(d)	**Reversal of impairment on other assets**		
	Stage 3 expected credit losses written back	(3)	(10)
(e)	**Allowance for impairment on financial investments at FVOCI**		
	Stage 1 and 2 expected credit losses made during the year	16	18
		68,701	(7,487)

NOTES TO THE FINANCIAL STATEMENTS

34. TAX EXPENSE

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Current tax		
• Malaysian income tax in respect of current financial year	56,854	55,285
• Under/(Over)provision in prior years	52,001	(7,533)
Total current tax recognised in profit or loss	108,855	47,752
Deferred tax (Note 17)		
• Relating to origination and reversal of temporary differences	270	18,000
• Overprovision in prior years	(37,748)	(43,810)
Total deferred tax recognised in profit or loss	(37,478)	(25,810)
Total tax expense	71,377	21,942

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

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Profit before tax	230,171	285,247
Taxation at Malaysian statutory tax rate of 24%	55,241	68,459
Income not subject to tax	(355)	(53)
Expenses not deductible for tax purposes	2,238	4,879
(Over)/Underprovision of deferred tax in prior years	(37,748)	(43,810)
Under/(Over)provision of current tax expense in prior years	52,001	(7,533)
Tax expense for the year	71,377	21,942

35. OTHER COMPREHENSIVE INCOME

	31.03.2020			31.03.2019		
	Before Tax RM'000	Deferred Tax Expense (Note 17/ Note 6) RM'000	Net of Tax RM'000	Before Tax RM'000	Deferred Tax Benefit / (Expense) (Note 17/ Note 6) RM'000	Net of Tax RM'000
Change in fair value of financial investments at FVOCI	4,729	(1,135)	3,594	(952)	228	(724)
Change in ECL reserve of financial investments at FVOCI	16	(4)	12	18	(4)	14
	4,745	(1,139)	3,606	(934)	224	(710)

NOTES TO THE FINANCIAL STATEMENTS

36. EARNINGS PER SHARE

The earnings per ordinary share of the Bank have been calculated based on the profit for the year of RM158,794,000 (2019: RM263,305,000) and on the number of ordinary shares in issue during the year of 200,000,000 (2019: 200,000,000).

37. CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Bank are as follows:

	31.03.2020 %	31.03.2019 %
Common equity Tier 1 ("CET 1") capital ratio	22.565	21.308
Tier 1 capital ratio	22.565	21.308
Total capital ratio	23.559	22.054

The capital adequacy ratios consist of total capital and risk-weighted assets derived from balances of the Bank and are computed in accordance with BNM's Guidelines on Capital Adequacy Framework (Capital Components and Basel II - Risk Weighted Assets) ("CAF"). The Bank adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The minimum regulatory capital adequacy requirements including capital conservation buffer for the following capital ratios are:

CET 1 Capital Ratio	7.00	%
Tier 1 Capital Ratio	8.50	%
Total Capital Ratio	10.50	%

(b) The components of CET 1, Tier 1 and total capital of the Bank are as follows:

		31.03.2020 RM'000	31.03.2019 RM'000
CET 1 and Tier 1 capital			
• Paid-up ordinary share capital		200,000	200,000
• Retained profits		2,963,159	2,818,571
• Other reserves		128,546	110,734
		3,291,705	3,129,305
Less:	Deferred tax assets	(9,078)	-
	Intangible assets	(60,955)	(27,307)
	55% of fair value reserve	(14,693)	(12,716)
	Regulatory reserve	(107,284)	(93,078)
		3,099,695	2,996,204
Tier 2 capital			
• Stage 1 and 2 ECL and regulatory reserve		136,494	104,903
Total Capital		3,236,189	3,101,107

37. CAPITAL ADEQUACY (CONTD)

(b) The components of CET 1, Tier 1 and total capital of the Bank are as follows (Contd):

Capital Management

The Bank's capital management is guided by its risk appetite and outlines the Bank's objective to diversify its sources of capital and to allocate capital efficiently, directed by the need to maintain a prudent relationship between available capital and risks in the underlying businesses to meet the expectations of key constituencies, including the holding company and BNM.

The capital target for the total capital ratio is above the minimum regulatory capital requirements and has factored in the expected capital required under the current and future operating environment to support the credit, market and operational risks as well as the Bank's business growth.

(c) The breakdown of the risk-weighted assets by each major risk category is as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Credit risk	11,053,705	11,530,367
Market risk	1,875,255	1,596,710
Operational risk	807,598	934,602
	13,736,558	14,061,679

Detailed disclosures on risk exposures above, as prescribed under BNM's Guidelines on Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3) and Capital Adequacy Framework for Islamic Banks (CAFIB) - Dislcosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures.

38. FINANCIAL RISK MANAGEMENT

(a) INTRODUCTION

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

The following note presents information about the Bank's exposures to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk Management Committee ("RMC"), which is responsible for developing and monitoring risk management policies in their specified areas. The RMC has both executive and non-executive members and report regularly to the Board on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee ("AC") is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The AC is assisted in these functions by the Internal Audit Department ("IAD"). IAD undertakes regular reviews of risk management controls and procedures, the results of which are reported to the AC.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(a) INTRODUCTION (CONTD)

Financial Instruments by Categories

The table below provides an analysis of financial instruments categorised as follows:

(a) Amortised cost

(b) Fair value through profit or loss ("FVTPL")
- Mandatorily required by MFRS 9
- Designated upon initial recognition ("DUIR")

(c) Fair value through other comprehensive income ("FVOCI")
- Equity instrument designated upon initial recognition ("EIDUIR")
- Debt instrument ("DI")

The following table shows the carrying amounts of financial assets and financial liabilities:

	Amortised cost RM'000	Mandatorily at FVTPL RM'000	FVOCI - DI RM'000	FVOCI - EIDUIR RM'000
31.03.2020				
Financial Assets				
Cash and short-term funds	4,050,436	-	-	-
Deposits and placement with financial institutions	1,745,811	-	-	-
Financial assets at FVTPL	-	164,115	-	-
Financial investments at FVOCI	-	-	641,867	28,976
Loans, advances and financing	9,893,727	100,393	-	-
Embedded loans measured at FVTPL	-	15,501,577	-	-
Purchased receivables	772,992	-	-	-
Collateral deposits placed	160,214	-	-	-
Derivative financial assets	-	537,866	-	-
Statutory deposits with Bank Negara Malaysia	42,397	-	-	-
Other assets	11,207	-	-	-
	16,676,784	16,303,951	641,867	28,976
Financial Liabilities				
Deposits from customers	9,042,773	-	-	-
Deposits and placements of banks and other financial institutions	1,059,209	-	-	-
Collateral deposits received	19,630,557	-	-	-
Derivative financial liabilities	-	536,502	-	-
Other liabilities	192,409	-	-	-
	29,924,948	536,502	-	-

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(a) INTRODUCTION (CONTD)

Financial Instruments by Categories (Contd)

The following table shows the carrying amounts of financial assets and financial liabilities: (Contd)

	Amortised cost RM'000	Mandatorily at FVTPL RM'000	FVOCI - DI RM'000	FVOCI - EIDUIR RM'000
31.03.2019				
Financial Assets				
Cash and short-term funds	5,314,486	-	-	-
Deposits and placement with financial institutions	952,641	-	-	-
Financial investments at FVOCI	-	-	405,475	25,520
Loans, advances and financing	7,568,611	-	-	-
Embedded loans measured at FVTPL	-	14,935,811	-	-
Purchased receivables	434,516	-	-	-
Collateral deposits placed	143,022	-	-	-
Derivative financial assets	-	795,338	-	-
Statutory deposits with Bank Negara Malaysia	87,648	-	-	-
Other assets	277,155	-	-	-
	14,778,079	15,731,149	405,475	25,520
Financial Liabilities				
Deposits from customers	8,319,682	-	-	-
Deposits and placements of banks and other financial institutions	1,683,104	-	-	-
Collateral deposits received	16,941,590	-	-	-
Derivative financial liabilities	-	785,695	-	-
Other liabilities	127,496	-	-	-
	27,071,872	785,695	-	-

Risk Management Process

A sound risk management is essential to ensure the Bank's asset quality is maintained to the level and expectation of shareholders as well as to the satisfaction of regulators. This is to ensure that the shareholders interest is protected and the Bank continues to maintain a strong capital base to maximise lending under the single customer/group limit so that the Bank remains profitable whilst borrowers with good credit standing can continue to enjoy credit facilities with the Bank with competitive pricing.

The Bank's risk management strategies and processes are guided by its respective policies. The Credit Policy outlines the basic principles, features and conditions governing the approval, management and operations of credit facilities offered by the Bank. The Risk Management Policy stipulates the basic principles concerning the Bank's risk control and management. The Policy outlines the roles and responsibilities of the various management committees set up to assist the Board in overseeing that risk management functions are carried out efficiently and important matters are escalated to the Board through the RMC.

The RMC held its meetings on a quarterly basis. It is authorised by the Board to oversee the Bank's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that a risk management process is in place and functioning. Issues discussed in the RMC which have a significant bearing are informed to the Board at the next Board meeting.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored periodically to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

Loans, Advances and Financing and Embedded Loans Measured at FVTPL

The Bank's primary business is lending to business entities. The Bank is therefore mainly exposed to credit risk from loans, advances and financing to its corporate customers and has minimal or negligible exposure to its retail customers. In line with this business model, the Bank has a vast customer base with high demand for foreign exchange contracts and derivatives for hedging and outstanding balance of embedded loans purposes as well as trade financing related services due to their involvement in international trade business, i.e. imports and exports.

The Bank has credit exposures to most of the economic sectors but has some concentration in the sector of manufacturing, finance and business services. The Bank nevertheless manages such concentration risk through the various risk management processes guided by the respective risk management policies and framework.

The maximum exposure to credit risk for the Bank amounts to RM26,268,689,000 (2019: RM22,938,938,000) for on-balance sheet exposures and RM8,420,159,000 (2019: RM8,870,836,000) for off-balance sheet exposures.

The Bank's internal Credit Rating System is used for its internal credit assessment for evaluating the credit worthiness of a company prior to the extension of credit as well as for ongoing credit review. The Bank's Credit Rating System is used as a tool in establishing an integrated risk management system as well. The system serves to objectively evaluate the overall quality (credit risk) of each borrower and credit portfolio and to improve credit and portfolio management. By quantification of credit risk, integrated control and management of risks is in place.

Credit rating is measured against a uniform scale so that each borrower can be comparable and expressed in a simplified and comparative sign. Credit rating is assigned to all borrowers which the Bank provides credit. Borrower ratings are divided into 15 grades (Ratings 1 to 10-2) in accordance with the current and projected level of a borrower's debt-service capability. In this framework, each rating grade is defined by particular descriptions of "risk level" and "debt-service capability" but also clearly benchmarked to quantitative criteria – the probability of default within a certain period, by which the stability of the framework is secured.

Grades 1-2 (Ratings 1 to 2) indicate those borrowers whose capacity to meet financial obligations are deemed high and stable. Grades 3-5 (Ratings 3 to 5-1) indicate those borrowers whose capacity to meet financial obligations are deemed free of problems. Grades 6-8 (Ratings 5-2 to 6-2) indicate those borrowers whose capacity to meet short-term financial obligations are deemed free of problems. Grade 9 (Rating 7) indicates those borrowers whose capacity to meet financial obligations are deemed slightly insufficient.

Grades 10-12 (Ratings 8-1 to 8-3) indicate those borrowers perceived to have problems meeting their financial obligations either due to poor or unstable business performance or having problems with loan conditions. Grades 13-15 (Ratings 9 to 10-2) are those borrowers to whom losses are expected due to major debt repayment problems or having serious financial difficulties and may have the possibility of facing bankruptcy proceedings.

The Bank categorises borrowers with rating grades of 1-9 (Ratings 1 to 7) as normal grades. Borrowers with rating grades of 10-12 (Ratings 8-1 to 8-3) are identified and categorised under the "Close Watch" category where the Bank monitors the credits and business performance of these borrowers closely and formulates appropriate action plans to ensure the timely recovery of such credits, if deems necessary. The Bank through the Credit Risk Management Department ("CRMD") reports action plans to the Credit Risk Management Committee.

The Bank conducts credit review on all its corporate customers to whom it provides credit. Credit review is conducted on an ongoing basis and/or when new information on the borrower becomes available. The Bank assigns a rating grade to each borrower after the credit review assessment is completed. The Bank, however, does not conduct credit review for individuals to whom the Bank provides credit but would assign a rating grades ranging from 13-15 (Ratings of 9 to 10-2) if the credits are classified as credit-impaired.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK

Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk ("CCR") on derivative financial instruments is the risk that the Bank's counterparty in a foreign exchange, interest rate, commodity, equity, options or credit derivative contract defaults prior to maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. Derivative financial instruments entered are originated from customer-driven transactions. The Bank may also take trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Unlike on-balance sheet financial instruments, the Bank's financial loss is not the entire contracted principal value of the derivatives, but rather a fraction equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The Bank will only suffer a replacement cost if the contract carries a fair value gain at time of default.

The CCR arising from all derivative financial instruments is managed via the establishment of counterparty limits and also managed as part of the overall lending limits to banks and customers based on BNM's Single Counterparty Exposure Limit ("SCEL"). Where possible, Over-the-Counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral usually in the form of cash or government securities upon any exposure above the agreed threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Market Risk Management Department ("MRMD") and Processing Department ("PRO") monitor counterparties' positions and promptly request the collateral upon any exposure above the agreed threshold levels with relevant parties. Where possible, the Bank settles its OTC derivatives via the Payment-versus-Payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Bank establishes settlement limits through the Bank's credit approval process.

The tables on the following pages set out the credit risk concentration by economic sectors of the Bank's total assets.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK

The credit risk concentration of the Bank, by economic sectors, are set out in the following tables:

31.03.2020	Cash and Short-Term Funds RM'000	Deposits and Placements with Financial Institutions RM'000	Financial Assets at FVTPL RM'000	Financial Investments at FVOCI RM'000	Loans Advances and Financing # RM'000	Embedded Loans Measured at FVTPL^ RM'000	Purchased Receivables # RM'000	Collateral Deposits Placed RM'000	Derivative Financial Assets RM'000	Statutory Deposits with BNM RM'000	Other Financial Assets RM'000	On-Balance Sheet Total RM'000	Commitment and Contingencies * RM'000
Agricultural, hunting, forestry and fishing	-	-	-	-	734,098	-	-	-	13,239	-	-	747,337	60,352
Mining and quarrying	-	-	-	-	191,117	3,145	-	-	-	-	-	194,262	294,500
Manufacturing	-	-	-	-	1,837,829	928,027	-	-	43,482	-	-	2,809,338	125,402
Electricity, gas and water	-	-	-	-	1,729,798	2,128,957	31,630	-	13,468	-	-	3,903,853	3,711,838
Construction	-	-	-	-	244,657	923,236	-	-	405	-	-	1,168,298	406,616
Wholesale, retail trade, restaurants and hotels	-	-	-	-	687,341	974,047	68	-	16,545	-	-	1,678,001	1,921,482
Transport, storage and communication	-	-	-	213,721	2,129,517	382,757	-	-	69,047	-	-	2,795,042	385,425
Finance, insurance, real estate and business services	1,926,944	516,821	-	26,568	2,047,077	10,146,835	741,621	160,214	381,680	-	-	15,947,760	1,509,875
Government and government agencies	2,119,000	1,228,990	164,115	428,146	-	-	-	-	-	42,397	-	3,982,648	-
Households	-	-	-	-	18,115	-	-	-	-	-	-	18,115	169
Others	-	-	-	2,408	452,348	14,573	-	-	-	-	-	469,329	4,500
	4,045,944	1,745,811	164,115	670,843	10,071,897	15,501,577	773,319	160,214	537,866	42,397	-	33,713,983	8,420,159
Other assets not subject to credit risk	4,492	-	-	-	-	-	-	-	-	-	11,207	15,699	-
	4,050,436	1,745,811	164,115	670,843	10,071,897	15,501,577	773,319	160,214	537,866	42,397	11,207	33,729,682	8,420,159

Stated at gross.
* Commitment and contingencies excluding all derivatives.
^ Net mark-to-market for derivative embedded with the loans are reported herein.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK (CONTD)

The credit risk concentration of the Bank, by economic sectors, are set out in the following tables: (Contd)

31.03.2019	Cash and Short-Term Funds RM'000	Deposits and Placements with Financial Institutions RM'000	Financial Investments at FVOCI RM'000	Loans Advances and Financing # RM'000	Embedded Loans Measured at FVTPL ^ RM'000	Purchased Receivables # RM'000	Collateral Deposits Placed RM'000	Derivative Financial Assets RM'000	Statutory Deposits with BNM RM'000	Other Financial Assets RM'000	On-Balance Sheet Total RM'000	Commitment and Contingencies* RM'000
Agricultural, hunting, forestry and fishing	-	-	-	670,442	-	-	-	3,674	-	-	674,116	50,000
Mining and quarrying	-	-	-	-	2,149,849	-	-	-	-	-	2,149,849	522,700
Manufacturing	-	-	-	1,759,531	6,629	-	-	21,529	-	-	1,787,689	204,775
Electricity, gas and water	-	-	-	380,390	905,754	29,903	-	7,917	-	-	1,323,964	3,880,539
Construction	-	-	-	925,920	1,032,551	-	-	625	-	-	1,959,096	414,062
Wholesale, retail trade, restaurants and hotels	-	-	-	651,694	903,262	333	-	7,559	-	-	1,562,848	1,930,915
Transport, storage and communication	-	-	204,216	2,082,583	1,358,488	-	-	70,888	-	-	3,716,175	582,615
Finance, insurance, real estate and business services	2,046,375	184,506	23,985	1,088,940	8,119,429	404,328	143,022	683,146	-	-	12,693,731	1,280,313
Government and government agencies	3,264,700	768,135	201,260	-	-	-	-	-	87,648	-	4,321,743	-
Households	-	-	-	19,490	-	-	-	-	-	-	19,490	417
Others	-	-	1,534	-	10,331	-	-	-	-	-	11,865	4,500
	5,311,075	952,641	430,995	7,578,990	14,486,293	434,564	143,022	795,338	87,648	-	30,220,566	8,870,836
Other assets not subject to credit risk	3,411	-	-	-	449,518	-	-	-	-	277,155	730,084	-
	5,314,486	952,641	430,995	7,578,990	14,935,811	434,564	143,022	795,338	87,648	277,155	30,950,650	8,870,836

Stated at gross.
* Commitment and contingencies excluding all derivatives.
^ Net mark-to-market for derivative embedded with the loans are reported herein.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK (CONTD)

In the event of default, the loans would be classified as impaired only when they are overdue for a period of 90 days or more. For loans where no default had occurred but have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets that can be reliably estimated and impairment losses will be incurred, that loans would be tagged as "credit-impaired".

A loan is defined as past due if the principal or interest is due and not paid. Where a loan is past due for a period of 90 days or more, the loan will automatically be tagged as "credit-impaired". This principle applies to both the corporate and retail portfolio. However, retail portfolio or loans to individuals are not subject to individual impairment provision but provisions are made on a portfolio basis.

Credit Quality of Gross Loans, Advances and Financing

Gross loans, advances and financing by grading are analysed as follows:

	31.03.2020				31.03.2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Neither past due nor credit-impaired								
Normal grades	8,616,359	926,813	-	9,543,172	5,520,136	1,999,864	-	7,520,000
Close watch	-	-	-	-	-	55,091	-	55,091
Past due but not credit-impaired								
Normal grades	2,712	-	-	2,712	1,133	-	-	1,133
Close watch	-	-	-	-	-	2,034	-	2,034
Credit-impaired								
Past due	-	-	698	698	-	-	732	732
Not past due	-	-	424,922	424,922	-	-	-	-
	8,619,071	926,813	425,620	9,971,504	5,521,269	2,056,989	732	7,578,990

Corporate loans, advances and financing are either secured by cash collateral schemes or unsecured. Although some are secured by corporate guarantees, it is impractical to estimate the fair values of the guarantees obtained. The Bank has minimal exposures to retail loans, which are mainly mortgage loans. All mortgage exposures are secured by landed properties with reasonably high security coverage ratio.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK (CONTD)

Loans, Advances and Financing Past Due

Analysis of gross loans, advances and financing based on period overdue is as follows:

	Carrying Amount	
	31.03.2020 RM'000	31.03.2019 RM'000
Borrower's Ageing		
Past due 1 to 30 days	1,058	1,133
Past due 31 to 60 days	799	967
Past due 61 to 90 days	855	1,067
	2,712	3,167
Credit-impaired		
Past due 61 to 90 days	23	39
Past due more than 90 days	675	693
	698	732

Financial Investments

Investments are allowed only in liquid securities. Transactions involving derivative financial instruments are with counterparties with whom they have a signed netting agreement, if applicable as well as having high credit rating.

The maximum exposure to credit risk for the Bank amounts to RM1,372,824,000 (2019: RM1,226,333,000) for on-balance sheet exposures.

In view of the high credit rating of counterparties, the Bank does not expect any counterparty to fail to meet its obligations except for the impairment loss recognised in respect of unquoted bonds as disclosed in Note 6.

Other Financial Assets

Other financial assets include inter-company balances that are unsecured. There is no indication of assets not recoverable other than those which have already been provided for.

The maximum exposure to credit risk for the Bank amounts to RM5,967,668,000 (2019: RM6,687,304,000).

Risk Management Approach

The Bank adopts the Standardised Approach for Credit Risk and Basic Indicator Approach for Operational Risk under BNM's CAF. As for Credit Risk Mitigation, the Bank adopts the Simple Approach.

Under the Standardised Approach, the Bank tags its borrowers as unrated and assigns a risk weight of 100% but adopts the external rating of External Credit Assessment Institutions ("ECAI") of the borrowers if the particular borrower is externally rated, regardless of whether the external rating is favourable or not. The Bank recognises the names of the ECAI as allowed under BNM's CAF, i.e. S&P, Moody's, Fitch, RAM and MARC. As a general rule, external rating for one entity within a corporate group will not be used to risk weight other entities within the same group.

In cases where a borrower or a security is rated by more than one ECAI, all the available external ratings of the borrower will be captured. Where 2 recognised external ratings are available, the lower rating is to be applied or where 3 or more recognised external ratings are available, the lower of the highest 2 ratings will be used for the capital adequacy calculation purposes.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(b) CREDIT RISK (CONTD)

Risk Management Approach (Contd)

The Bank tags its exposures to the Small and Medium Enterprises ("SMEs") as exposures to corporate and the risk weight applicable to corporate should apply instead of tagging them as retail. This decision was made following the analysis of the impact on capital savings when Basel II was first implemented and the Bank still continues to adopt this approach as at the date of this report.

Credit Risk Mitigation

The Bank adopts the Simple Approach when applying Credit Risk Mitigation Techniques ("CRM") for capital relief. The Bank will only take collateral instruments recognised under BNM's CAF. Based on the Bank's business model, the commonly used collateral are Cash and Standby Letters of Credit. Where guarantees are used as mitigation, only guarantees that are actually posted and/or provided under a legally enforceable agreement and where the rating of the underlying guarantors are externally rated with eligible risk weight lower than the borrowers will be used.

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

(a) for corporate loans : secured by cash deposits, corporate guarantees and charges over properties or assets being financed.

(b) for retail mortgages : charges over residential properties.

(c) for derivatives : additional margin for exposures above the agreed threshold.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans, advances and financing for the Bank as at 31 March 2020 are at 69.63% (2019: 66.36%) and 3.87% (2019: 4.06%) for collateral and other credit enhancements respectively.

A loan is defined as past due if the loan principal or interest is due and not paid. Where a loan or financing is past due for a period of 90 days or more, the loan or financing will automatically be tagged as 'credit-impaired'. This principle applies to both the corporate and retail portfolio. Retail portfolio or loans to individuals are subject to portfolio provisions.

(c) MARKET RISK

Market risk arises from the changes in value due to changes in interest rate yields, foreign exchange rates, equity prices, commodity prices, credit spreads (not relating to changes in the obligor's/issuer's credit rating) and the impact of changes in the correlations and volatilities of these risk factors. The objective of market risk management is to manage and control related risk exposure within acceptable parameters, while ensuring that earnings commensurate with the degree of risk exposure.

Market Risk Management Oversight and Organisation

The Board established a risk limit for each product within the risk measurement parameters, after consultation with the holding company.

On semi-annual basis, there will be a review for overall market risk limits including position and stop-loss limits by considering various factors, i.e. the Bank's capital, trading capability, profit target and etc.

The RMC supports the Board to oversee Senior Management's activities in managing market risk. Market Risk Committee ("MRC"), which reports to RMC, meets monthly to deliberate important matters related to the Bank's market risk, liquidity risk, operational risk and legal risk management.

There is a clear segregation of authorities and responsibilities among the Front, Middle and Back Offices with an aim to ensure the integrity, accuracy and transparency of the market risk information.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Market Risk Management Oversight and Organisation (Contd)

MRMD and PRO are the independent risk control units responsible for operating the day-to-day market risk management framework to support business growth while ensuring adequate risk control and oversight.

Market Risk Management and Control

As part of its market risk management activities, the Bank uses certain derivative financial instruments to manage interest rate and currency exposures and enhance the Bank's yield. The Bank maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility.

The Bank's objectives in risk management include asset and liability management. Interest rate swaps and other contracts are used to effectively manage interest rate sensitivity of the Bank's loans, investment securities and deposit liabilities. Option contracts primarily consist of caps, floors and swaptions. The Bank enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

Market risk exposure is reported to CEO on a daily basis. In addition, stress testing analysis is also conducted and reported to MRC and RMC on regular basis.

For market risk, the Bank has adopted the Standardised Approach under BNM's CAF. Market risk-weighted assets are marked-to-market and are risk-weighted according to the instrument's category, maturity period, credit quality grade and other factors within BNM's guidelines.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Interest Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables indicate the effective interest rate at the reporting date and the Bank's sensitivity to the interest rate by time band based on the earlier of contractual reprising date and maturity date:

	<---- Non-Trading Book ---->								
31.03.2020	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000	Trading Book RM'000	Total RM'000	Effective Interest Rate %
Financial assets									
Cash and short-term funds	3,339,182	150,000	-	-	-	561,254	-	4,050,436	2.97
Deposits and placements									
with financial institutions	1,725,115	-	-	-	-	20,696	-	1,745,811	-
Financial assets at FVTPL	-	-	-	-	-	-	164,115	164,115	3.63
Financial investments at FVOCI	-	-	130,904	510,963	-	28,976	-	670,843	3.15
Loans, advances and financing									
- Non-impaired	2,917,660	2,641,560	290,536	2,612,549	1,165,347	(30,427)	-	9,597,225	2.78
- Impaired *	155,157	29,968	28,517	168,988	65,576	(51,311)	-	396,895	
Embedded loans measured at FVTPL	536,083	1,725,010	2,982,065	9,216,966	1,041,453	-	-	15,501,577	2.05
Purchased receivables	526,547	173,218	29,241	44,313	-	(327)	-	772,992	1.58
Collateral deposits placed	160,214	-	-	-	-	-	-	160,214	2.23
Derivative financial assets	-	-	-	-	-	-	537,866	537,866	
Statutory deposits with Bank									
Negara Malaysia	-	-	-	-	-	42,397	-	42,397	
Other assets	-	-	-	-	-	11,207	-	11,207	
	9,359,957	4,719,756	3,461,263	12,553,779	2,272,376	582,465	701,981	33,651,578	
Non-financial assets									
Property, plant and equipment	-	-	-	-	-	26,975	-	26,975	
Intangible assets	-	-	-	-	-	60,955	-	60,955	
Right-of-use assets	-	-	-	-	-	8,907	-	8,907	
Prepayment	-	-	-	-	-	3,446	-	3,446	
Current tax assets	-	-	-	-	-	1,081	-	1,081	
Deferred tax assets	-	-	-	-	-	9,078	-	9,078	
	-	-	-	-	-	110,442	-	110,442	
Total assets	9,359,957	4,719,756	3,461,263	12,553,779	2,272,376	692,907	701,981	33,762,020	

* This is arrived after deducting the ECL from the outstanding gross impaired loans, advances and financing.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Interest Rate Risk (Contd)

31.03.2020	<---- Non-Trading Book					---->	Trading Book RM'000	Total RM'000	Effective Interest Rate %
	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000			
Liabilities									
Deposits from customers	4,017,449	931,064	135,070	1,107	-	3,958,083	-	9,042,773	2.02
Deposits and placements of banks and other financial institutions	1,058,099	-	-	-	-	1,110	-	1,059,209	1.54
Collateral deposits received	5,596,384	1,386,894	5,618	2,926,903	8,217,984	1,496,774	-	19,630,557	1.26
Derivative financial liabilities	-	-	-	-	-	-	536,502	536,502	
Other liabilities	-	-	-	-	-	192,409	-	192,409	
	10,671,932	2,317,958	140,688	2,928,010	8,217,984	5,648,376	536,502	30,461,450	
On-balance sheet interest sensitivity gap	(1,311,974)	2,401,798	3,320,575	9,625,769	(5,945,608)	(4,955,469)	165,479	3,300,570	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	364,360	364,360	
Total interest sensitivity gap	(1,311,974)	2,401,798	3,320,575	9,625,769	(5,945,608)	(4,955,469)	529,839	3,664,930	

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Interest Rate Risk (Contd)

31.03.2019	<---- Non-Trading Book					---->	Trading Book RM'000	Total RM'000	Effective Interest Rate %
	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000			
Financial assets									
Cash and short-term funds	4,864,700	221	-	-	-	449,565	-	5,314,486	4.78
Deposits and placements with financial institutions	941,075	-	-	-	-	11,566	-	952,641	0.01
Financial assets at FVTPL	-	-	-	-	-	-	-	-	-
Financial investments at FVOCI	-	-	120,670	284,805	-	25,520	-	430,995	4.04
Loans, advances and financing									
- Non-impaired	2,665,318	648,028	672,071	2,462,842	1,129,922	(10,165)	-	7,568,016	3.78
- Impaired *	179	-	26	46	344	-	-	595	
Embedded loans measured at FVTPL	176,329	312,760	5,400,278	7,037,446	2,008,998	-	-	14,935,811	3.34
Purchased receivables	290,955	143,609	-	-	-	(48)	-	434,516	2.74
Collateral deposits placed	143,022	-	-	-	-	-	-	143,022	3.17
Derivative financial assets	-	-	-	-	-	-	795,338	795,338	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	87,648	-	87,648	
Other assets	-	-	-	-	-	277,155	-	277,155	
	9,081,578	1,104,618	6,193,045	9,785,139	3,139,264	841,241	795,338	30,940,223	
Non-financial assets									
Property, plant and equipment	-	-	-	-	-	18,436	-	18,436	
Intangible assets	-	-	-	-	-	27,307	-	27,307	
Prepayments	-	-	-	-	-	3,375	-	3,375	
Current tax assets	-	-	-	-	-	24,792	-	24,792	
	-	-	-	-	-	73,910	-	73,910	
Total assets	9,081,578	1,104,618	6,193,045	9,785,139	3,139,264	915,151	795,338	31,014,133	

* This is arrived after deducting the ECL from the outstanding gross impaired loans, advances and financing.

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Interest Rate Risk (Contd)

31.03.2019	<----- Non-Trading Book ----- Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000 ----->	Trading Book RM'000	Total RM'000	Effective Interest Rate %
Liabilities									
Deposits from customers	3,480,880	1,307,848	400,917	7,507	-	3,122,530	-	8,319,682	2.89
Deposits and placements of banks and other financial institutions	846,395	836,709	-	-	-	-	-	1,683,104	2.58
Collateral deposits received	2,383,402	283,935	922,673	10,932,497	2,419,083	-	-	16,941,590	2.35
Derivative financial liabilities	-	-	-	-	-	-	785,695	785,695	
Other liabilities	-	-	-	-	-	127,496	-	127,496	
Deferred tax liabilities	-	-	-	-	-	27,261	-	27,261	
	6,710,677	2,428,492	1,323,590	10,940,004	2,419,083	3,277,287	785,695	27,884,828	
On-balance sheet interest sensitivity gap	2,370,901	(1,323,874)	4,869,455	(1,154,865)	720,181	(2,362,136)	9,643	3,129,305	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	297,496	297,496	
Total interest sensitivity gap	2,370,901	(1,323,874)	4,869,455	(1,154,865)	720,181	(2,362,136)	307,139	3,426,801	

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Foreign Currency Risk

The Bank's exposure to foreign currencies (a currency which is other than the functional currency of the Bank), based on carrying amount as at the end of the financial year was:

	Denominated in USD RM'000	JPY RM'000	EUR RM'000	SGD RM'000	AUD RM'000	Others RM'000
31.03.2020						
Assets						
Cash and short-term funds	140,341	303,886	19,702	36,877	20,266	35,690
Deposits and placements with financial institutions	215,375	1,509,740	-	-	-	-
Financial investments at FVOCI	213,721	-	-	-	-	-
Loans, advances and financing	6,266,474	27,069	123,737	-	-	-
Embedded loans measured at FVTPL	13,481,211	-	-	-	-	-
Purchased receivables	706,805	-	-	-	-	-
Collateral deposits placed	18,092	-	-	-	-	-
	21,042,019	1,840,695	143,439	36,877	20,266	35,690
Liabilities						
Deposits from customers	2,224,811	254,679	16,741	30,502	4,496	8,954
Deposits and placements of banks and other financial institutions	990,725	-	47,374	-	-	-
Collateral deposits received	17,833,784	1,662,783	75,798	-	-	-
Other liabilities	97,383	8,095	-	42	-	-
	21,146,703	1,925,557	139,913	30,544	4,496	8,954
Net financial (liabilities)/assets exposure	(104,684)	(84,861)	3,526	6,333	15,771	26,736

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Foreign Currency Risk (Contd)

The Bank's exposure to foreign currencies (a currency which is other than the functional currency of the Bank), based on carrying amount as at the end of the financial year was: (Contd)

	Denominated in					
	USD RM'000	JPY RM'000	EUR RM'000	SGD RM'000	AUD RM'000	Others RM'000
31.03.2019						
Assets						
Cash and short-term funds	-	321,843	18,097	40,422	17,074	48,718
Deposits and placements with financial institutions	204,075	737,000	-	-	-	-
Financial investments at FVOCI	203,874	-	-	-	-	-
Loans, advances and financing	4,542,222	120,967	-	-	78,737	-
Embedded loans measured at FVTPL	13,618,365	-	-	-	-	-
Purchased receivables	418,545	-	-	-	-	-
Collateral deposits placed	32,570	-	-	-	-	-
	19,019,651	1,179,810	18,097	40,422	95,811	48,718
Liabilities						
Deposits from customers	2,597,703	230,153	12,814	36,195	-	11,758
Deposits and placements of banks and other financial institutions	1,682,024	-	-	-	-	-
Collateral deposits received	15,490,065	1,264,567	-	-	78,711	-
Other liabilities	44,761	9,543	-	320	-	6,158
	19,814,553	1,504,263	12,814	36,515	78,711	17,916
Net financial (liabilities)/assets exposure	(794,902)	(324,453)	5,283	3,907	17,100	30,802

Interest Rate Risk / Rate of Return in the Banking Book

Interest rate risk in the banking book ("IRRBB") and Rate of Return ("ROR") arises from the changes in market interest rate that adversely impact on the Bank's net interest income. One of the primary sources is due to repricing mismatches of the Bank's banking assets and liabilities and also from the Bank's investment of its surplus funds.

The primary objective in managing the IRRBB is to manage the volatility in the Bank's earnings. This is achieved in a variety of ways that involve the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets to narrow the mismatch in interest rate sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects.

The Bank uses various tools including repricing gap reports and stress tests to measure its IRRBB. The impact on earnings is considered at all times in measuring the IRRBB and is subject to limits approved by the Board.

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(c) MARKET RISK (CONTD)

Sensitivity of Profit

The table below shows the senstitivity of the Bank's banking book to movement in the interest rates:

	31.03.2020	31.03.2019
	Increase / (Decrease)	
Impact on earnings from 100 bps parallel shift	RM'000	RM'000
MYR	39,729	48,134
USD	(2,053)	(9,400)
Others	(11,451)	(8,895)
Total	26,225	29,839

Impact on economic value from 100 bps parallel shift	RM'000	RM'000
MYR	(12,519)	(16,262)
USD	(8,488)	(5,020)
Others	(3,798)	(4,605)
Total	(24,805)	(25,887)

The sensitivity analysis is measured using Earning at Risk ("EaR") methodology and is based on the balance sheet reporting date. It does not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate risk. In reality, treasury operations seek to proactively change the interest rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest rates of all maturities move by the same amount and therefore, do not reflect the potential impact on earnings of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

The repricing profile of loans that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. The impacts on earnings are measured on a monthly basis and are reported to the Assets and Liabilities Management Committee ("ALM") and RMC.

Interest Rate and Foreign Currency Risk Stress Testing

The Bank also performed regular stress test on interest rate risk and currency risk. Three stress scenarios were applied on the Bank's assets and liabilities:

1. Scenario 1: Increase of 0.75% interest rate for interest rate derivatives, bonds and money market positions and the largest daily change in rates over the past two years multiply with the absolute foreign currency position and a 25% increase in foreign currency option volatility.

2. Scenario 2: Increase of 1.0% interest rate for interest rate derivatives, bonds and money market positions and the largest daily change in rates over the past two years +0.5% multiply with the absolute foreign currency position and a 50% increase in foreign currency option volatility.

3. Scenario 3: Increase of 2.0% interest rate for interest rate derivatives, bonds and money market positions and the largest daily change in rates during 1997-1998 (Asian Financial Crisis) multiply with the absolute foreign currency position and the largest appreciation or depreciation of the traded currency over 1997-1998 (Asian Financial Crisis) for foreign currency option.

The analysis shows that as of 31 March 2020, potential maximum loss computed for Scenario 1 to be RM99,411,000 (2019: RM90,981,000), Scenario 2 to be RM105,882,000 (2019: RM96,658,000) and Scenario 3 to be RM139,928,000 (2019: RM125,207,000).

38. FINANCIAL RISK MANAGEMENT (CONTD)

(d) LIQUIDITY RISK

Liquidity risk is the risk of sustaining a loss due to an inability to obtain required funds because of a deterioration of market conditions or the Bank's financial conditions, where the Bank is unable to raise necessary funds or is forced to raise funds at a rate of interest that is higher than market rates. The RMC supports the Board of Directors to oversee Senior Management's activities in managing liquidity risk.

ALM, which reports to RMC, meets monthly to deliberate important matters relating to the Bank's liquidity management process, which involves establishing liquidity management policies, regular monitoring against liquidity risk limits, regular stress testing and establishing contingency funding plan.

Treasury Department controls and manages daily funding requirement operations while the MRMD monitors compliance with internal standards for funding operations. Liquidity monitoring is performed daily for projecting cash flows. Simulations of liquidity exposures under stressed market scenarios are also performed and the results are taken into account.

Maturity Analysis

The table below summarises the maturity profile of the Bank's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying Amount RM'000	Contractual Cash Flows RM'000	Up to 1 Year RM'000	1 to 2 Years RM'000	2 to 5 Years RM'000	More than 5 Years RM'000
31.03.2020						
Liabilities						
Deposits from customers	9,042,773	9,051,902	9,050,747	1,154	-	-
Deposits and placements of banks and other financial institutions	1,059,209	1,059,254	1,059,254	-	-	-
Collateral deposits received	19,630,557	20,236,146	9,951,722	1,873,878	6,607,857	1,802,689
Derivative financial liabilities	536,502	536,502	97,377	82,421	161,174	195,530
Lease liabilities	8,865	9,416	3,640	2,963	2,813	-
Other liabilities	192,409	192,409	166,719	3,125	11,009	11,556
	30,470,315	31,085,629	20,329,459	1,963,541	6,782,853	2,009,775
31.03.2019						
Liabilities						
Deposits from customers	8,319,682	8,334,778	8,326,955	7,823	-	-
Deposits and placements of banks and other financial institutions	1,683,104	1,686,502	1,686,502	-	-	-
Collateral deposits received	16,941,590	18,192,105	3,602,749	4,850,638	6,788,647	2,950,071
Derivative financial liabilities	785,695	785,695	88,200	267,581	222,379	207,535
Other liabilities	127,496	127,496	99,979	1,826	10,981	14,710
	27,857,567	29,126,576	13,804,385	5,127,868	7,022,007	3,172,316

38. FINANCIAL RISK MANAGEMENT (CONTD)

(d) LIQUIDITY RISK (CONTD)

Maturity Analysis (Contd)

The table below summarises the maturity analysis of the carrying amounts of the Bank's assets and liabilities based on the remaining contractual maturity by behavioural profile:

	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 6 Months RM'000	6 to 12 Months RM'000	> 1 Year RM'000	No Specific Maturity RM'000	Total RM'000
31.03.2020							
Assets							
Cash and short-term funds	3,339,182	150,000	-	-	-	561,254	4,050,436
Deposits and placements with financial institutions	1,725,115	-	-	-	-	20,696	1,745,811
Financial assets at FVTPL	-	-	-	-	164,115	-	164,115
Financial investments at FVOCI	-	-	30,144	100,760	510,963	28,976	670,843
Loans, advances and financing	3,039,937	2,665,895	147,269	169,462	3,971,557	-	9,994,120
Embedded loans measured at FVTPL	536,083	1,725,010	30,724	2,951,341	10,258,419	-	15,501,577
Purchased receivables	526,220	173,218	29,241	-	44,313	-	772,992
Collateral deposits placed	160,214	-	-	-	-	-	160,214
Derivative financial assets	27,602	28,347	13,391	40,098	428,428	-	537,866
Other assets	-	-	-	-	-	53,604	53,604
	9,354,353	4,742,470	250,769	3,261,661	15,377,795	664,530	33,651,578
Liabilities							
Deposits from customers	4,013,063	931,064	73,005	62,065	1,107	3,962,469	9,042,773
Deposits and placements of banks and other financial institutions	1,058,099	-	-	-	-	1,110	1,059,209
Collateral deposits received	1,625,066	1,386,894	5,618	2,926,903	9,714,759	3,971,318	19,630,557
Derivative financial liabilities	14,996	31,867	27,213	23,301	439,125	-	536,502
Other liabilities	-	-	-	-	-	192,409	192,409
	6,711,224	2,349,825	105,836	3,012,270	10,154,991	8,127,306	30,461,451
Commitment and contingencies	4,982,648	8,418,718	5,474,716	13,158,981	42,844,519	-	74,879,582

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(d) LIQUIDITY RISK (CONTD)

Maturity Analysis (Contd)

The table below summarises the maturity analysis of the carrying amounts of the Bank's assets and liabilities based on the remaining contractual maturity by behavioural profile: (Contd)

	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 6 Months RM'000	6 to 12 Months RM'000	> 1 Year RM'000	No Specific Maturity RM'000	Total RM'000
31.03.2019							
Assets							
Cash and short-term funds	4,864,700	221	-	-	-	449,565	5,314,486
Deposits and placements with financial institutions	941,075	-	-	-	-	11,566	952,641
Financial assets at FVTPL	-	-	-	-	-	-	-
Financial investments at FVOCI	-	-	30,238	90,432	284,805	25,520	430,995
Loans, advances and financing	2,655,282	648,028	554,747	117,366	3,593,188	-	7,568,611
Embedded loans measured at FVTPL	176,329	312,760	162,844	5,237,434	9,046,444	-	14,935,811
Purchased receivables	290,907	143,609	-	-	-	-	434,516
Collateral deposits placed	143,022	-	-	-	-	-	143,022
Derivative financial assets	20,362	79,212	32,601	66,075	597,088	-	795,338
Other assets	-	-	-	-	-	364,803	364,803
	9,091,677	1,183,830	780,430	5,511,307	13,521,525	851,454	30,940,223
Liabilities							
Deposits from customers	3,463,971	1,307,848	356,585	44,332	7,507	3,139,439	8,319,682
Deposits and placements of banks and other financial institutions	775,486	836,708	-	-	-	70,910	1,683,104
Collateral deposits received	1,290,330	283,935	562,530	360,143	13,351,580	1,093,072	16,941,590
Derivative financial liabilities	5,106	29,391	11,577	46,325	693,296	-	785,695
Other liabilities	-	-	-	-	-	127,496	127,496
	5,534,893	2,457,882	930,692	450,800	14,052,383	4,430,917	27,857,567
Commitment and contingencies	11,660,215	7,229,157	6,675,851	7,345,098	45,759,446	-	78,669,767

NOTES TO THE FINANCIAL STATEMENTS

38. FINANCIAL RISK MANAGEMENT (CONTD)

(e) OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or system, or from external events, including legal risk, and other risk of loss caused by inappropriate implementation of business strategy. An Operational Risk Management Framework, approved by the Board of Directors has been developed with the objective to ensure that operational risks within the Bank are identified, monitored, managed and reported in a structured, systematic and consistent manner.

The Bank recognises the importance of establishing a risk-awareness culture in managing the operational risk through embedded risk management processes in the Bank's core processes.

Each business unit undertakes the tasks of risk identification, evaluation and measurement, control and mitigation and monitoring and reporting of its own area with assistance and coordination from the Operational Risk Management Department ("ORMD").

Various tools are used to support the operational risk management processes including Control Self Assessment to analyse business processes, monitor key risk indicators and perform a process risk mapping to identify critical risk areas and assign sufficient countermeasures to ensure a controlled and sound operating environment.

The RMC regularly appraises on the effectiveness of internal control system, as well as being briefed on key control deficiencies and appropriate remedial plans. Operational risk losses and incidents are used as information for reporting and for providing risk profiling information to the Board.

To mitigate the impact of unforeseen operational risk events, the Bank has established business continuity management and crisis management programmes to ensure the uninterrupted availability of business resources to support essential business activities. The Bank's overall business continuity operational readiness is further strengthened by engaging a dedicated business recovery site, enhancing the system disaster infrastructure and the establishment of the business impact analysis process.

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Information

The carrying amounts of short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

It was not practicable to estimate the fair value of the Bank's investment in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD)

Fair Value Information (Contd)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total	Carrying
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair Value RM'000	Amount RM'000
31.03.2020										
Financial assets										
Fair Value through Profit or Loss										
• Embedded loans measured at FVTPL	-	15,501,577	-	15,501,577	-	-	-	-	15,501,577	15,501,577
• Loans, advances and financing	-	100,393	-	100,393	-	-	-	-	100,393	100,393
• Derivative financial assets	-	537,866	-	537,866	-	-	-	-	537,866	537,866
Fair Value through Other Comprehensive Income										
• Financial investments at FVOCI	-	641,867	28,976	670,843	-	-	-	-	670,843	670,843
Amortised costs										
• Loans, advances and financing *	-	-	-	-	-	-	8,744,089	8,744,089	8,744,089	9,971,504
• Purchased receivables *	-	-	-	-	-	-	773,319	773,319	773,319	773,319
• Cash and short-term funds	-	-	-	-	-	-	4,050,436	4,050,436	4,050,436	4,050,436
• Deposits and placement with financial institutions	-	-	-	-	-	-	1,745,811	1,745,811	1,745,811	1,745,811
• Collateral deposits placed	-	-	-	-	-	-	160,214	160,214	160,214	160,214
• Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	42,397	42,397	42,397	42,397
• Other assets	-	-	-	-	-	-	14,653	14,653	14,653	14,653
	-	16,781,703	28,976	16,810,679	-	-	15,530,919	15,530,919	32,341,598	33,569,013
Financial liabilities										
Fair Value through Profit or Loss										
• Derivative financial liabilities	-	536,502	-	536,502	-	-	-	-	536,502	536,502
Amortised costs										
• Deposits from customers	-	-	-	-	-	-	9,042,747	9,042,747	9,042,747	9,042,773
• Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	1,059,209	1,059,209	1,059,209	1,059,209
• Collateral deposits received	-	-	-	-	-	-	19,204,551	19,204,551	19,204,551	19,630,557
• Other liabilities	-	-	-	-	-	-	192,409	192,409	192,409	192,409
	-	536,502	-	536,502	-	-	29,498,916	29,498,916	30,035,418	30,461,450

* Stated at gross.

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD)

Fair Value Information (Contd)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total	Carrying
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair Value RM'000	Amount RM'000
31.03.2019										
Financial assets										
Fair Value through Profit or Loss										
• Embedded loans measured at FVTPL	-	14,935,811	-	14,935,811	-	-	-	-	14,935,811	14,935,811
• Loans, advances and financing	-	-	-	-	-	-	-	-	-	-
• Derivative financial assets	-	795,338	-	795,338	-	-	-	-	795,338	795,338
Fair Value through Other Comprehensive Income										
• Financial investments at FVOCI	-	405,475	25,520	430,995	-	-	-	-	430,995	430,995
Amortised costs										
• Loans, advances and financing *	-	-	-	-	-	-	6,961,056	6,961,056	6,961,056	7,578,853
• Purchased receivables *	-	-	-	-	-	-	434,564	434,564	434,564	434,564
• Cash and short-term funds	-	-	-	-	-	-	5,314,486	5,314,486	5,314,486	5,314,486
• Deposits and placement with financial institutions	-	-	-	-	-	-	952,641	952,641	952,641	952,641
• Collateral deposits placed	-	-	-	-	-	-	143,022	143,022	143,022	143,022
• Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	87,648	87,648	87,648	87,648
• Other assets	-	-	-	-	-	-	280,530	280,530	280,530	280,530
	-	16,136,624	25,520	16,162,144	-	-	14,173,947	14,173,947	30,336,091	30,953,888
Financial liabilities										
Fair Value through Profit or Loss										
• Derivative financial liabilities	-	785,695	-	785,695	-	-	-	-	785,695	785,695
Amortised costs										
• Deposits from customers	-	-	-	-	-	-	8,319,457	8,319,457	8,319,457	8,319,682
• Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	1,683,104	1,683,104	1,683,104	1,683,104
• Collateral deposits received	-	-	-	-	-	-	15,918,384	15,918,384	15,918,384	16,941,590
• Other liabilities	-	-	-	-	-	-	127,496	127,496	127,496	127,496
	-	785,695	-	785,695	-	-	26,048,441	26,048,441	26,834,136	27,857,567

* Stated at gross.

NOTES TO THE FINANCIAL STATEMENTS

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD)

Fair Value Information (Contd)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Financial investments at FVOCI

The fair values of securities, where quoted market prices or secondary market prices are available, are equal to such market prices. For securities where quoted market prices or secondary market prices are not available, the fair values are estimated using quoted market prices for similar securities or based on appraised value as deemed appropriate by management.

Loans measured at FVTPL

The estimated fair values of embedded loans are derived from both loans and derivatives. The outstanding balances for loans, advances and financing is derived from principal and accrued interest using effective interest rate. Fair values for embedded loans are derived using correlation, credit spread and discounted cash flow.

- *Correlation*
  Correlation is a measure of the extent to which two or more variables change in relation to each other. It may vary over time, and calculating correlation information from market data requires significant assumptions regarding the informational efficiency of the market.

- *Credit spread*
  Credit spread is a component of the security representing its credit quality. Credit spread reflects the market perception of changes in prepayment, delinquency and recovery rates, therefore capturing the impact of other variables on the fair value. Credit spread is used in combination with the interest rate curves to derive the cash flows of the loans.

- *Discounted cash flow*
  Fair value of loans are discounted using combination of credit spread of the instruments and interest rate term structure that is based on the US Treasury yields and Malaysia government bond yields.

Derivative financial instruments

The estimated fair values of derivative financial instruments are the amounts that the Bank would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealised gains or losses on open contracts. They are based on market or dealer quotes when available. Valuation models such as present value and option pricing models are applied to current market information to estimate fair value when such quotes are not available.

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2018: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

MRMD and the Accounts Department of the Bank have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

NOTES TO THE FINANCIAL STATEMENTS

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD)

Fair Value Information (Contd)

Level 3 fair value (Contd)

Cash and short-term funds

For cash and short-term funds including interest-earning deposits, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk.

Deposits and placement with financial institutions

Deposits and placements with financial institutions including interest-earning deposits, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk.

Other assets/liabilities and purchased receivables

The estimated fair values for the other financial assets/liabilities, which primarily include accrued interest receivables/payables, other receivables/payables, deposits, bank acceptances, accounts payable and purchased receivables approximate their carrying amounts due to their short-term nature.

Loans, advances and financing

The fair values of loans, advances and financing are estimated based on the type of loan, credit quality and remaining maturity. Incorporating the credit risk factor, management concluded that the allowance for impairment losses adequately adjusts the related fair values for credit risk. For floating or adjustable-rate loans, which mature or reprice within a short period of time, the carrying amounts are considered to be a reasonable estimate of fair values. For fixed rate loans, market prices are not generally available and the fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the loans. The discount rates are based on the current market rates corresponding to the applicable maturity.

For credit-impaired loans, the fair values are determined on an individual basis by taking the gross loan exposure less stage 3 ECL. The stage 3 ECL is the difference between the loan's carrying amount and the present value of the estimated future cash flows.

Statutory deposits with Bank Negara Malaysia

The carrying amount of statutory deposits with BNM is a reasonable estimate of the fair values as they are long-term regulatory deposits without a fixed maturity.

Deposits from customers

The fair values of demand deposits, deposits at notice, and certificates of deposit maturing within a short period of time are the amounts payable on demand. Fair values of fixed deposits and certificates of deposit maturing after a short period of time are estimated to approximate their carrying amount.

Deposit and placements of banks and other financial institutions

The fair values of non-interest bearing deposits are equal to the amount payable on demand. For call money and funds purchased, the carrying amount is a reasonable estimate of the fair values because of their short-term nature. For deposits with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the deposits. The discount rates are based on the current market rates corresponding to the applicable maturity.

Collateral deposits

The fair values of collateral deposits maturing within a short period of time are estimated to approximate their carrying amount. For those with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the collateral deposits. The discount rates are based on the current market rates corresponding to the applicable maturity.

40. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank enters into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single new amount that is payable by one party to the other.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Bank currently does not have any legally enforceable right to offset recognised amounts because the right to offset is enforceable only on the occurrence of future events such as a default on the Bank's loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	Gross Amount Recognised as Financial Assets / Liabilities	Gross Amount Offset in the Statement of Financial Position	Amount Presented in the Statement of Financial Position	Amount Not Set-off in the Statement of Financial Position		Net Amount
				Values of the Financial Instruments	Cash Collateral Received / Pledged	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.03.2020						
Derivative financial assets						
Foreign exchange related contracts	352,813	-	352,813	(379,182)	(163,230)	(189,599)
Interest rate related contracts	184,084	-	184,084	(353,470)	(21,503)	(190,889)
Currency options	934	-	934	(435)	-	499
Premium yielder investments	35	-	35	-	-	35
	537,866	-	537,866	(733,087)	(184,733)	(379,954)
Derivative financial liabilities						
Foreign exchange related contracts	371,533	-	371,533	(379,182)	(130)	(7,779)
Interest rate related contracts	164,435	-	164,435	(353,470)	(159,968)	(349,003)
Currency options	499	-	499	(435)	-	64
Premium yielder investments	35	-	35	-	-	35
	536,502	-	536,502	(733,087)	(160,098)	(356,683)
31.03.2019						
Derivative financial assets						
Foreign exchange related contracts	743,021	-	743,021	(266,491)	(237,118)	239,412
Interest rate related contracts	45,194	-	45,194	(93,863)	(23,894)	(72,563)
Currency options	660	-	660	(90)	-	570
Premium yielder investments	6,463	-	6,463	(479)	-	5,984
	795,338	-	795,338	(360,923)	(261,012)	173,403
Derivative financial liabilities						
Foreign exchange related contracts	634,587	-	634,587	(266,491)	(211,429)	156,667
Interest rate related contracts	144,555	-	144,555	(93,863)	(68,046)	(17,354)
Currency options	570	-	570	(90)	-	480
Premium yielder investments	5,983	-	5,983	(479)	-	5,504
	785,695	-	785,695	(360,923)	(279,475)	145,297

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING

The financial statements as at 31 March 2020 and for the financial year ended on the date are summarised as follows:

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

		31.03.2020 RM'000	31.03.2019 RM'000
ASSETS			
Cash and short-term funds	(a)	47,000	34,000
Deposits and placements with financial institutions	(b)	815	1,139
Other assets		4	10
TOTAL ASSETS		47,819	35,149
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(c)	163	3
Other liabilities	(d)	10,596	8,617
TOTAL LIABILITIES		10,759	8,620
CAPITAL FUND		25,000	25,000
RESERVE		12,060	1,529
ISLAMIC BANKING FUNDS		37,060	26,529
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		47,819	35,149
COMMITMENTS AND CONTINGENCIES	(e)	5,400	5,400

Islamic financing based on Commodity Murabahah (Tawarruq) of RM1,685,350,072 (2019: RM522,068,149) was financed under an internal Wakalah scheme and is reported at the entity level.

Tawarruq structure for the Bank's Islamic financing product consists of three (3) sales and purchases transactions. The first involves the purchase of commodity by the Bank from Commodity Trader 1, on cash and spot basis. Secondly, the Bank will sell the commodity using Murabahah contract, to customer on deferred basis. Subsequently, the customer will sell the commodity to Commodity Trader 2 on cash and spot basis. Finally, the customer will get a cash to finance the customer's needs.

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

		Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Income derived from investment of Islamic Banking capital funds	(f)	1,426	1,142
Expenses derived from financing		(3)	-
Other operating income	(g)	9,608	1,364
Total net income		11,031	2,506
Other operating expenses	(h)	(496)	(654)
Operating profit before allowance for impairment		10,535	1,852
Allowance for impairment on commitment and contingencies	(i)	(4)	(10)
Profit before tax		10,531	1,842
Tax expense		-	-
Profit for the year		10,531	1,842

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Capital Fund RM'000	Regulatory Reserve RM'000	(Accumulated Losses) / Retained Profits RM'000	Total RM'000
At 1 April 2018	25,000	-	(313)	24,687
Profit for the year	-	-	1,842	1,842
At 31 March 2019	25,000	-	1,529	26,529
At 1 April 2019	25,000	-	1,529	26,529
Transfer to regulatory reserve	-	18	(18)	-
Profit for the year	-	-	10,531	10,531
At 31 March 2020	25,000	18	12,042	37,060

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Cash flows from operating activities		
Profit before tax	10,531	1,842
Operating profit before working capital changes	10,531	1,842
Increase/(Decrease) in operating assets:		
Deposits and placements with financial institutions	324	3,553
Other assets	6	(5)
	10,861	5,390
Increase in operating liabilities:		
Deposits from customers	160	-
Other liabilities	1,979	2,110
Net cash generated from operating activities	13,000	7,500
Net increase in cash and cash equivalents	13,000	7,500
Cash and cash equivalents at beginning of the year	34,000	26,500
Cash and cash equivalents at end of the year	47,000	34,000

Shariah Committee

The Shariah Committee was established under BNM's "Shariah Governance Policy Document" ("the SGP") to advise the Board of Directors on Shariah matters in its Islamic Banking business operations and to provide technical assistance in ensuring the Islamic Banking products and services offered by the Bank and the relevant documentation are in compliance with Shariah principles.

As of March 2020, the committee comprises: Assoc. Prof. Dr. Abdul Karim bin Ali, Assoc. Prof. Dr. Syed Musa Syed Jaafar Alhabshi, Dr. Safinar binti Salleh and Dr. Noor Suhaida binti Kasri.

Basis of Preparation

The financial statements of the Islamic Banking business have been prepared on the basis consistent with that of the Bank as disclosed in Note 1 to the audited financial statements of the Bank for financial year ended 31 March 2020.

(a) Cash and short-term funds

	31.03.2020 RM'000	31.03.2019 RM'000
Cash and balances with banks and other financial institutions	47,000	34,000

(b) Deposits and placements with financial institutions

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Licensed bank		
• Malaysia	815	1,139

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(c) Deposits from customers

(i) By type of deposits:

	31.03.2020 RM'000	31.03.2019 RM'000
At amortised cost		
Current accounts - Qard	3	3
Fixed deposits - Tawarruq	160	-
	163	3

(ii) The maturity structure of fixed deposits are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Due within six months	160	-

(iii) By type of customer:

	31.03.2020 RM'000	31.03.2019 RM'000
Business enterprises	163	3

Qard is a contract of lending a fungible asset to a borrower who is bound to return an equivalent replacement. No profit expense from deposits shall be paid from the transactions.

(d) Other liabilities

		31.03.2020 RM'000	31.03.2019 RM'000
Impairment allowances on commitment and contingencies			
• Stage 2 - lifetime ECL not credit-impaired	(i)	14	10
Accruals and provisions for operational expenses		10,582	8,607
		10,596	8,617

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(d) Other liabilities (Contd)

(i) Movements in impairment allowances on commitments and contingencies which reflect the ECL model on impairment are as follows:

	12 month ECL	Lifetime ECL		
		Not credit-impaired	Credit-impaired	
	Stage 1	Stage 2	Stage 3	Total
At 1 April 2019	-	10	-	10
Net remeasurement due to changes in credit risk	-	4	-	4
At 31 March 2020	-	14	-	14
At 1 April 2018				-
Effects of adopting MFRS9				-
At 1 April 2018, as restated	-	-	-	-
New financial assets originated	-	10	-	10
At 31 March 2019	-	10	-	10

(e) Commitments and contingencies

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31.03.2020				
Contingent Liabilities				
Transaction related contingent items	5,400		2,686	2,686
	5,400		2,686	2,686
31.03.2019				
Contingent Liabilities				
Transaction related contingent items	5,400		2,700	2,700
	5,400		2,700	2,700

(f) Income derived from investment of Islamic Banking Capital Funds

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Money at call and placements with financial institutions	1,426	1,142

(g) Other operating income

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Other fee income	9,608	1,364

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(h) Other operating expenses

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Personnel expenses	311	406
Other expenses	185	248
	496	654

Included in other operating expenses is the Shariah Committee's remuneration. The total remuneration of the Shariah Committee members are as follows:

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Dr. Luqman bin Haji Abdullah	3	7
Assoc. Prof. Dr. Abdul Karim bin Ali	6	6
Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi	6	6
Dr. Safinar binti Salleh	6	6
Dr. Noor Suhaida binti Kasri	5	6
	26	31

(i) Allowance for impairment on commitment and contingencies

	Year ended 31.03.2020 RM'000	Year ended 31.03.2019 RM'000
Stage 1 and 2 ECL made during the year	4	10

(j) Capital adequacy

The capital adequacy ratios of the Islamic Banking business of the Bank are computed in accordance with the Capital Adequacy Framework for Islamic Banks ("CAFIB"). The Bank's Islamic Banking business has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Bank's Islamic Banking business are as follows:

	31.03.2020	31.03.2019
Common equity Tier 1 ("CET 1") capital ratio	60.530	138.179
Tier 1 capital ratio	60.530	138.179
Total capital ratio	60.582	138.231

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(j) Capital adequacy (Contd)

The components of CET 1, Tier 1 and total capital of the Bank's Islamic Banking business are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
CET 1 and Tier 1 capital		
• Capital fund	25,000	25,000
• Retained profits	12,042	1,529
• Other reserves	18	-
	37,060	26,529
Less: Regulatory reserve	(18)	-
	37,042	26,529
Tier 2 capital		
• Stage 1 and 2 ECL and regulatory reserve	32	10
Total capital	37,074	26,539

The breakdown of the risk-weighted assets by each major risk category is as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Credit risk	2,686	2,700
Operational risk	58,510	16,499
	61,196	19,199

Detailed disclosures on risk exposures above, as prescribed under BNM's Guidelines on CAFIB - Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures.

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(j) Capital adequacy (Contd)

The components of risk-weighted assets of the Bank's Islamic Banking business are as follows:

	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
31.03.2020				
Exposure Class				
(i) Credit Risk				
On-Balance Sheet Exposures:				
Other Assets	47,819	47,819	-	-
Total On-Balance Sheet Exposures	47,819	47,819	-	-
Off-Balance Sheet Exposures:				
Credit-Related Exposures	2,686	2,686	2,686	215
Total Off-Balance Sheet Exposures	2,686	2,686	2,686	215
Total On and Off-Balance Sheet Exposures	50,505	50,505	2,686	215
(ii) Large Exposure Risk Requirement	-	-	-	-

(iii) Market Risk

	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
Interest Rate Risk	-	-	-	-
Foreign Currency Risk	-	-	-	-
	-	-	-	-

	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(iv) Operational Risk			58,510	4,681
Total RWA and Capital Requirements	50,505	50,505	61,196	4,896

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(j) Capital adequacy (Contd)

The components of risk-weighted assets of the Bank's Islamic Banking business are as follows: (Contd)

	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
31.03.2019				
Exposure Class				
(i) Credit Risk				
On-Balance Sheet Exposures:				
Other Assets	35,149	35,149	-	-
Total On-Balance Sheet Exposures	35,149	35,149	-	-
Off-Balance Sheet Exposures:				
Credit-Related Exposures	2,700	2,700	2,700	216
Total Off-Balance Sheet Exposures	2,700	2,700	2,700	216
Total On and Off-Balance Sheet Exposures	37,849	37,849	2,700	216
(ii) Large Exposure Risk Requirement	-	-	-	-

(iii) Market Risk

	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
Interest Rate Risk	-	-	-	-
Foreign Currency Risk	-	-	-	-
	-	-	-	-

	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(iv) Operational Risk			16,499	1,320
Total RWA and Capital Requirements	37,849	37,849	19,199	1,536

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(k) Liquidity risk

Maturity analysis

The table below summarises the maturity profile of the Islamic Bank's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying Amount RM'000	Contractual Cash Flows RM'000	Up to 1 Year RM'000	1 to 2 Years RM'000	2 to 5 Years RM'000	More than 5 Years RM'000
31.03.2020						
Liabilities						
Deposits from customers	163	163	163	-	-	-
Other liabilities	10,596	10,596	10,596	-	-	-
	10,759	10,759	10,759	-	-	-
31.03.2019						
Liabilities						
Deposits from customers	3	3	3	-	-	-
Other liabilities	8,617	8,617	8,617	-	-	-
	8,620	8,620	8,620	-	-	-

The table below summarises the maturity analysis of the carrying amounts of the Bank's assets and liabilities based on the remaining contractual maturity by behavioural profile:

	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 6 Months RM'000	6 to 12 Months RM'000	> 1 Year RM'000	No Specific Maturity RM'000	Total RM'000
31.03.2020							
Assets							
Cash and short-term funds	47,000	-	-	-	-	-	47,000
Deposits and placements with financial institutions	-	-	-	-	-	815	815
Other assets	-	-	-	-	-	4	4
	47,000	-	-	-	-	819	47,819
Liabilities							
Deposits from customers	-	-	160	-	-	3	163
Other liabilities	-	-	-	-	-	10,596	10,596
	-	-	160	-	-	10,599	10,759
Commitment and contingencies	-	-	-	-	5,400	-	5,400

NOTES TO THE FINANCIAL STATEMENTS

41. THE OPERATIONS OF ISLAMIC BANKING (CONTD)

(k) Liquidity risk (Contd)

Maturity analysis (Contd)

The table below summarises the maturity analysis of the carrying amounts of the Bank's assets and liabilities based on the remaining contractual maturity by behavioural profile: (Contd)

	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 6 Months RM'000	6 to 12 Months RM'000	> 1 Year RM'000	No Specific Maturity RM'000	Total RM'000
31.03.2019							
Assets							
Cash and short-term funds	34,000	-	-	-	-	-	34,000
Deposits and placements with financial institutions	-	-	-	-	-	1,139	1,139
Other assets	-	-	-	-	-	10	10
	34,000	-	-	-	-	1,149	35,149
Liabilities							
Deposits from customers	-	-	-	-	-	3	3
Other liabilities	-	-	-	-	-	8,617	8,617
	-	-	-	-	-	8,620	8,620
Commitment and contingencies	-	-	-	-	5,400	-	5,400

42. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

The Bank initially applied MFRS 16 Leases from 1 April 2019.

The Bank applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under MFRS 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in MFRS 16 have not generally been applied to comparative information.

Definition of a lease

On transition to MFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, *Determining whether an Arrangement contains a Lease* were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

As a lessee

Where the Bank is a lessee, the Bank applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at 1 April 2019.

NOTES TO THE FINANCIAL STATEMENTS

42. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTD)

As a lessee (Contd)

At 1 April 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 April 2019. The weighted-average rate applied is 3.18%. Right-of-use assets are measured at either:

- their carrying amount as if MFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at 1 April 2019; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 April 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease; and
- adjusted the right-of-use assets by the amount of provision for onerous contract under MFRS 137 immediately before the date of initial application, as an alternative to an impairment review.

For leases that were classified as finance lease under MFRS 117, the carrying amounts of the right-of-use asset and the lease liability at 1 April 2019 are determined to be the same as the carrying amount of the leased asset and lease liability under MFRS 117 immediately before that date. The Bank does not have any finance lease under MFRS 117 as of 31 March 2019.

As a lessor

The Bank does not have any sublease or sale and leaseback arrangement as of 31 March 2019.

Impacts on financial statements

On transition to MFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact of transition is summarised below.

	01.04.2019 RM'000
Rights-of-use assets	11,897
Lease liabilities	11,897

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 March 2019, and lease liabilities recognised in the statement of financial position at 1 April 2019.

	RM'000
Operating lease commitments at 31 March 2019 as disclosed in the Bank's financial statements	6,286
Discounted using the incremental borrowing rate at 1 April 2019	6,057
Recognition exemption for short-term leases	(401)
Recognition exemption for leases of low-value assets	(369)
Extension and termination options reasonably certain to be exercised	6,610
Lease liabilities recognised at 1 April 2019	11,897

PILLAR 3 DISCLOSURES

ATTESTATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO RISK WEIGHTED CAPITAL ADEQUACY FRAMEWORK (BASEL II) - DISCLOSURE REQUIREMENTS (PILLAR 3) AND CAPITAL ADEQUACY FRAMEWORK FOR ISLAMIC BANK (CAFIB) - DISCLOSURE REQUIREMENTS (PILLAR 3) FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

The risk disclosures contained in the Pillar 3 Disclosures are generally in conformance with the Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3) and Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3) and are consistent with the manner in which the risks are assessed and managed, and are not misleading in any particular way.

<Signed>

Takuma Matsuyama

Date: 24 September 2020

1. OVERVIEW

The Pillar 3 Disclosure is prepared in accordance with Bank Negara Malaysia ("BNM")'s Guidelines on Capital Adequacy Framework (Capital Components and Basel II - Risk-weighted Assets) ("CAF") and Capital Adequacy Framework for Islamic Banks (CAFIB) - Risk-weighted Assets ("CAFIB"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision. Basel II consists of 3 Pillars as follows:

(a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume.

(b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions, to develop and employ more rigorous risk management framework and techniques. This includes specific oversight by the Board of Directors and Management on internal controls and corporate governance practices, to ensure that banking institutions have an appropriate level of internal capital above its regulatory capital to commensurate with their risk profile and business plan at all times.

(c) Pillar 3 aims to harness the power of market discipline through enhanced disclosure, to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

The Bank adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of Pillar 1 under BNM's CAF. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk. The capital required for operational risk under the Basic Indicator Approach is computed based on earnings at risk on the Bank's gross income for a fixed number of quarterly periods.

The Bank's Pillar 3 Disclosure is governed by BNM's Guidelines on Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) and Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3) which set out the minimum disclosure standards. The approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been verified by the Internal Audit Department ("IAD") and attested by the Chief Executive Officer. The information is not audited as this is not a requirement.

The Bank's main business activity is commercial banking which focuses on corporate and investment banking and treasury operations. The Bank is also involved in Islamic Banking activities under the International Currency Business Unit ("ICBU") and in Islamic Banking Operations under Skim Perbankan Islam ("SPI") framework.

The following table presents the minimum regulatory capital requirement to support the Bank's risk-weighted assets:

	31.03.2020		31.03.2019	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk	11,053,705	884,296	11,530,367	922,429
Market Risk	1,875,255	150,020	1,596,710	127,737
Operational Risk	807,598	64,608	934,602	74,768
	13,736,558	1,098,924	14,061,679	1,124,934

The Bank does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in BNM's CAF.

2. CAPITAL MANAGEMENT

The Bank's capital management is guided by its risk appetite and outlines the Bank's objective to diversify its sources of capital and to allocate capital efficiently, directed by the need to maintain a prudent relationship between available capital and risks in the underlying businesses to meet the expectations of key stakeholders, including the holding company and BNM.

The capital target for capital adequacy ratios is above the minimum regulatory capital requirements and has factored in the expected capital required under the current and future operating environment to support credit, market and operational risks as well as the Bank's business growth.

The Bank-wide stress testing process forecasts on the Bank's capital requirements under plausible, exceptional but plausible and worst case scenarios of stress events to assess the ability of the Bank's capital to withstand market shocks. The results of the stress test are to facilitate the formulation of action plans in advance if the stress test reveals that the Bank's capital will be adversely affected under such events. The results of the stress test together with remedial actions, if any, are tabled to the Risk Management Committee ("RMC") and the Board for deliberations.

(a) Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	31.03.2020 %	31.03.2019 %
Common equity Tier 1 ("CET 1") capital ratio	22.565	21.308
Tier 1 capital ratio	22.565	21.308
Total capital ratio	23.559	22.054

The capital adequacy ratios consist of total capital and risk-weighted assets derived from balances of the Bank.

The minimum regulatory capital adequacy requirements including capital conservation buffer for the following capital ratios are:

CET 1 Capital	7.00	%
Tier 1 Capital	8.50	%
Total Capital	10.50	%

Please refer to Note 41(j) for Islamic Banking operation capital adequacy.

(b) The components of CET 1, Tier 1 and total capital of the Bank are as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
CET 1 and Tier 1 capital		
• Paid-up share capital	200,000	200,000
• Retained profits	2,963,159	2,818,571
• Other reserves	128,546	110,734
	3,291,705	3,129,305
Less: Deferred tax assets	(9,078)	-
Intangible assets	(60,955)	(27,307)
55% of fair value reserve	(14,693)	(12,716)
Regulatory reserve	(107,284)	(93,078)
	3,099,695	2,996,204
Tier 2 capital		
• Stage 1 and 2 ECL and regulatory reserve	136,494	104,903
Total capital	3,236,189	3,101,107

PILLAR 3 DISCLOSURES

2. CAPITAL MANAGEMENT (CONTD)

(c) The components of risk-weighted assets of the Bank are as follows:

31.03.2020 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	3,966,290	3,966,290	241,757	19,341
Public Sector Entities	6,214	6,214	1,243	99
Banks, Development Financial Institutions & MDBs	3,346,923	3,346,923	809,876	64,790
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	25,201,048	6,741,777	6,936,061	554,884
Regulatory Retail	1,572	1,572	1,572	126
Residential Mortgages	13,996	13,996	6,569	526
Equity Exposures	28,976	28,976	28,976	2,318
Other Assets	539,298	539,298	368,662	29,493
Defaulted Exposures	2,264	2,264	2,264	181
Total On-Balance Sheet Exposures	33,106,581	14,647,310	8,396,980	671,758
Off-Balance Sheet Exposures:				
Credit-Related Exposures	530,506	530,506	468,385	37,471
Securitisation Exposures	3,000	3,000	2,250	180
Derivatives Financial Instruments	3,558,756	3,558,756	2,186,090	174,887
Total Off-Balance Sheet Exposures	4,092,262	4,092,262	2,656,725	212,538
Total On and Off-Balance Sheet Exposures	37,198,843	18,739,572	11,053,705	884,296
(ii) Large Exposure Risk Requirement	-	-	-	-

(iii) Market Risk

	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
Interest Rate Risk	68,004,333	(67,639,973)	1,843,189	147,455
Foreign Currency Risk	32,066	(13,702)	32,066	2,565
	68,036,399	(67,653,675)	1,875,255	150,020

	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(iv) Operational Risk			807,598	64,608
Total RWA and Capital Requirements	37,198,843	18,739,572	13,736,558	1,098,924

PILLAR 3 DISCLOSURES

2. CAPITAL MANAGEMENT (CONTD)

(c) The components of risk-weighted assets of the Bank are as follows: (Contd)

31.03.2019 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	4,298,143	4,298,143	151,365	12,109
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	2,901,673	2,901,610	681,081	54,486
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	21,954,927	6,415,216	6,594,398	527,553
Regulatory Retail	2,000	2,000	2,000	160
Residential Mortgages	14,755	14,755	6,986	559
Equity Exposures	2,993	2,993	2,993	239
Other Assets	529,360	529,360	525,950	42,076
Defaulted Exposures	2,504	2,504	2,504	200
Total On-Balance Sheet Exposures	29,706,355	14,166,581	7,967,277	637,382
Off-Balance Sheet Exposures:				
Credit-Related Exposures	595,423	595,423	537,204	42,976
Securitisation Exposures	3,000	3,000	2,250	180
Derivatives Financial Instruments	4,332,740	4,332,740	3,023,636	241,891
Total Off-Balance Sheet Exposures	4,931,163	4,931,163	3,563,090	285,047
Total On and Off-Balance Sheet Exposures	34,637,518	19,097,744	11,530,367	922,429
(ii) Large Exposure Risk Requirement	-	-	-	-

(iii) Market Risk

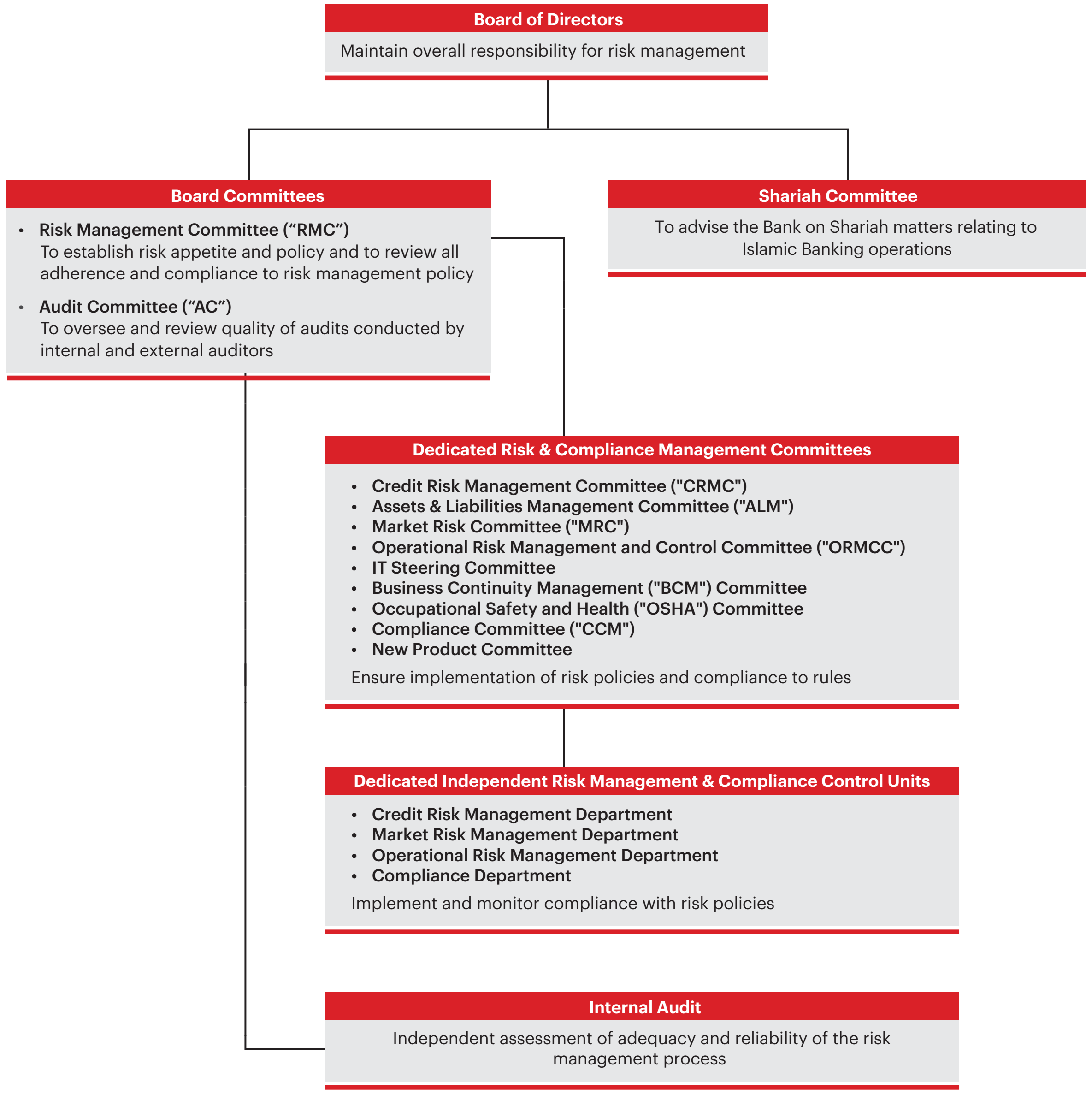
	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
Interest Rate Risk	68,793,803	(68,496,307)	1,582,510	126,601
Foreign Currency Risk	14,200	(4,652)	14,200	1,136
	68,808,003	(68,500,959)	1,596,710	127,737

	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(iv) Operational Risk			934,602	74,768
Total RWA and Capital Requirements	34,637,518	19,097,744	14,061,679	1,124,934

PILLAR 3 DISCLOSURES

3. RISK MANAGEMENT FRAMEWORK

The management of risk within the Bank is governed by a risk management framework, which sets out the risk management governance and infrastructure, risk management processes and control responsibilities. In the Bank, effective risk management is inculcated by a risk awareness culture across all levels of staff in the Bank through effective communication, training, clear policies, procedures and organisational structure, which clearly defined roles and responsibilities as well as the commitment of all employees to a risk management framework. The risk governance of the Bank is as set out below:



PILLAR 3 DISCLOSURES

3. RISK MANAGEMENT FRAMEWORK (CONTD)

The Board is ultimately responsible for the management of risks. The Board, through the RMC, maintains overall responsibilities for risk oversight within the Bank. The risk appetite statement embodies the Bank's stance towards the levels of risks and serves as a guide in the formulation of the Bank's strategic direction and business objectives.

The RMC is responsible for total risk oversight covering credit risk, market risk, liquidity risk, compliance risk, operation risk, information security risk and unique risk for Islamic financial business in particular Shariah non-compliance risk. Other key functions of RMC include reviewing risk management policies and limits, reviewing reports on risk exposures and risk portfolio composition and ensuring that infrastructure, resources and systems are in place for risk management activities.

The AC is supported by IAD to provide an independent assessment of the adequacy and reliability of the risk management processes and its compliance with risk policies and regulatory requirements.

The Shariah Committee ("SC") advises the Bank on Shariah matters relating to the Islamic banking operations. The Committee ensures that the operations of Islamic banking, its products, processes and legal documentation are in line with Shariah principles.

The CRMC, the ALM, the MRC, and the ORMCC assist the RMC in managing credit, liquidity, market, compliance and operational risks respectively, whereas compliance risk is monitored and managed through Compliance Committee Meeting ("CCM"). These committees are responsible for overseeing the development and implementation of risk management policies to facilitate the managing and monitoring of risk exposures and portfolio composition. It is also to ensure that adequate infrastructure, resources and systems are put in place to support the risk management and compliance process.

The designated independent risk management control units provide crucial support to the RMC and are responsible for ensuring risk policies are implemented and complied with. They are also responsible for the identification, measurement, controling, monitoring and reporting of risk.

The Bank has established a structured approach to risk management which balances risks against returns, as well as integrated risk management processes across key risk areas. The risk management activities encompass four broad processes namely risk identification, risk evaluation and measurement, risk control and mitigation, risk monitoring and reporting which lead to a balanced risk-return. It is the Bank's policy that all risk management policies are subject to frequent reviews to ensure that they remain relevant and effective in managing the associated risks arising from changes in both operating and regulatory environments.

The integrated risk management process follows four broad processes:

3. RISK MANAGEMENT FRAMEWORK (CONTD)

Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank has put in place process for assessing its capital adequacy under the BNM's Risk-Weighted Capital Adequacy Framework (Basel II) - Internal Capital Adequacy Assessment Process (Pillar 2) in relation to its risk profile and strategy for maintaining adequate capital levels relative to its risk profile. The Bank's ICAAP framework includes procedures and measures designed to ensure the following:

- appropriate identification and measurement of material risks
- appropriate level of internal capital in relation to the Bank's risk profile
- sufficient policy and procedures to ensure on-going capital adequacy
- application and further development of suitable risk management systems and processes

The degree of formalisation and sophistication of the ICAAP is proportionate to the size, nature of business and complexity of bank's activities. It uses sound techniques and methodologies that commensurate with the current practices and business environment. Material risk assessment is conducted annually with assessment of risks under Pillar 1 & 2 and other risks whereby the Bank's risk profile is documented in a risk inventory. Material risk is defined as potential risk exposure that might have impact on the Bank's business operations, profitability, capital and reputation. The risk assessment is measured by risk frequency and monetary impact and the risk rating is reviewed annually to reflect the changes to its business plan, operating environment or other factors, guided by the methodologies or assumptions used.

The risk inventory assessment and review process ensures that all risks are identified and evaluated for their relevance, materiality, mitigation, management and capitalisation considerations that formed an integral part of internal capital trigger and target setting process.

The Bank's internal capital trigger and target are set to ensure that the Bank's capital level is resilient under stressed economic conditions, commensurate with the risk profile of the Bank and remains above regulatory requirements.

The Bank's capital adequacy ratio is being monitored through Risk Appetite Statement ("RAS") dashboard and is reported to the RMC and the Board on a quarterly basis.

Stress Testing/Reverse Stress Testing

Stress testing framework has been integrated into the Bank's risk management structure and is used as a risk management tool for evaluation of the potential impact on the Bank or measurement of performance under plausible extreme adverse conditions. Reverse stress testing ("RST") process was added to Bank's existing stress testing framework. The objective of RST is to identify a range of adverse scenarios and trigger points that could potentially threaten the viability of the Bank's business model, including solvency concern and liquidity crunch. The assessment covers the likelihood of such events that could materialise over a time horizon that enables the Bank to identify its potential vulnerabilities and fault lines in its business model.

The stress testing framework is approved by the Board. The Management is actively involved in the process of designing the stress test program, ensuring the assumptions are relevant and consistent with the Bank's risk profile and is conducted properly and any exceptions noted have been dealt with appropriately.

The results of the stress test are compared against internal capital trigger and target, as part of the sound capital management process under ICAAP, which are reported to RMC and the Board on a half-yearly basis. The stress test results are deliberated to consider the implications on the Bank's business profile and to consider corrective measures where necessary.

4. CREDIT RISK

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. The Bank's exposure to credit risk is primarily from its lending and financing to large corporations and small and medium-sized companies ("SMEs"). Trading and investing the surplus funds of the Bank, such as trading or holding of debt securities, settlement of transactions, also exposed the Bank to credit risk and counterparty credit risk.

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit processing officers are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the risk management control units, the Credit Risk Management Department ("CRMD") has functional responsibility for credit risk management which includes formulating and reviewing credit risk related policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the other risks and ensuring the respective risk policies are implemented and complied with. The department is also involved in post-implementation validation of borrower rating model which include the assessment of accuracy and discriminatory power of rating model.

Risk Management Approach

The Bank manages its credit risk by using its internal credit rating system. The purpose of the credit rating system is to objectively evaluate the credit worthiness/credit risk (i.e. the probability of future credit losses over a period of time) of the borrowers which it extends credit. A borrower is not only screened at the time of initial extension of credits but also monitored continuously during the entire term until the full repayment. Efforts are made towards the early detection of latent problems by assessing the credit risk of borrowers on an on-going basis. Credit examination by the holding company is one of the processes used to verify the suitability of a credit rating and the soundness of a portfolio from a third party's perspective to avoid risk concentration within specific industries, specific purposes or secured by the same type of collateral.

Credit risk management reports are regularly presented to both the CRMC and the RMC, containing information on trends across major portfolios, including credit exposure, quality of credit portfolios, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single counterparty. Such information allows Management to identify adverse credit trends, take corrective actions and formulate business strategies.

Distribution of Credit Exposures

The following tables present the credit exposures of financial assets before the effect of credit risk mitigation, broken down by the relevant category and class of financial assets against the relevant economic sectors, geography and maturity. For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(a) The following tables present the credit exposures of financial assets of the Bank analysed by economic sectors:

31.03.2020	Cash and Short-Term Funds RM'000	Deposits and Placement with Financial Institutions RM'000	Financial Assets at FVTPL RM'000	Financial Investments at FVOCI RM'000	Loans, Advances and Financing# RM'000	Embedded Loans Measured at FVTPL RM'000	Purchased Receivables# RM'000	Collateral Deposits Placed RM'000	Derivative Financial Assets RM'000	Statutory Deposits with BNM RM'000	Other Financial Assets RM'000	On-Balance Sheet Total RM'000	Commitment and Contingencies* RM'000
Agricultural	-	-	-	-	734,098	-	-	-	13,239	-	-	747,337	60,352
Manufacturing	-	-	-	-	1,837,829	928,027	-	-	43,482	-	-	2,809,338	125,402
Electricity, gas and water	-	-	-	-	1,729,798	2,128,957	31,630	-	13,468	-	-	3,903,853	3,711,838
Mining and quarrying	-	-	-	-	191,117	3,145	-	-	-	-	-	194,262	294,500
Construction	-	-	-	-	244,657	923,236	-	-	405	-	-	1,168,298	406,616
Wholesale and retail trade and restaurants and hotels	-	-	-	-	687,341	974,047	68	-	16,545	-	-	1,678,001	1,921,482
Transport, storage and communication	-	-	-	213,721	2,129,517	382,757	-	-	69,047	-	-	2,795,042	385,425
Finance, insurance and business services	1,926,944	516,821	-	26,568	2,047,077	10,146,835	741,621	160,214	381,680	-	-	15,947,760	1,509,875
Government and government agencies	2,119,000	1,228,990	164,115	428,146	-	-	-	-	-	42,397	-	3,982,648	-
Households	-	-	-	-	18,115	-	-	-	-	-	-	18,115	169
Others	-	-	-	2,408	452,348	14,573	-	-	-	-	-	469,329	4,500
	4,045,944	1,745,811	164,115	670,843	10,071,897	15,501,577	773,319	160,214	537,866	42,397	-	33,713,983	8,420,159
Other assets not subject to credit risk	4,492	-	-	-	-	-	-	-	-	-	11,207	15,699	-
	4,050,436	1,745,811	164,115	670,843	10,071,897	15,501,577	773,319	160,214	537,866	42,397	11,207	33,729,682	8,420,159

Stated at gross.

* Commitment and contingencies excluding derivative financial assets and embedded loans measured at FVTPL.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(a) The following tables present the credit exposures of financial assets of the Bank analysed by economic sectors: (Contd)

31.03.2019	Cash and Short-Term Funds RM'000	Deposits and Placement with Financial Institutions RM'000	Financial Investments at FVOCI RM'000	Loans, Advances and Financing# RM'000	Embedded Loans Measured at FVTPL RM'000	Purchased Receivables# RM'000	Collateral Deposits Placed RM'000	Derivative Financial Assets RM'000	Statutory Deposits with BNM RM'000	Other Financial Assets RM'000	On-Balance Sheet Total RM'000	Commitment and Contingencies* RM'000
Agricultural	-	-	-	670,442	-	-	-	3,674	-	-	674,116	50,000
Manufacturing	-	-	-	1,759,531	6,629	-	-	21,529	-	-	1,787,689	204,775
Electricity, gas and water	-	-	-	380,390	905,754	29,903	-	7,917	-	-	1,323,964	3,880,539
Mining and quarrying	-	-	-	-	2,149,849	-	-	-	-	-	2,149,849	522,700
Construction	-	-	-	925,920	1,032,551	-	-	625	-	-	1,959,096	414,062
Wholesale and retail trade and restaurants and hotels	-	-	-	651,694	903,262	333	-	7,559	-	-	1,562,848	1,930,915
Transport, storage and communication	-	-	204,216	2,082,583	1,358,488	-	-	70,888	-	-	3,716,175	582,615
Finance, insurance and business services	2,046,375	184,506	23,985	1,088,940	8,119,429	404,328	143,022	683,146	-	-	12,693,731	1,280,313
Government and government agencies	3,264,700	768,135	201,260	-	-	-	-	-	87,648	-	4,321,743	-
Households	-	-	-	19,490	-	-	-	-	-	-	19,490	417
Others	-	-	1,534	-	10,331	-	-	-	-	-	11,865	4,500
	5,311,075	952,641	430,995	7,578,990	14,486,293	434,564	143,022	795,338	87,648	-	30,220,566	8,870,836
Other assets not subject to credit risk	3,411	-	-	-	449,518	-	-	-	-	277,155	730,084	-
	5,314,486	952,641	430,995	7,578,990	14,935,811	434,564	143,022	795,338	87,648	277,155	30,950,650	8,870,836

Stated at gross.

* Commitment and contingencies excluding derivative financial assets and embedded loans measured at FVTPL.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(b) The following tables present the credit exposures of financial assets analysed by geographical location based on where the credit risk resides:

	31.03.2020		31.03.2019	
	Malaysia RM'000	Other Countries RM'000	Malaysia RM'000	Other Countries RM'000
Cash and short-term funds	3,493,674	556,762	4,905,182	409,304
Deposits and placement with financial institutions	1,229,321	516,490	768,391	184,250
Financial assets at FVTPL	164,115	-	-	-
Financial investments at FVOCI	670,843	-	430,995	-
Loans, advances and financing	8,435,637	1,636,260	6,684,766	894,224
Embedded loans measured at FVTPL *	15,513,941	(12,364)	14,935,811	-
Purchased receivables	66,514	706,805	16,019	418,545
Collateral deposits placed	159,266	948	143,022	-
Derivative financial assets	314,924	222,942	670,593	124,745
Statutory deposits with Bank Negara Malaysia	42,397	-	87,648	-
Other assets	11,207	-	277,155	-
On-Balance Sheet Exposures	30,101,839	3,627,843	28,919,582	2,031,068
Off-Balance Sheet Exposures	3,577,553	517,710	4,351,889	579,274
	33,679,392	4,145,553	33,271,471	2,610,342

* The credit balances are exposure after netting off with the identified cover deals (see Note 1 (d)(iii)).

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(c) The following tables present the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets. Approximately 52% (2019: 54%) of the Bank's exposures to customers is short-term, having contractual maturity of one year or less:

31.03.2020	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	No Specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	3,339,182	150,000	-	-	-	561,254	4,050,436
Deposits and placement with financial institutions	1,725,115	-	-	-	-	20,696	1,745,811
Financial assets at FVTPL	-	-	-	133,030	31,085	-	164,115
Financial investments at FVOCI	-	-	130,904	510,963	-	28,976	670,843
Loans, advances and financing	3,068,856	2,671,528	319,053	2,781,537	1,230,922	-	10,071,896
Embedded loans measured at FVTPL	536,083	1,725,010	2,982,065	9,216,966	1,041,453	-	15,501,577
Purchased receivables	526,547	173,218	29,241	44,313	-	-	773,319
Collateral deposits placed	160,214	-	-	-	-	-	160,214
Derivative financial assets	27,602	28,347	53,489	215,477	212,951	-	537,866
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	42,397	42,397
Other assets	-	-	-	-	-	11,207	11,207
	9,383,599	4,748,103	3,514,752	12,902,286	2,516,411	664,530	33,729,681

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future receivables since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire or unconditionally cancelled by the Bank without them being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(c) The following tables present the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets. Approximately 52% (2019: 54%) of the Bank's exposures to customers is short-term, having contractual maturity of one year or less: (Contd)

31.03.2019	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	No Specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	4,864,700	221	-	-	-	449,565	5,314,486
Deposits and placement with financial institutions	941,075	-	-	-	-	11,566	952,641
Financial investments at FVOCI	-	-	120,670	284,805	-	25,520	430,995
Loans, advances and financing	2,665,661	648,028	672,113	2,462,902	1,130,286	-	7,578,990
Embedded loans measured at FVTPL	176,329	312,760	5,400,278	7,037,446	2,008,998	-	14,935,811
Purchased receivables	290,955	143,609	-	-	-	-	434,564
Collateral deposits placed	143,022	-	-	-	-	-	143,022
Derivative financial assets	20,362	79,212	98,677	420,017	177,070	-	795,338
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	87,648	87,648
Other assets	-	-	-	-	-	277,155	277,155
	9,102,104	1,183,830	6,291,738	10,205,170	3,316,354	851,454	30,950,650

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future receivables since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire or unconditionally cancelled by the Bank without them being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(d) Off-Balance Sheet Exposures and Counterparty Credit Risk

(i) Off-Balance Sheet Exposures

Off-balance sheet exposures of the Bank are mainly from the following:

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans even though they are contingent in nature;
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate;
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities; and
- Principal/notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out in the above disclosure.

(ii) Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk ("CCR") on derivative financial instruments is the risk that the Bank's counterparty in a foreign exchange, interest rate, commodity, equity, options or credit derivative contract defaults prior to maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. Apart from derivative financial instruments that are originated from customer-driven transactions, the Bank may also take trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Unlike on-balance sheet financial instruments, the Bank's financial loss is not the entire contracted principal value of the derivatives, but rather a fraction equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The Bank will only suffer a replacement cost if the contract carries a fair value gain at time of default.

(iii) Risk Management Approach

The CCR arising from all derivative financial instruments is managed via the establishment of counterparty limits and also managed as part of the overall lending limits to banks and customers based on BNM's Single Counterparty Exposure Limit ("SCEL"). Where possible, Over-the-Counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral usually in the form of cash or government securities upon any exposure above the agreed threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Market Risk Management Department ("MRMD") and Processing Department ("PRO") monitor counterparties' positions and promptly request the collateral upon any exposure above the agreed threshold levels with relevant parties. Where possible, the Bank settles its OTC derivatives via the Payment-versus-Payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Bank establishes settlement limits through the Bank's credit approval process.

(iv) Credit Rating Downgrade

In the event of a one-notch downgrade of rating for the Bank, based on the terms of the existing CSA of ISDA, the estimated additional collateral to be posted was RM8,615,000 for 31 March 2020 (2019: RM8,163,000).

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(d) Off-Balance Sheet Exposures and Counterparty Credit Risk (Contd)

(iv) Credit Rating Downgrade (Contd)

The following table presents a breakdown of the off-balance sheet exposures of the Bank:

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31.03.2020				
Contingent Liabilities				
Direct credit substitutes	2,275		2,272	1,136
Transaction related contingent items	842,010		419,256	368,772
Short-term self liquidating trade-related contingencies	317,090		63,327	52,831
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	229,926		45,567	45,567
• exceeding one year	169		84	79
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	7,013,689		-	-
Securitisation exposures	15,000		3,000	2,250
	8,420,159		533,506	470,635
Embedded Loans				
Foreign exchange related contracts				
• one year or less	6,045,686	272,432	303,395	181,664
• over one year to five years	14,109,521	469,074	1,488,241	832,226
• over five years	1,437,619	67,314	259,946	177,811
Interest rate related contracts				
• one year or less	6,479,298	13,700	12,403	3,243
• over one year to five years	11,221,810	103,760	192,991	79,153
• over five years	1,571,027	56,772	127,876	45,465
	40,864,961	983,052	2,384,852	1,319,562
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	7,420,328	104,608	216,355	141,808
• over one year to five years	5,059,742	146,775	334,702	288,306
• over five years	2,066,944	101,430	326,341	246,794
Interest rate related contracts				
• one year or less	2,908,754	3,860	4,148	1,725
• over one year to five years	4,926,023	68,703	122,084	80,673
• over five years	2,253,246	111,521	154,914	102,228
Currency options *				
• one year or less	97,925	934	2,403	2,403
Premium yielder investments *				
• one year or less	861,500	35	12,957	2,591
	25,594,462	537,866	1,173,904	866,528
	74,879,582	1,520,918	4,092,262	2,656,725

* Only buy legs are taken into account for counterparty credit risk purposes.

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(d) Off-Balance Sheet Exposures and Counterparty Credit Risk (Contd)

(iv) Credit Rating Downgrade (Contd)

The following table presents a breakdown of the off-balance sheet exposures of the Bank: (Contd)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31.03.2019				
Contingent Liabilities				
Direct credit substitutes	2,275		2,274	1,137
Transaction related contingent items	1,014,310		505,980	448,340
Short-term self liquidating trade-related contingencies	213,504		42,700	43,307
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	221,392		44,272	44,272
• exceeding one year	417		197	148
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	7,403,938		-	-
Securitisation exposures	15,000		3,000	2,250
	8,870,836		598,423	539,454
Embedded Loans				
Foreign exchange related contracts				
• one year or less	1,260,365	21,671	49,782	37,134
• over one year to five years	7,980,022	369,255	1,059,065	951,372
• over five years	1,300,020	94,330	276,693	276,693
Interest rate related contracts				
• one year or less	75,000	70	145	145
• over one year to five years	2,208,600	31,448	43,973	14,594
• over five years	966,219	33,265	78,534	66,004
	13,790,226	550,039	1,508,192	1,345,942
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	16,589,819	193,338	375,365	220,778
• over one year to five years	8,776,387	388,461	1,207,140	708,720
• over five years	3,567,042	161,222	659,862	466,298
Interest rate related contracts				
• one year or less	5,395,562	1,988	9,504	3,749
• over one year to five years	15,748,884	27,357	262,554	128,260
• over five years	4,137,435	15,849	235,282	132,078
Currency options *				
• one year or less	74,269	660	1,774	1,774
Premium yielder investments *				
• one year or less	903,007	2,264	28,053	7,034
• over one year to five years	816,300	4,199	45,014	9,003
	56,008,705	795,338	2,824,548	1,677,694
	78,669,767	1,345,377	4,931,163	3,563,090

* Only buy legs are taken into account for counterparty credit risk purposes.

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(e) Securitisation Exposures

The Bank acts as principal adviser, lead arranger, lead manager, facility agent and/or liquidity provider for third party securitisation with originators. A bankruptcy remote special purpose vehicles , Merdeka Kapital Bhd ("MKB") and Ziya Capital Berhad ("Ziya") or (collectively "SPVs") was established to enter into an agreement with multi-originators to purchase or acquire portfolios of Receivables from them and in turn the SPVs will fund its purchase by issuing series of Asset-backed Medium-Term Notes ("MTNs") backed by such portfolio of Receivables. Horizon Funding Corporation (a bankruptcy remote SPV incorporated in Cayman Islands), acts as a funding vehicle to subscribe to the issuance under the Asset-Backed MTNs Programme.

Both MKB (Conventional Securitization SPV) and Ziya (Islamic Securitization SPV) have its own unrated Asset-backed MTN Programme. The Bank only provides liquidity facility to MKB and is recognised as off-balance sheet in the banking book. The Bank will also act as a derivative counterparty for the SPVs.

Risk Management Approach

The Bank provides liquidity facility to MKB to cover short-term cash flows disruptions for each of the securitisation exposures. The credit and liquidity risks of the Bank is mitigated by the respective waterfall payment obligations of MKB and Ziya. In this instance, the repayment obligation to the Bank as liquidity provider has been made amongst the top priority in the waterfall payment (normally after tax payment obligations to the authorities).

The use of this liquidity facility by MKB is limited to cover short-term cash flows disruptions in relation to payment obligation in respect of each securitisation exposures. It must not be drawn to provide credit support, cover losses sustained or act as a revolving fund. In addition, the liquidity facility can only be drawn subject to the conditions that no potential of default or event of default has occurred as well as other terms and conditions set forth in the liquidity facility agreements entered into.

Regulatory Capital Requirements

The following table presents the outstanding securitisation exposures of the Bank:

	31.03.2020 RM'000	31.03.2019 RM'000
Traditional securitisation of third party exposures	15,000	15,000

The following tables present the minimum regulatory capital requirement on securitisation exposures:

	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
31.03.2020				
Off-balance sheet				
• Auto loans	15,000	3,000	2,250	180
	15,000	3,000	2,250	180
31.03.2019				
Off-balance sheet				
• Auto loans	15,000	3,000	2,250	180
	15,000	3,000	2,250	180

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Credit Risk Mitigation

The Bank's approach in granting credit facilities is based on the credit standing of the customer, source of repayment and debt servicing ability rather than placing primary reliance on Credit Risk Mitigants ("CRM"). Depending on a customer's standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

(a) for corporate loans - secured by corporate guarantees and charges over properties or assets being financed.

(b) for retail mortgages - charges over residential properties.

(c) for derivatives - additional margin for exposures above the agreed threshold.

There is no material concentration of CRM held. Presently, the CRM that includes bank guarantees and shares are governed by various monitoring limits to ensure such concentration risk is properly managed.

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and counterparty credit risk of the guarantor. Policies and procedures are in place to govern the protection of the Bank's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

The valuation of CRM seeks to monitor and ensure that they will continue to provide the credit protection. Policy on the periodic valuation updates of CRM is in place to ensure this. The value of properties taken as collateral is generally updated from time to time during the review of the customers' facilities to reflect the current market value. The quality, liquidity and collateral type will determine the appropriate haircuts or discounts applied on the market value of the collateral.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. For mortgage loans, the collateral in the form of residential property, is required to be insured at all times against the peril of fire and other associated risks. In addition, customers are generally insured against major risks, such as death and permanent disability.

Currently, the Bank does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Bank's credit exposures. In addition, the Bank enters into master netting arrangements with its derivative counterparties to reduce the credit risk where in the event of default, all amounts with the counterparty are settled on a net basis. Separately, the Bank has started obtaining third party cash collateral in its credit granting process.

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Credit Risk Mitigation (Contd)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of corporate guarantees, properties, cash, securities from listed exchange or other marketable securities. The Bank does not have any credit exposure which is reduced through the application of other eligible collateral.

Exposure Class	Total Exposures before CRM RM'000	Total Exposures covered by Guarantees RM'000	Total Exposures covered by Financial Collaterals RM'000	Total Exposures covered by Other Eligible Collaterals RM'000
31.03.2020				
Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	3,966,290	-	-	-
Public Sector Entities	6,214	-	-	-
Banks, Development Financial Institutions & MDBs	3,346,923	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	25,201,048	971,408	17,487,863	-
Regulatory Retail	1,572	-	-	-
Residential Mortgages	13,996	-	-	-
Equity Exposures	28,976	-	-	-
Other Assets	539,298	-	-	-
Defaulted Exposures	2,264	-	-	-
Total On-Balance Sheet Exposures	33,106,581	971,408	17,487,863	-
Off-Balance Sheet Exposures:				
Credit-related exposures	530,506	-	-	-
Securitisation exposures	3,000	-	-	-
Derivatives financial instruments	3,558,756	-	-	-
Total Off-Balance Sheet Exposures	4,092,262	-	-	-
Total Credit Exposures	37,198,843	971,408	17,487,863	-

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Credit Risk Mitigation (Contd)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of corporate guarantees, properties, cash, securities from listed exchange or other marketable securities. The Bank does not have any credit exposure which is reduced through the application of other eligible collateral. (Contd)

Exposure Class	Total Exposures before CRM RM'000	Total Exposures covered by Guarantees RM'000	Total Exposures covered by Financial Collaterals RM'000	Total Exposures covered by Other Eligible Collaterals RM'000
31.03.2019				
Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	4,298,143	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	2,901,673	63	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	21,954,927	896,643	14,643,068	-
Regulatory Retail	2,000	-	-	-
Residential Mortgages	14,755	-	-	-
Equity Exposures	2,993	-	-	-
Other Assets	529,360	-	-	-
Defaulted Exposures	2,504	-	-	-
Total On-Balance Sheet Exposures	29,706,355	896,706	14,643,068	-
Off-Balance Sheet Exposures:				
Credit-related exposures	595,423	-	-	-
Securitisation exposures	3,000	-	-	-
Derivatives financial instruments	4,332,740	-	-	-
Total Off-Balance Sheet Exposures	4,931,163	-	-	-
Total Credit Exposures	34,637,518	896,706	14,643,068	-

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Bank makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or External Credit Assessment Institutions ("ECAI") ratings used by the Bank and are recognised by BNM in the CAF:

(a) Standard & Poor's Rating Services ("S&P")
(b) Moody's Investors Services ("Moody's")
(c) Fitch Ratings ("Fitch")
(d) RAM Rating Services Berhad ("RAM")
(e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Banking institutions
(b) Corporates

Unrated and Rated Counterparties

The majority of the Bank's credit and counterparties exposures are unrated. Otherwise, in general, the rating specific to the credit exposure is used, i.e. the issuer rating. Where there is no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue nor issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the CAF. Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach:

Corporates

Rating Category	S&P	Moody's	Fitch	RAM	MARC	Risk weights
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB1 to BB3	BBB+ to BB-	100%
4	B+ to D	B1 to C	B+ to D	B1 to D	B+ to D	150%
5	Unrated	Unrated	Unrated	Unrated	Unrated	100%

Banking Institutions

Rating Category	S&P	Moody's	Fitch	RAM	MARC	Risk weights
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-	50%
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB1 to B3	BB+ to B-	100%
5	CCC+ to D	Caa1 to C	CCC+ to D	C1 to D	C+ to D	150%
6	Unrated	Unrated	Unrated	Unrated	Unrated	50%

Sovereigns and Central Banks

Exposures to BNM denominated and funded in Ringgit Malaysia is assigned a preferential risk weight of 0% as stipulated in the CAF.

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

31.03.2020

Credit Exposure	<---------------------- Ratings of Sovereign and Central Banks by Approved ECAIs ---------------------->							Total
	1	2	3	4	5	6	Unrated	
On and Off Balance Sheet Exposures								
Sovereign/Central Banks	3,967,134	-	-	-	-	-	-	3,967,134

Credit Exposure	<---------------------------- Ratings of Banking Institutions by Approved ECAIs ---------------------------->							Total
	1	2	3	4	5	6	Unrated	
On and Off Balance Sheet Exposures								
Banks, Development Financial Institutions & MDBs	3,404,707	1,411,979	-	41,065	43,853	-	-	4,901,604

Credit Exposure	<-------------- Ratings of Corporate by Approved ECAIs -------------->					Total
	1	2	3	4	Unrated	
On and Off Balance Sheet Exposures						
Public Sector Entities	-	-	-	-	10,159	10,159
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	178,160	178,160
Corporates	1,664,531	17,650	-	-	25,874,360	27,556,541
Regulatory Retail	-	-	-	-	1,572	1,572
Residential Mortgages	-	-	-	-	16,280	16,280
Other Assets	-	-	-	-	535,417	535,417
Securitisation Exposure	-	-	-	-	3,000	3,000
Equity Exposure	-	-	-	-	28,976	28,976
	1,664,531	17,650	-	-	26,647,924	28,330,105

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

31.03.2019

Credit Exposure	<---- Ratings of Sovereign and Central Banks by Approved ECAIs ---->							Total
	1	2	3	4	5	6	Unrated	
On and Off Balance Sheet Exposures								
Sovereign/Central Banks	4,298,143	-	-	-	-	-	-	4,298,143

Credit Exposure	<---- Ratings of Banking Institutions by Approved ECAIs ---->							Total
	1	2	3	4	5	6	Unrated	
On and Off Balance Sheet Exposures								
Banks, Development Financial Institutions & MDBs	3,007,177	1,886,418	-	77,641	7,551	-	-	4,978,787

Credit Exposure	<---- Ratings of Corporate by Approved ECAIs ---->					Total
	1	2	3	4	Unrated	
On and Off Balance Sheet Exposures						
Public Sector Entities	-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	107,026	107,026
Corporates	1,170,743	10,437	-	-	23,517,573	24,698,753
Regulatory Retail	-	-	-	-	2,000	2,000
Residential Mortgages	-	-	-	-	17,456	17,456
Other Assets	-	-	-	-	529,360	529,360
Securitisation Exposure	-	-	-	-	3,000	3,000
Equity Exposure	-	-	-	-	2,993	2,993
	1,170,743	10,437	-	-	24,179,408	25,360,588

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank:

31.03.2020	<---- Exposures after Netting and Credit Risk Mitigation ---->										Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
Risk Weights	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Securitisation Exposures RM'000	Equity Exposures RM'000	Other Assets RM'000	RM'000	RM'000
0%	2,757,502	-	-	-	-	-	-	-	-	167,440	2,924,942	-
20%	1,209,632	10,159	3,404,707	-	1,664,531	-	-	-	-	50	6,289,079	1,257,816
35%	-	-	-	-	-	-	8,610	-	-	-	8,610	3,013
50%	-	-	1,411,979	-	17,650	-	2,462	-	-	-	1,432,091	716,046
75%	-	-	-	-	-	-	2,417	3,000	-	-	5,417	4,063
100%	-	-	41,065	178,160	7,415,089	1,572	2,791	-	28,976	367,927	8,035,580	9,006,988
150%	-	-	43,853	-	-	-	-	-	-	-	43,853	65,779
Total Exposures	3,967,134	10,159	4,901,604	178,160	9,097,270	1,572	16,280	3,000	28,976	535,417	18,739,572	11,053,705
Risk-Weighted Assets by Exposures	241,926	2,032	1,493,775	178,160	8,728,228	1,572	8,848	2,250	28,976	367,937	11,053,705	
Average Risk Weight	6%	20%	30%	100%	96%	100%	54%	75%	100%	69%	59%	
Deduction from Total Capital			-					-	-		-	

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank: (Contd)

31.03.2019	<------------------------------ Exposures after Netting and Credit Risk Mitigation ------------------------------>										
Risk Weights	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Securitisation Exposures RM'000	Equity Exposures RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	3,541,318	-	90,956	-	-	-	-	-	-	3,411	3,635,685	-
20%	756,825	-	2,916,221	-	274,100	-	-	-	-	-	3,947,146	968,758
35%	-	-	-	-	-	-	9,232	-	-	-	9,232	3,231
50%	-	-	1,886,355	-	10,437	-	2,771	-	-	-	1,899,563	949,813
75%	-	-	-	-	-	-	2,314	3,000	-	-	5,314	3,985
100%	-	-	77,641	107,026	8,874,505	2,000	3,139	-	2,993	525,949	9,593,253	9,593,254
150%	-	-	7,551	-	-	-	-	-	-	-	7,551	11,326
Total Exposures	4,298,143	-	4,978,724	107,026	9,159,042	2,000	17,456	3,000	2,993	529,360	19,097,744	11,530,367
Risk-Weighted Assets by Exposures	151,365	-	1,615,420	107,026	9,113,873	2,000	9,491	2,250	2,993	525,949	11,530,367	
Average Risk Weight	4%	0%	32%	100%	100%	100%	54%	75%	100%	99%	60%	
Deduction from Total Capital			-					-	-		-	

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans, Advances and Financing

The tables below present the gross loans, advances and financing analysed by credit quality:

	31.03.2020				31.03.2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Neither past due nor credit-impaired								
Normal grades	8,616,359	926,813	-	9,543,172	5,520,136	1,999,864	-	7,520,000
Close watch	-	-	-	-	-	55,091	-	55,091
Past due but not credit-impaired								
Normal grades	2,712	-	-	2,712	1,133	-	-	1,133
Close watch	-	-	-	-	-	2,034	-	2,034
Credit-impaired								
Past due	-	-	698	698	-	-	732	732
Not past due	-	-	424,922	424,922	-	-	-	-
	8,619,071	926,813	425,620	9,971,504	5,521,269	2,056,989	732	7,578,990

	31.03.2020 RM'000	31.03.2019 RM'000
Gross credit-impaired loans as a percentage of gross loans, advances and financing	4.27%	0.01%

(a) Neither past due nor credit-impaired

The credit quality of gross loans, advances and financing which are neither past due nor impaired is described in Note 38(b) to the financial statements.

(b) Past due but not credit-impaired

Past due but not credit-impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due and includes loans which are due one or more days after the contractual due date but less than 3 months. The past due but not impaired loans, advances and financing of the Bank as at 31 March 2020 was 0.03% (2019: 0.04%).

The amount of past due but not credit-impaired loans breakdown by economic sector is as follows:

	31.03.2020 RM'000	31.03.2019 RM'000
Household	2,712	1,133

The amount of past due but not credit-impaired loans breakdown by geographical location is as follows:

	31.03.2020		31.03.2019	
	Malaysia RM'000	Other Countries RM'000	Malaysia RM'000	Other Countries RM'000
Past due but not credit-impaired	2,712	-	1,133	-

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans, Advances and Financing (Contd)

(c) Credit-impaired Loans, Advances and Financing

The Bank assesses, at each reporting period, whether there is any objective evidence that an individually significant loan is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. The criteria that the Bank uses to determine whether there is any objective evidence of impairment are set out in the Note 38(b) to the financial statements.

All loans, advances and financing that have been individually evaluated but not considered to be individually impaired are grouped on the basis of similar credit risk characteristics for collective impairment assessment, taking into account the historical loss experience of such loans. The Model Risk Adjustment ("MRA") may be applied due to lack of loss data, when making provision by benchmarking for relevant probability of default against the holding company or peer results, if applicable.

Credit-impaired loans, advances and financing are loans whereby payments of principal or interest or both are past due for three (3) months or more, or loans which are past due for less than three (3) months which exhibit indications of credit weaknesses, or impaired loans which have been restructured/rescheduled, but where repayments based on the revised terms have yet to fulfil the observation period required under the Bank's impairment policy.

The movements in impaired loans, advances and financing are set out in Note 7(i), the movements in impairment allowances are set out in Note 7(j) and the amount of impaired loans, advances and financing broken down by economic sector and geographical location are set out in Note 7(g) and Note 7(h) to the financial statement.

The amount of expected credit losses by economic purpose is as follows:

	31.03.2020		31.03.2019	
	Stage 1 and 2 Expected Credit Loss RM'000	Stage 3 Expected Credit Loss RM'000	Stage 1 and 2 Expected Credit Loss RM'000	Stage 3 Expected Credit Loss RM'000
Agricultural, hunting, forestry and fishing	9	-	3	-
Mining and quarrying	21	-	-	-
Manufacturing	7,133	50,579	5,423	-
Electricity, gas and water	9,371	-	434	-
Construction	2,552	-	757	-
Wholesale, retail trade, restaurants and hotels	1,973	-	1,004	-
Transport, storage and communication	2,207	-	1,060	-
Finance, insurance, real estate and business services	3,525	-	1,478	-
Households	208	198	83	137
	26,999	50,777	10,242	137

The charges for allowance for stage 3 expected credit losses during the year is as follows:

	Stage 3 Lifetime ECL Credit-Impaired 31.03.2019 RM'000	(Writeback)/ Allowance for the Year RM'000	Stage 3 Lifetime ECL Credit-Impaired 31.03.2020 RM'000
Manufacturing	-	50,579	50,579
Household	137	61	198
	137	50,640	50,777

PILLAR 3 DISCLOSURES

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans, Advances and Financing (Contd)

(d) The amount of allowance for expected credit losses by geographical location and loans written off by economic sector are as per table below:

Impairment allowances by geographical location:

	31.03.2020 RM'000	31.03.2019 RM'000
Malaysia		
• Stage 1 - 12 month ECL	9,891	4,165
• Stage 2 - lifetime ECL not credit impaired	13,380	4,780
• Stage 3 - lifetime ECL credit impaired	50,777	137
	74,048	9,082
Other countries		
• Stage 1 - 12 month ECL	3,729	1,297

Economic sector for loans written off:

	31.03.2020 RM'000	31.03.2019 RM'000
Finance, insurance, real estate and business services	-	3,800
Household	35	1
	35	3,801

Islamic Banking Business

	31.03.2020		31.03.2019	
	Risk-Weighted Assets RM'000	Minumum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minumum Capital Requirement at 8% RM'000
Credit risk	2,686	215	2,700	216

PILLAR 3 DISCLOSURES

5. MARKET RISK

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic Banking business of the Bank includes rate of return risk and displaced commercial risk.

Regulatory Capital Requirements

The Bank has adopted the Standardised Approach for market risk. The following tables present the minimum regulatory capital requirement on market risk:

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
31.03.2020				
Interest rate risk - general interest rate risk	68,004,333	(67,639,973)	1,843,189	147,455
Foreign exchange risk	32,066	(13,702)	32,066	2,565
	68,036,399	(67,653,675)	1,875,255	150,020
31.03.2019				
Interest rate risk - general interest rate risk	68,793,803	(68,496,307)	1,582,510	126,601
Foreign exchange risk	14,200	(4,652)	14,200	1,136
	68,808,003	(68,500,959)	1,596,710	127,737

Risk Governance

The Bank has established Trading Book and Hedging Policy as guidance for market risk management framework and policies. The ALM and MRC support the RMC in market risk management oversight, meets regularly and is the forum to discuss and aligns market risk management with business strategies and planning and recommends actions to ensure that the market risks remain within established risk tolerance level.

For effective control of market risk, triggers and limits are established after taking into account Bank's risk appetite, and approved by the Board. Trading exposures are subject to intraday limits and daily limit. This is monitored and escalated by independent unit to relevant business unit, Management and MRC on regular basis.

Risk Management Approach

(a) Interest Rate Risk/Rate of Return in the Banking Book

Interest rate risk in the banking book ("IRRBB") and Rate of Return ("ROR") arises from the changes in market interest rate that adversely impact on the Bank's net interest income. One of the primary sources is due to repricing mismatches of the Bank's banking assets and liabilities and also from the Bank's investment of its surplus funds.

The primary objective in managing the IRRBB is to manage the volatility in the Bank's earnings. This is achieved in a variety of ways that involve the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets to narrow the mismatch in interest rate sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects.

The Bank uses various tools including repricing gap reports and stress tests to measure its IRRBB. The impact on earnings is considered at all times in measuring the IRRBB and is subject to limits approved by the Board.

The table in Note 38(c) to the financial statements also sets out the Bank's sensitivity to interest rates by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans or early withdrawal of deposits. As at 31 March 2020, the Bank had an overall positive interest rate gap of RM8,256,000 (2019: RM5,491,000), being the net difference between interest sensitive assets and liabilities.

PILLAR 3 DISCLOSURES

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(a) Interest Rate Risk/Rate of Return in the Banking Book (Contd)

Sensitivity of Profit

The table below shows the senstitivity of the Bank's banking book to movement in the interest rates:

	31.03.2020	31.03.2019
	Increase/(Decrease)	
Impact on earnings from 100 bps parallel shift	RM'000	RM'000
MYR	39,729	48,134
USD	(2,053)	(9,400)
Others	(11,451)	(8,895)
Total	26,225	29,839
Impact on economic value from 100 bps parallel shift	RM'000	RM'000
MYR	(12,519)	(16,262)
USD	(8,488)	(5,020)
Others	(3,798)	(4,605)
Total	(24,805)	(25,887)

The sensitivity analysis is measured using Earning at Risk ("EaR") methodology and are based on the balance sheet reporting date. It does not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate risk. In reality, treasury operations seek to proactively change the interest rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest rates of all maturities move by the same amount and therefore, do not reflect the potential impact on earnings of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

The repricing profile of loans that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. The impacts on earnings are measured on a monthly basis and are reported to the ALM and RMC.

(b) Foreign Exchange Risk

Foreign currency exchange risk refers to adverse movements on foreign currency positions originating from treasury money market activities whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Bank's businesses are transacted in are United States Dollars and Japanese Yen.

The Bank manages such risk through funding in the same functional currencies, where possible. Minimal exposure are taken to the effects of fluctuations in the prevailing foreign exchange rate on Bank's financial position and cash flows. Net Open Position ("NOP") limits are set for overall NOP as well as NOP limits for individual currencies.

As at 31 March 2020, the NOP of the Bank stood at RM18,364,420 (long position) (2019: RM9,547,588 (long position)).

The table in Note 38(c) to the financial statements sets out the Bank's assets and liabilities denominated in foreign currencies.

PILLAR 3 DISCLOSURES

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(b) Foreign Exchange Risk (Contd)

Interest Rate and Foreign Currency Risk Stress Testing

The Bank also performed regular stress test on interest rate risk and currency risk. Three stress scenarios were applied on the Bank's assets and liabilities:

1. Scenario 1: Increase of 0.75% interest rate for interest rate derivatives, bonds and money market positions and the largest daily change in rates over the past two years multiply with the absolute foreign currency position and a 25% increase in foreign currency option volatility.

2. Scenario 2: Increase of 1.0% interest rate for interest rate derivatives, bonds and money market positions and the largest daily change in rates over the past two years +0.5% multiply with the absolute foreign currency position and a 50% increase in foreign currency option volatility.

3. Scenario 3: Increase of 2.0% interest rate for interest rate derivatives, bonds and money market positions and the largest daily change in rates during 1997-1998 (Asian Financial Crisis) multiply with the absolute foreign currency position and the largest appreciation or depreciation of the traded currency over 1997-1998 (Asian Financial Crisis) for foreign currency option.

The analysis shows that as of 31 March 2020, potential maximum loss computed for Scenario 1 to be RM99,411,000 (2019: RM90,981,000), Scenario 2 to be RM105,882,000 (2019: RM96,658,000) and Scenario 3 to be RM139,928,000 (2019: RM125,207,000).

Stress testing is conducted quarterly to determine the adequacy of capital in meeting the impact of extreme market rate movements on the Bank's statement of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate risk.

The reported amount are based on the Bank's position as of reporting date. The projection also assumes that all other variables are held constant and that all positions run to maturity.

(c) Equity Risk

Equity risk refers to the adverse impact of change in equity prices on equity positions held by the Bank.

The Bank currently hold equity investments amounting to RM28,976,000 (2019: RM25,493,000) which are privately held for social economic purpose and is unquoted and stated at fair value through other comprehensive income and adjusted for impairment loss, if any.

Islamic Banking Business

There are no significant market risk exposures as at 31 March 2020 (2019: Nil).

PILLAR 3 DISCLOSURES

6. LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets, to meet its financial commitments and obligations, when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALM is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALM and approved by the Board prior to implementation.

Risk Management Approach

The liquidity risk management of the Bank, is aligned with the Liquidity Coverage Ratio ("LCR") requirements issued by BNM which became effective from 1 June 2015. In addition, the Bank maintains a liquidity compliance buffer to meet any unexpected cash outflows. The day-to-day funding management, is undertaken by treasury operations and this includes the maintenance of a portfolio of highly liquid assets, that can be easily liquidated to meet the unforeseeable demand in cash flows arising from the maturity of deposits and loans. As at 31 March 2020, the Bank holds a sizeable balance of government securities amounting to RM592,261,000 (2019: RM201,260,000) or 71% (2019: 47%) of its portfolio of securities.

The Bank's liquidity and funding position is supported by the Bank's significant deposit base. The deposit base primarily comprises of current and term deposits. Although the current account deposit is payable on demand, it has historically provided stable sources of funding. The Bank's reputation, earnings capacity, financial, capital strength and competitive deposit rates are core attributes to preserve depositors' confidence and to ensure stablility in liquidity. The Bank accesses the wholesale markets by taking of money market deposits to meet short-term obligations and to maintain its presence in the local money market space. The Bank has also obtained a Liquidity Support Letter from its Parent Bank and has given full support of fund related to any liquidity matter at any time.

The primary tools for monitoring liquidity is the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets as buffer assets, early warning indicators from the use of market-wide information to identify possible liquidity problems. It also measures funding liquidity risk by assessing the potential liquidity cost arising from the maximum likely cash outflow over the horizon period at a specified confidence level, covering the Bank's deposit denominated in major currencies. Liquidity positions are reported to the ALM on a monthly basis and in major currencies i.e. in Ringgit Malaysia and in United States Dollars.

Contingency funding plans are in place to identify early warning signals of a potential liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. To complement the contingency funding plans, a liquidity drill is conducted annually to validate the Bank's ability to raise funds/liquidity from the market. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Bank to determine the cash flow mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible source of funding to meet the shortfalls during a liquidity crisis.

The Bank's hold sufficient high-quality liquid assets ("HQLA") to withstand an acute liquidity stress scenario over a 30-day horizon for Liquidity Coverage Ratio ("LCR"). LCR is part of the Basel III reform package which comprises measures to further strengthen the existing capital and liquidity standards for banking institutions. As of end March 2020, the Bank complies to the minimum LCR as stipulated by BNM.

Islamic Banking Business

There are no significant liquidity risk exposures as at 31 March 2020 (2019: Nil).

PILLAR 3 DISCLOSURES

7. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal process, people and system or from external events. The increasing need for an effective operational risk management is driven by a number of factors, among others are:

- Significant operational losses experienced at financial institutions;
- New regulatory requirements and international best practices;
- Significant and rapid changes to the economic and business environment;
- Growing need to optimise economic capital and measure performance;
- Protection and enhancement of shareholders' value; and
- Increasing number of potential threats affecting Bank's business operations especially cyber security and pandemic threats.

Periodic audit review from internal, holding company as well as external audit are conducted to ensure adequacy and effectiveness of the operational risk management process.

Regulatory Capital Requirements

The following presents the minimum regulatory capital requirement on operational risk for the Bank, computed using the Basic Indicator Approach:

	31.03.2020		31.03.2019	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Operational risk	807,598	64,608	934,602	74,768

Risk Governance

In line with BNM's Guideline on Risk Governance, the Bank's internal processes and practices are tuned towards the same direction. The objectives are supported by a framework of principles on risk governance to guide the Board and Management in performing their risk oversight function. Risk Governance focuses on applying sound principles on the assessment and management of risks to ensure that risk taking activities are aligned with the Bank capacity to absorb losses and its long term viability. It is concerned in particular with the roles of the Board, Management and risk management control functions as well as processes by which risk information is collected, analysed and communicated to provide a sound basis for management decision. It is also concerned with the effects of incentives and organisational culture on risk taking behaviors and perceptions of risk in the Bank.

Operational Risk Management Framework

The Bank adopted sound Operational Risk Management ("ORM") practices based on industry best practices and international standards, as well as guidelines as described by the holding company's Operational Risk and Risk Management Policies.

PILLAR 3 DISCLOSURES

7. OPERATIONAL RISK (CONTD)

Operational Risk Management Framework (Contd)

The focus of the Framework is to provide greater clarity of roles and responsibilities in operational risk management at all levels of staff. It aims to promote stronger operational risk awareness and culture and to inculcate ORM practices in day-to-day business activities and responsibilities. This is further supported by having structured enablers for ORM using clearly defined Operational Risk language and processes, integrated approach and lifecycles, and internal control systems within the organisation. The ORM Framework sets out:

- Bank's definition and categories of Operational Risk;
- Roles and responsibilities of key staff and oversight committees;
- Overview the relationship of the integrated components to manage Operational Risk {Risk and Controls Self-Assessment ("RCSA"), Global Control Self Assessment ("GCSA"), Loss Event Data ("LED") and Key Risk Indicators ("KRI")};
- Descriptions of the RCSA/GCSA process (identify, assess, respond, monitor and report);
- Descriptions of the LED process (identify, assess, respond, monitor and report);
- Descriptions of the KRI process (identify, assess, respond, monitor and report); and
- The framework covers both Conventional and Shariah risks.

Operational Risk Management is also supported by Self Inspection process i.e. inspecting internal processes to ensure compliance with Standard Procedure Overseas ("SPO") determined by holding company as well as internal standard operating procedure. For Shariah risk, ORM framework and methodology are adopted with the assistance of a Shariah Risk Register ("SRR"). SRR was developed based on the Bank's Islamic banking business and will be subsequently mapped into RCSA, GCSA, KRI and LED processes.

Enterprise Governance Risk and Compliance ("E-GRC") Solution

The primary objective for the implementation of E-GRC system is to automate the overall Operational Risk Management environment while staying aligned to its Framework and the holding company practices.

The solution is developed based on the Operational Risk Management Framework and the key areas of the solution implementation incorporates various operational risk tools:

- Risk Management (Risk Control Self Assessment & Global Control Self Assessment);
- Loss Event Data;
- Key Risk Indicators; and
- Issue & Action Plan.

The system solution enables the Bank to systematically identify, capture, monitor and report all operational risks in a consistent manner, thus facilitating analytical risk profiling and enhance the control mechanism.

Business Continuity Management

The Bank's Business Continuity Management ("BCM") programme is in compliance with requirements of BNM, the holding company and in line with International Standards ISO22301 to ensure all critical business functions can continue in the event of a disruption. Components and activities of BCM (not limited to):

- BCM team is established to provide leadership on the subject matter. The team is converted to Crisis Management Team ("CMT") in the event of disaster;
- BCM Framework & Policy is established to sustain BCM Program and ensure business continuity plan for all organisational units in the Bank remain effective. The framework policy is supported by BCM Manual which provides standard operating procedure for BCM taking into consideration of BNM and holding company's requirements and is reviewed annually;
- Participate in the regulatory and holding company requirements on mandatory annual drills;
- Conduct BCM Program by conducting risk analysis annually to identify threats to geographical location, reviewing the changes to Business Impact Analysis ("BIA"), recovery strategy, plan developed by every department in the Bank and scheduling testing and exercising for business process component as well as staff awareness;
- Increase level of awareness among the staff by conducting trainings during orientation as well as ad-hoc training via various platforms. Quarterly newsletter is issued to all staff on current matters of BCM to increase staff awareness; and
- Continuously promoting organisation wide discipline for building resilience & capability for an effective response that safeguards the interest of customers, reputation, brand and value.

PILLAR 3 DISCLOSURES

7. OPERATIONAL RISK (CONTD)

Business Continuity Management (Contd)

Efforts are put in to increase the ability to support critical business processes by enhancing our Business Recovery Site ("BRS"). The BRS capacity is increased to accommodate more resources (staff and system) and ensuring availability of power redundancies to support our critical business.

Reputational Risk Management Framework

The Bank is adopting an approach to reputation risk management that fits its risk profile and level of sophistication and that enables the risks affecting reputation to be consistently and comprehensively identified, assessed, controlled, monitored and reported. A strong reputation is a key competitive advantage for the Bank that can translate into:

- Access key markets and achieve greater confidence from customers;
- Attract capital or funding at competitive rates;
- Premium pricing; and
- Secure and maintain high quality workforce.

The objectives are aimed towards establishing a standard to manage reputation risk proactively, enabled the Bank's business to operate with reputation risk being considered and foster a culture where staff are aware of their responsibilities in managing reputation risk.

IT Risk Management Framework

The Bank endeavours to adopt sound Risk Management in Technology ("RMiT") practices based on regulatory requirement, industry best practices and international standards, as well as guidelines as described by MUFG Risk Management Policy. It is imperative that staff at all levels understand their responsibilities and are held accountable for managing Information Technology Risks (IT Risk), that is, the risk associated with operations and use of information systems that support the missions and business functions of the Bank.

Reporting

Reporting forms an essential part of operational risk management. The Bank's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner. Operational risk areas for key operation, business and control units are reported through monthly operational risk management reports, which provide analysis and action plans for each significant business operation. The operational risk areas include premises control and safety, losses due to fraud and control lapses, systems availability, disaster recovery and business continuity simulations, information security, product/service review, self-inspection, operations volume, staff attrition, Shariah non-compliance, outsourcing activities and managing legal action taken against the Bank. The operational risk management reports are tabled to the Operational Risk Management and Control Committee Meeting ("ORMCC") on monthly basis and escalated to the Risk Management Committee Meeting ("RMC") on quarterly basis.

Islamic Banking Business

	31.03.2020		31.03.2019	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Operational risk	58,510	4,681	16,499	1,320

PILLAR 3 DISCLOSURES

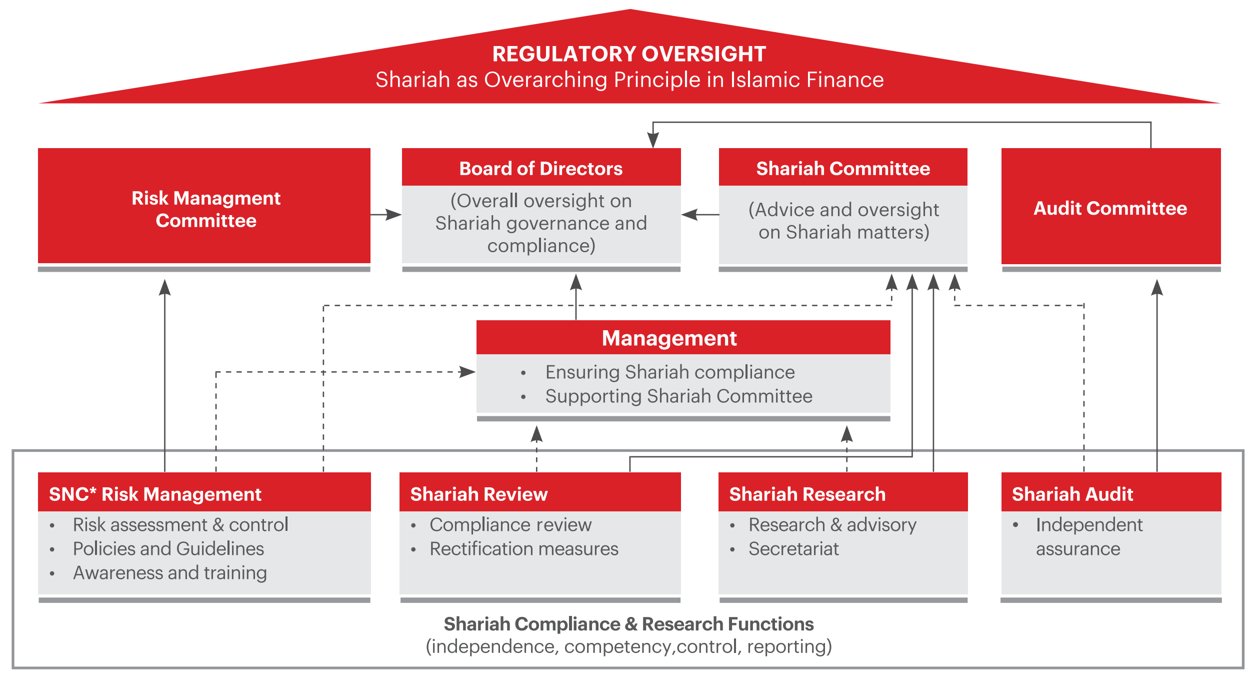
8. PROFIT SHARING INVESTMENT ACCOUNTS

This disclosure is not applicable as the Islamic Banking business does not have any Profit Sharing Investment Accounts.

9. SHARIAH GOVERNANCE

Shariah compliance is an integral feature in the Islamic finance. Having sound Shariah governance is essential to ensure the aims and operations of the institutions offering Islamic financial services does not contravene Shariah principles and in line with the regulatory requirement. As such, it is reflected by effective function of the Board in providing the overall oversight, the Shariah Committee in providing advice and oversight on Shariah matters, the Management in ensuring the execution complies with Shariah requirements and the Shariah Compliance and Research functions in supporting the internal arrangements.

By virtue of the Shariah Governance Policy Document issued by Bank Negara Malaysia ("the SGP"), the Shariah governance structure adopted by the Bank is illustrated as follows:



*SNC: Shariah Non-Compliance

Managing Risk of Shariah Non-Compliance

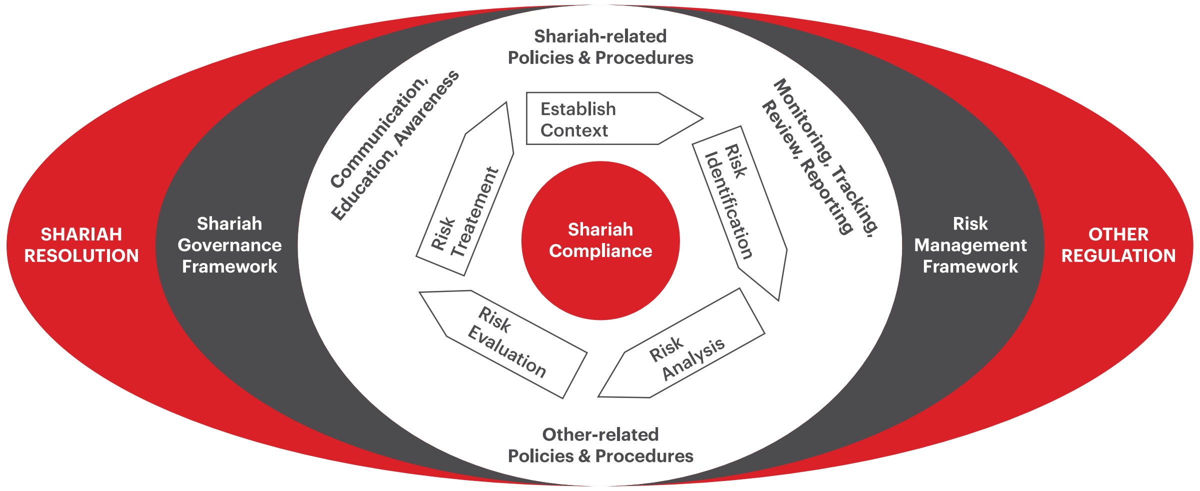
Sound Shariah governance should be reinforced with adoption of risk management framework for Shariah non-compliance. Shariah non-compliance risk, the unique risk of Islamic finance which might impact the Bank's financial and/or non-financial aspects, arises from the Bank's failure to comply with the Shariah rules and principles determined by the Shariah Committee of the Bank and/or National Shariah Advisory Council of BNM and Securities Commission (where applicable) in conducting the Islamic financial business.

Towards optimising the risk-aware culture across relevant areas in the Bank, the risk management framework for Shariah non-compliance has been established under the auspices of Shariah governance framework. The method of managing Shariah non-compliance risk is depicted as follows:

PILLAR 3 DISCLOSURES

9. SHARIAH GOVERNANCE (CONTD)

Managing Risk of Shariah Non-Compliance (Contd)



For effective risk management and control, the Bank is adopting the strategic implementation of tiered model i.e. Three Lines of Defence in governing and managing risk of Shariah non-compliance for Islamic financial business. The internal Shariah functions i.e. Shariah Research, Review and Risk Management act as control functions to support the business operation, while Shariah Audit provide independent assurance on the Shariah governance arrangement.

In ensuring controllable development (ex-ante) and implementation (ex-post) infrastructure, the respective risk factors are being observed as described herein:

Governance :	The structure of roles and function of internal organs, policies and procedures, and control mechanism.
Instrument :	Products or services, mechanism and associated transaction.
People :	The related staff and their conduct.
Process :	Practices, steps, transactions, tasks or actions involve in the Islamic financial operation and business activities.
System & Tool :	Matters relating to information system, data and other applicable tools.
External Factor :	External causes that are beyond the Bank's control but may disrupt the Bank's operations or cause damage to the Bank.

Shariah Non-Compliance Event

For financial year ended 31 March 2020, no actual Shariah non-compliance event has been detected. As such, no Shariah non-compliant income or related income has been recorded for the year.

GLOBAL NETWORK

MUFG Bank (Malaysia) Berhad

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
ASIA & OCEANA				
Asia				
Bangladesh	Dhaka	Dhaka Representative Office	Pan Pacific Sonargaon Dhaka, Annex Building (3rd Floor), 107, Kazi Nazrul Islam Avenue, Dhaka 1215, Bangladesh	880-2-9118982
Cambodia	Phnom Penh	Phnom Penh Representative Office	Unit 1504, 15th Floor Exchange Square, Building No.19&20, Street 106, Village 2, Sangkat Wat Phnom, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia, 12202	855-23-964-321
India	Bengaluru	Bengaluru Branch	N701, 7th Floor, World Trade Center Bengaluru, Brigade Gateway Campus, 26/1 , Dr. Rajkumar Road, Malleshwaram West, Bengaluru 560055, Karnataka, India	91-80-6758-0000
	Chennai	Chennai Branch	Seshachalam Centre, 6th & 7th Floor, 636/1, Anna Salai, Nandanam, Chennai 600 035, India	91-44-4560-5800 91-44-4560-5900
	Mumbai	Mumbai Branch	15 th Floor, Hoechst House, 193 Vinay K. Shah Marg, (Backbay Reclamation) Nariman Point, Mumbai 400 021, India	91-22-6669-3000
	Neemrana	Neemrana Branch	1st Floor Neemrana Central, CC-12, RIICO Industrial Area, Phase 1 Neemrana, Alwar, Rajasthan 301 705, India	91-14-9467-0800
	New Delhi	New Delhi Branch	5th Floor, Worldmark 2, Asset 8, Aerocity, New Delhi 110037, India	91-11-4100-3456
Indonesia	Bandung	Bandung Service Point	Grha Indosurya, 3rd Floor, Jl. Asia Afrika No.129, Bandung 40112, Republic of Indonesia	62-22-424-1870 62-22-424-1871 62-22-423-2958
	Jakarta	Jakarta Branch	Midplaza 1 Building 1F-3F, Jl. Jenderal Sudirman Kav. 10-11, Jakarta 10220, Republic of Indonesia	62-21-570-6185
		Bekasi Service Point	EJIP Center, EJIP Industrial Park, Cikarang Selatan, Bekasi 17550, Republic of Indonesia	62-21-897-5148
		Cengkareng Service Point	Wisma Soewarna, 3rd Floor, Suite 3R, Soewarna Business Park, Block E Lot 1&2, Soekarno-Hatta International Airport, Tangerang, Banten 19110, Republic of Indonesia	62-21-5591-3600
		Cikampek Service Point	Sentra Niaga, Blok A-II/29 No. B7, Kota Bukit Indah	62-264-350533
		Karawang Service Point	Graha KIIC, Kawasan Industri KIIC, Jl. Permata Raya Lot C 1B, Karawang 41361, Republic of Indonesia	62-21-8910-8288
		Kota Deltamas Service Point	Ruko Palais de Paris unit A-18, Jl. Boulevard Raya Kota Deltamas, Tol Jakarta-Cikampek KM 37, Cikarang Pusat, Bekasi 17530, Republic of Indonesia	62-21-8997-0760
		MM2100 Service Point	Befa Square Unit G-C Lantai G, Jl. Kalimantan, Kawasan Industri, MM2100, Desa Gandasari, Cikarang Barat, Bekasi, Jawa Barat 17842, Republic of Indonesia	62-21-898-1167
		Sunter Service Point	Graha Kirana Building, 1st Floor Jl. Yos Sudarso No.88, Jakarta 14350, Republic of Indonesia	62-21-6531-1010

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
		Suryacipta City of Industry Service Point	The Manor Office Park, 1st Floor, Unit E & F, Jl. Surya Utama Kav. C-1, Suryacipta City of Industry, Karawang 41363, West Jawa, Republic of Indonesia	62-21-3042-4000
		PT U Finance Indonesia	ANZ TOWER, 21 Floor, Jalan Jenderal Sudirman Kav. 33A Jakarta 10220, Republic of Indonesia	62-21-571-1109
	Surabaya	Surabaya Sub-Branch	Graha Bumi Modern, Jl. Jenderal Basuki Rakhmat 106-128, Surabaya 60271, Republic of Indonesia	62-31-531-6711
Malaysia	Kuala Lumpur	MUFG Bank (Malaysia) Berhad	Level 9, Menara IMC, No.8, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia	60-3-2034-8000 60-3-2034-8008
	Labuan	Labuan Branch	Level 12 (A&F), Main Office Tower,Financial Park Labuan Complex, Jalan Merdeka,87000 Federal Territory of Labuan,East Malaysia	60-87-410-487
	Penang	MUFG Bank (Malaysia) Berhad, Penang Branch	1827-G1, Jalan Perusahaan, Auto City, 13600 Prai, Penang	604-501-8818
Myanmar	Yangon	Yangon Branch	2nd Floor, Union Financial Centre, Corner of Maharbandoola Road and Thein Phyu Road, Bohtataung Township, Yangon, Republic of the Union of Myanmar	95-1-861-0371
Pakistan	Karachi	Pakistan Liaison Office	Mezzanine Floor, Tower-B Technology Park ST-08, Shahrah-e-Faisal Road, Karachi, Islamic Republic of Pakistan	92-21-3278-1039
Philippines	Manila	Manila Branch	15th Floor, 6788 Ayala Avenue, Makati City, Metro Manila, Republic of the Philippines	63-2-886-7371
Singapore	Singapore	Headquarters for Asia	7 Straits View #23-01 Marina One East Tower, Singapore 018936 Republic of Singapore	65-6538-3388
Sri Lanka	Colombo	Colombo Representative Office	#04-02, West Tower, World Trade Center, Echelon Square, Colombo 01, Democratic Socialist Republic of Sri Lanka	94-11-232-3939
Thailand	Bangkok	Bank of Ayudhya PCL ("Krungsri"), Head office	1222 Rama III Road, Bang Phongphang, Yan Nawa, Bangkok 10120, Kingdom of Thailand	66-2-296-2000
		Bank of Ayudhya PCL ("Krungsri"), Krungsri Ploenchit Tower	550 Ploenchit Road, Lumphini, Pathumwan, Bangkok 10330, Kingdom of Thailand	66-2-266-3011
		Bangkok MUFG Limited	898 Ploenchit Tower, 9th Floor Zone B1, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	66-2-263-0856
		MUFG Holding (Thailand) Co.,Ltd.	898 Ploenchit Tower, 9th Floor Zone B1, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	66-2-263-0856
		BOT Lease (Thailand) Co.,Ltd.	4th Floor, Harindhorn Tower, 54 North Sathorn Road, Bangrak, Bangkok 10500, Kingdom of Thailand	66-2-266-3060
		MUFG Participation (Thailand) Co.,Ltd.	898 Ploenchit Tower, 9th Floor Zone B1, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	66-2-263-0856

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
Vietnam	Hanoi	Hanoi Branch	6th & 7th Floor, Pacific Place, 83B Ly Thuong Kiet Street, Hoan Kiem District, Hanoi, Socialist Republic of Vietnam	+84-24-3946-0600
	Ho Chi Minh City	Ho Chi Minh City Branch	8th Floor, The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City, Socialist Republic of Vietnam	+84-28-3823-1560
East Asia				
China	Beijing	MUFG Bank (China), Ltd. Beijing Branch	2F, Beijing Fortune Building, 5 Dong Sanhuan Bei-Lu, Chaoyang District, Beijing 100004, People's Republic of China	86-10-6590-8888
	Chengdu	MUFG Bank (China), Ltd. Chengdu Branch	18F, Tower 2, Plaza Central, 8 Shun Cheng Avenue, Jinjiang District, Chengdu, Sichuan Province 610016, People's Republic of China	86-28-8671-7666
	Dalian	MUFG Bank (China), Ltd.Dalian Branch	11F, Senmao Building, 147 Zhongshan Road, Xigang District, Dalian, Liaoning Province 116011, People's Republic of China	86-411-8360-6000
		MUFG Bank (China), Ltd. Dalian Economic & Technological Development Area Sub-Branch	18F, International Business Buildings of Gugeng, 138 Jinma Road,Dalian Economic & Technological Development Area, Dalian, Liaoning Province 116600, People's Republic of China	86-411-8793-5300
	Fuzhou	MUFG Bank (China), Ltd. Fuzhou Branch	5/F Unit 01, 02, 03, 10, 11, 12, Huaban Building, No. 363, Jiangbinzhong Avenue, Taijiang District, Fuzhou, 350009, People's Republic of China	86-591-3810-3777
	Guangzhou	MUFG Bank (China), Ltd. Guangzhou Branch	24F, International Finance Place, No.8 Huaxia Road, Pearl River New Town, Guangzhou, Guangdong Province 510623, People's Republic of China	86-20-8550-6688
		MUFG Bank (China), Ltd. Guangzhou Nansha Sub-Branch	Room No 805-806, Nansha CGCC Building, No.162, Guangqian South Road, Nansha District, Guangzhou Guangdong Province 511458, People's Republic of China	86-20-3909-9088
	Hangzhou	MUFG Bank (China), Ltd. Hangzhou Branch	Unit 1002, 1003 and 1004, Level 10, Building 2, Hangzhou Kerry Centre, No.385 Yan'an Road, Xiacheng District, Hangzhou, Zhejiang Province, 310006, People's Republic of China	86-571-8792-8080
	Qingdao	MUFG Bank (China), Ltd. Qingdao Branch	20F, Cosco Plaza, 61 Hong Kong Middle Road, Shinan District, Qingdao, Shandong Province 266071, People's Republic of China	86-532-8092-9888
	Shanghai	MUFG Bank (China), Ltd. Head Office	16F, New Bund Times Square, No399, Haiyang West Road, Pudong New District, Shanghai 200126, People's Republic of China	86-21-6888-1666

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
		MUFG Bank (China), Ltd. Shanghai Branch	16F, New Bund Times Square, No399, Haiyang West Road, Pudong New District, Shanghai 200126, People's Republic of China	86-21-6888-1666
		MUFG Bank (China), Ltd. Shanghai Pilot Free Trade Zone Sub-Branch	16F, New Bund Times Square, No399, Haiyang West Road, Pudong New District, Shanghai 200126, People's Republic of China	86-21-6888-1666
	Shenyang	MUFG Bank (China), Ltd. Shenyang Branch	Room 2002, 20F, CR Building, No.286 Qingnian Street, Heping District, Shenyang, Liaoning Province 110016, People's Republic of China	86-24-8398-7888
	Shenzhen	MUFG Bank (China), Ltd. Shenzhen Branch	9-10/F, Tower One, Kerry Plaza, 1 Zhongxinsi Road, Futian District, Shenzhen, Guangdong Province 518048, People's Republic of China	86-755-8256-0808
	Suzhou	MUFG Bank (China), Ltd. Suzhou Branch	15F, Guangrong Building, No.289, East Suzhou Avenue, Suzhou Industrial Park, Suzhou, Jiangsu Province 215028, People's Republic of China	86-512-3333-3030
		MUFG Bank (China), Ltd. Suzhou Changshu Sub-Branch	C & D area, 12F, Kechuang Building No.333 Dongnan Road, Changshu New & Hi-tech Industrial Development Zone, Changshu City, Jiangsu province, 215500, People's Republic of China	86-512-5151-3030
	Tianjin	MUFG Bank (China), Ltd. Tianjin Branch	21F Tianjin International Building, 75 Nanjing Road, Heping District, Tianjin 300050, People's Republic of China	86-22-2311-0088
	Wuhan	MUFG Bank (China), Ltd. Wuhan Branch	Suite 2008, Corporate Center 5, 1628 Zhongshan Avenue, Jiang'an District, Wuhan, Hubei Province 430010, People's Republic of China	86-27-8220-0888
	Wuxi	MUFG Bank (China), Ltd. Wuxi Branch	10F, Wuxi Software Park, No. 16 Changjiang Road, Wuxi New District, Wuxi, Jiangsu Province 214028, People's Republic of China	86-510-8521-1818
Hong Kong	Hong Kong	Hong Kong Branch	8F, AIA Central, 1 Connaught Road, Central, Hong Kong, People's Republic of China	852-2823-6666
Japan	Tokyo	MUFG Bank, Ltd.	2-7-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	81-3-3240-1111
Korea	Seoul	Seoul Branch	4th Floor Young Poong Bldg., 41 Cheonggyecheon-ro, Jongno-gu, Seoul, Republic of Korea	82-2-399-6400
Mongolia	Ulaanbaatar	Ulaanbaatar Representative Office	Suite 906, Central Tower, Sukhbaatar Square-2, Sukhbaatar District, 8th Khoroo, Ulaanbaatar-14200, Mongolia	976-7555-0808
Taiwan	Kaohsiung	Kaohsiung Branch	4th Floor, No. 88, Cheng Gong 2nd Rd., Qian Zhen District, Kaohsiung City 806, Taiwan	886-7-332-1881
	Taipei	Taipei Branch	8th & 9th Floor, Union Enterprise Plaza, 109 Min Sheng East Road Sec.3, Taipei 10544, Taiwan	886-2-2514-0598

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
Oceania				
Australia	Melbourne	Melbourne Branch	Level 22, 600 Bourke Street, Melbourne, Victoria 3000 Australia	61-3-9602-8999
	Perth	Perth Branch	Level 21, 221 St. George's Terrace, Perth, Western Australia 6000 Australia	61-8-6188-9800
	Sydney	Sydney Branch	Level 25, Gateway, 1 Macquarie Place, Sydney, N.S.W. 2000 Australia	61-2-9296-1111
New Zealand	Auckland	Auckland Branch	Level 22, 151 Queen Street, Auckland, New Zealand (mailing address: P.O.Box 105160, Auckland, New Zealand)	64-9-302-3554

THE AMERICAS

Country	City	Office/Affiliates	Address	Tel. No.
North America				
Canada	Calgary	Calgary Office	335 8th Avenue SW, Suite 1840, Calgary, Alberta, T2P 1C9, Canada	1-403-444-4970
	Montreal	Montreal Office	600 de Maisonneuve Boulevard West, Suite 520, Montreal, Quebec, H3A 3J2, Canada	1-514-875-9261
	Toronto	Canada Branch	Royal Bank Plaza, South Tower, 200 Bay Street, Suite 1800, Toronto, Ontario M5J 2J1, Canada	1-416-865-0220
	Vancouver	Vancouver Office	Suite 1040, 999 West Hastings Street, Vancouver, British Columbia, V6C 2W2, Canada	1-604-691-7300
Mexico	Mexico, D.F.	MUFG Bank Mexico, S.A.	Avenida Paseo de la Reforma No. 250, Piso 11 (Torre A), Colonia Juarez, Delegacion Cuauhtemoc, C.P. 06600, Mexico, Ciudad de Mexico	52-55-1102-8300
		Representative Office in Mexico	Avenida Paseo de la Reforma No. 250, Piso 11 (Torre A), Colonia Juarez, Delegacion Cuauhtemoc, C.P. 06600, Mexico, Ciudad de Mexico	52-55-1102-8490
	Leon	MUFG Bank Mexico, S.A. Leon Office	Blvd. Adolfo Lopez Mateos 1717 Piso 10, Col. Los Gavilanes, Leon, Guanajuato, C.P. 37270, Mexico	52-55-1102-7101
U.S.A	Atlanta	Atlanta Corporate Banking Office	3475 Piedmont Road, NE, Atlanta, GA 30305 U.S.A.	1-404-577-2960
	Chicago	Chicago Branch	227 West Monroe Street, Suite 1550, Chicago, IL 60606 U.S.A.	1-312-696-4500
	Dallas	Dallas Agency	500 North Akard Street, 42F, Dallas, TX 75201, U.S.A.	1-214-954-1200
	Houston	Houston Agency	1100 Louisiana Street, Suite 4850, Houston, TX 77002-5216 U.S.A.	1-713-658-1160
	Kentucky	Kentucky Corporate Banking Office	7300 Turfway Road, Suite 440, Florence, Kentucky 41042, U.S.A.	1-859-568-1400

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
	Los Angeles	Los Angeles Branch	445 South Figueroa Street, Suite 2700, Los Angeles, CA 90071, U.S.A.	1-213-488-3700
	Minnesota	Minnesota Corporate Banking Office	601 Carlson Parkway, Suite 1275, Minnetonka, MN 55305, U.S.A.	1-952-473-5090
	New York	New York Branch	1251 Avenue of the Americas, New York, NY 10020-1104, U.S.A.	1-212-782-6800
		New York 1221 Building Branch	1221 Avenue of the Americas, New York, NY 10020, U.S.A.	1-212-782-6800
		MUFG Union Bank, N.A.	Principal Executive Office 1251 Avenue of the Americas, New York, NY 10020, U.S.A.	1-212-782-6800
	San Francisco	San Francisco Corporate Banking Representative Office	350 California Street, San Francisco, CA 94104 U.S.A.	1-415-765-2050
		MUFG Union Bank, N.A.	Main Banking Office 350 California Street, San Francisco, CA 94104 U.S.A.	1-415-765-3434
	Seattle	Seattle Corporate Banking Office	1201 3rd Avenue, Suite 950, Seattle, WA 98101, U.S.A.	1-206-382-6000
	Washington	Washington D.C. Representative Office	1909 K Street, NW, Suite 350, Washington, DC 20006-1161 U.S.A.	1-202-463-0477
Latin America				
Argentina	Buenos Aires	Representative Office in Argentina	Av.Leandro N. Alem 855, 25th Floor, Buenos Aires City, Argentina	54-11-5531-1450
Brazil	Sao Paulo	Banco MUFG Brasil S.A.	Av. Paulista 1274, Bela Vista, Sao Paulo, SP, Brasil CEP 01310-925	55-11-3268-0211
Chile	Santiago	Representative Office in Chile	COSTANERA CENTER TOWER II. Avenida Andrés Bello 2457, oficina 2103, Providencia, Santiago, Chile	56-2-2345-1000
Colombia	Bogota	Representative Office in Colombia	Carrera 7 No.71-21, Torre B Of. 507, Bogota, Republic of Colombia	57-1-325-9000
Peru	Lima	Representative Office in Peru	Av. Victor Andres Belaunde 214, Oficina 302 San Isidro, Lima, Peru	51-1-213-6900
Venezuela	Caracas	Representative Office in Venezuela	c/o MUFG Bank, Ltd., Representative Office in Colombia	–

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
EUROPE, THE MIDDLE EAST & AFRICA				
Europe				
Austria	Vienna	MUFG Bank (Europe) N.V. Vienna Branch	Schwarzenbergplatz 5, A-1037 Vienna, Republic of Austria (mailing address P.O. Box 51 A-1037 Vienna, Republic of Austria)	43-1-50262-01
Belgium	Brussels	MUFG Bank (Europe) N.V. Brussels Branch	Boulevard Louis Schmidt 29, 1040 Brussels, Kingdom of Belgium	32-2-551-4411
Czech Republic	Prague	MUFG Bank (Europe) N.V. Prague Branch	Klicperova 3208/12, 150 00 Prague 5, Czech Republic	420-257-257-911
France	Paris	Paris Branch	Le Centorial, 18, rue du Quatre Septembre, 75002 Paris, France (mailing address: Le Centorial, 18, rue du Quatre Septembre, 75080 Paris CEDEX2, Republic of France)	33-1-4926-4927
Germany	Dusseldorf	MUFG Bank (Europe) N.V. Germany Branch	Breite Strasse 34, 40213 Dusseldorf, F.R. Germany (mailing address: P.O. Box 10 49 51, 40040 Dusseldorf, F.R.Germany)	49-211-36670
		MUFG Europe Lease (Deutschland) GmbH	Breite Strasse 34, 40213 Dusseldorf, F.R. Germany (mailing address: Postfach 10 49 51, 40040 Dusseldorf, F.R.Germany)	49-211-366783
	Frankfurt	MUFG Bank (Europe) N.V. Germany Branch, Frankfurt Office	Junghofstrasse 24, 60311 Frankfurt am Main, F.R.Germany	49-69-7137490
	Hamburg	MUFG Bank (Europe) N.V. Germany Branch, Hamburg Office	Spaces Kallmorgen Tower, Willy-Brandt-Str. 23-25, 20457 Hamburg, F.R. Germany	49-40-4191207-0
	Munich	MUFG Bank (Europe) N.V. Germany Branch, Munich Office	Nymphenburger Strasse 3c, 80335 Munich, F.R.Germany	49-89-225354
Italy	Milano	Milano Branch	Via Filippo Turati, 9, 20121 Milano, Republic of Italy	39-02-669931
Kazakhstan	Almaty	Almaty Representative Office	13 Al-Farabi Avenue, 5th floor, Premises 3, Pavilion 2V, Almaty 050059, Republic of Kazakhstan	7-727-311-1055
Netherlands	Amsterdam	MUFG Bank (Europe) N.V.	World Trade Center, Tower I, Strawinskylaan 1887, 1077 XX Amsterdam, The Netherlands (mailing address: P.O. Box 75682, 1070 AR Amsterdam, The Netherlands)	31-20-5737737
Poland	Warszawa	MUFG Bank (Europe) N.V. S.A. Oddział w Polsce	19th floor, Warsaw Financial Center, Emilii Plater 53, Warsaw, Poland (mailing address: ul. Emilii Plater 53, 00-113 Warszawa, Poland)	48-22-520-5233
Portugal	Lisbon	MUFG Bank (Europe) N.V. Lisbon Representative Office	Avenida Engenheiro Duarte Pacheco, Amoreiras, Torre1, Poso4, Sala10, 1070-101, Lisboa, Portugal	351-21-351-4550

GLOBAL NETWORK

Country	City	Office/Affiliates	Address	Tel. No.
Russia	Moscow	AO MUFG Bank (Eurasia)	Building 2, Romanov per. 4, Moscow 125009, Russian Federation	7-495-225-8999
	Saint-Petersburg	AO MUFG Bank (Eurasia) Saint-Petersburg Sub-Branch	Premises 3-H, 10, A, Nevsky Prospect, Saint-Petersburg, 191186, Russian Federation	7-812-495-4143 7-812-495-4144
	Vladivostok	AO MUFG Bank (Eurasia) Vladivostok Sub-Branch	17 Okeanskiy Prospect, "Fresh Plaza", Vladivostok, 690091, Russian Federation	7-423-201-1995
Spain	Barcelona	MUFG Bank (Europe) N.V. Spain Branch, Barcelona Office	Paseo de Gracia, 56, 6-C, 08007 Barcelona, Spain	34-93-494-7450
	Madrid	MUFG Bank (Europe) N.V. Spain Branch	Jose Ortega y Gasset 29, 3rd Floor, 28006, Madrid, Spain	34-91-432-8500
United Kingdom	London	London Branch	Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, United Kingdom (mailing address: P.O.Box 280, London EC2M 7DX, United Kingdom)	44-20-7577-1000
The Middle East & Africa				
Bahrain	Manama	Bahrain Branch	Level 12 of the West Tower, Financial Centre, Bahrain Financial Harbour, P.O.Box 5850, Manama, Kingdom of Bahrain	973-1710-3300
Egypt	Cairo	Cairo Representative Office	10th Floor, Nile City Towers, South Tower, Corniche El-Nil P.O. Box 942, Cairo, Egypt	20-2-2461-9690 20-2-2461-9691
Iran	Tehran	Tehran Representative Office	2nd Floor, No.48 Parvin Alley, Vali Asr Ave., Tehran Islamic Republic of Iran	98-21-2621-8044
Qatar	Doha	Doha Office	Suite A3, Mezzanine Floor, Tornado Tower West Bay, P.O. Box 23153, Doha, State of Qatar	974-4433-5000
Saudi Arabia	Riyadh	Riyadh Branch	13th floor, East Wing Al Nakhlah Tower, King Fahd Road, As Sahafah Dist. Riyadh 13315, Kingdom of Saudi Arabia	+966-11-835-3900
South Africa	Johannesburg	Johannesburg Representative Office	15th Floor, The Forum Building, 2 Maude Street, Sandown, Sandton, Johannesburg, 2196, Republic of South Africa (mailing address: P.O. Box 78519, Sandton, Johannesburg, 2146, Republic of South Africa)	27-11-884-4721
Turkey	Istanbul	MUFG Bank Turkey Anonim Sirketi	Fatih Sultan Mehmet Mahallesi, Poligon Caddesi Buyaka 2 Sitesi No. 8B, Kat. 20-21, 34771, Tepeustu/Umraniye, Istanbul, Turkey	90-216-600-3000
U.A.E.	Abu Dhabi	Abu Dhabi Branch	1st Floor, IPIC Square Muroor Street , Abu Dhabi, United Arab Emirates (mailing address: P.O. Box 2174, Abu Dhabi, United Arab Emirates)	971-2-418-1400
	Dubai	DIFC Branch - Dubai	Level 3, East Wing, The Gate, Dubai International Financial Centre, P.O.Box 506614, Dubai, United Arab Emirates	971-4-387-5000