

 **MUFG MUFG BANK (MALAYSIA) BERHAD**
(Formerly known as Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad)
(Incorporated in Malaysia)

Company No : 302316-U

**UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED
30 SEPTEMBER 2018**

MUFG BANK (MALAYSIA) BERHAD
(Formerly known as Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad)
(Incorporated in Malaysia)

Company No : 302316-U

UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED
30 SEPTEMBER 2018

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MUFG BANK (MALAYSIA) BERHAD
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UNAUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2018

	2018 September RM'000	2018 March RM'000
ASSETS		
Cash and short-term funds	4,853,815	5,915,504
Deposits and placement with financial institutions	959,470	445,990
Financial assets available-for-sale	-	439,634
Financial assets held-for-trading	50,019	-
Financial assets at fair value through other comprehensive income	504,398	-
Loans and advances	10,829,220	18,973,357
Embedded loans	13,521,428	-
Purchased receivables	696,282	225,762
Derivative financial assets	1,272,874	2,179,032
Statutory deposits with Bank Negara Malaysia	74,262	5,776
Other assets	129,233	375,738
Property, plant and equipment	20,190	21,084
Intangible assets	32,621	36,415
Deferred tax assets	-	1,293
TOTAL ASSETS	<u>32,943,812</u>	<u>28,619,585</u>
LIABILITIES AND SHAREHOLDER'S FUNDS		
Deposits from customers	8,662,770	8,691,623
Deposits and placements of banks and other financial institutions	911,678	734,131
Collateral deposits	19,445,259	14,547,442
Derivative financial liabilities	775,219	1,907,749
Other liabilities	120,308	98,145
Deferred tax liabilities	48,600	-
Provision for tax	33,037	8,437
TOTAL LIABILITIES	<u>29,996,871</u>	<u>25,987,527</u>
SHARE CAPITAL	200,000	200,000
RESERVES	<u>2,746,941</u>	<u>2,432,058</u>
SHAREHOLDER'S FUNDS	<u>2,946,941</u>	<u>2,632,058</u>
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	<u>32,943,812</u>	<u>28,619,585</u>
COMMITMENTS AND CONTINGENCIES	<u>72,022,651</u>	<u>77,426,204</u>

MUFG BANK (MALAYSIA) BERHAD

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**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
Operating revenue	128,389	181,436	208,541	294,259
Interest income	230,197	168,384	437,282	321,994
Interest expense	(163,280)	(93,946)	(297,657)	(180,795)
Net interest income	66,917	74,438	139,625	141,199
Other operating income	61,472	107,041	68,916	153,103
Operating income	128,389	181,479	208,541	294,302
Other operating expenses	(40,702)	(40,326)	(82,219)	(86,466)
Profit before allowance for losses on loans and advances	87,687	141,153	126,322	207,836
Allowance for impairment on loans and advances	412	5	14,907	(51)
Profit before tax	88,099	141,158	141,229	207,785
Tax expense	(22,975)	(14,400)	(45,950)	(26,600)
Profit for the period	65,124	126,758	95,279	181,185
<i>Other comprehensive income net of tax</i>				
Change in fair value of financial assets at fair value through other comprehensive income	173	1,530	(330)	3,753
Total comprehensive income for the period	65,297	128,288	94,949	184,938
Profit attributable to :				
Owner of the Bank	65,124	126,758	95,279	181,185
Total comprehensive income attributable to :				
Owner of the Bank	65,297	128,288	94,949	184,938
Basic earnings per share (sen)	32.6	63.4	47.6	90.6

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**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	<----- Attributable to Shareholder of the Bank ----->					Distributable	Total
	<----- Non-distributable ----->			Fair value	Retained		
	Share capital	Statutory reserve	Regulatory reserve	Defined benefit reserve	reserve	profits	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018 September							
At beginning of the period							
- As previously stated	200,000	-	164,349	(5,801)	1,656	2,271,854	2,632,058
- Effect of change in accounting policies (Note 28)	-	-	(101,152)	-	21,866	299,220	219,934
At beginning of the period, as restated	200,000	-	63,197	(5,801)	23,522	2,571,074	2,851,992
Profit for the period	-	-	-	-	-	95,279	95,279
Other comprehensive income	-	-	-	-	(330)	-	(330)
Total comprehensive income	-	-	-	-	(330)	95,279	94,949
Transfer from retained profits	-	-	62,465	-	-	(62,465)	-
At end of the period	200,000	-	125,662	(5,801)	23,192	2,603,888	2,946,941
2017 September							
At beginning of the period	200,000	204,187	164,349	(5,527)	1,012	1,783,192	2,347,213
Profit for the period	-	-	-	-	-	181,185	181,185
Other comprehensive income	-	-	-	-	3,753	-	3,753
Total comprehensive income	-	-	-	-	3,753	181,185	184,938
Transfer to retained profits	-	(204,187)	-	-	-	204,187	-
At end of the period	200,000	-	164,349	(5,527)	4,765	2,168,564	2,532,151

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UNAUDITED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 SEPTEMBER 2018

	2018 September RM'000	2017 September RM'000
Cash Flows From Operating Activities		
Profit before tax	141,229	207,785
Adjustments for:		
Loss on disposal of property, plant and equipment	-	106
Depreciation of property, plant and equipment	2,342	2,403
Amortisation of intangible assets	5,404	4,678
Provision for retirement benefits	2,126	1,703
Dividend income	(184)	(184)
Interest income from financial assets at fair value through other comprehensive income	(8,421)	(12,265)
Amortisation and accretion of financial assets at fair value through other comprehensive income	416	547
Allowance for impairment on loan and advances	14,907	51
Allowance for impairment on purchased receivables		
Writeback of provision for diminution in value of financial assets at fair value through other comprehensive income	(8)	-
Unrealised loss on changes in fair value of financial assets at fair value through profit or loss	(1)	-
Unrealised loss on changes in fair value of financial assets at fair value through profit or loss	5,164	-
Unrealised loss/(gain) on changes in fair value of derivative financial instruments	23,828	(56,731)
Operating profit before changes in working capital	<u>186,802</u>	<u>148,093</u>
(Increase)/Decrease in operating assets:		
Loans and advances	(3,620,699)	(712,368)
Embedded loans	(1,228,866)	-
Purchased receivables	(470,377)	(197,163)
Derivative financial assets	248,154	596,222
Financial assets held-for-trading	(50,018)	-
Statutory deposits with Bank Negara Malaysia	(68,486)	-
Other assets	232,310	(32,887)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	(28,853)	(363,084)
Deposits and placements of banks and other financial institutions	(335,933)	(1,711,028)
Collateral deposits	4,897,817	3,187,173
Derivative financial liabilities	(777,540)	(520,404)
Other liabilities	19,405	(38,015)
Cash generated from/(used in) operations	<u>(996,284)</u>	<u>356,539</u>
Income taxes paid	(40,906)	-
Payment of staff gratuities	(602)	(194)
Net cash generated from/(used in) operating activities	<u>(1,037,792)</u>	<u>356,345</u>

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UNAUDITED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 SEPTEMBER 2018 (CONTD.)

	2018 September RM'000	2017 September RM'000
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(1,442)	(1,638)
Purchase of intangible assets	(1,617)	(9,262)
Proceeds from disposal of property, plant and equipment	-	46
Purchase of financial assets at fair value through other comprehensive income	(29,835)	(61,455)
Dividend received	184	184
Interest income from financial assets at fair value through other comprehensive income	8,813	10,856
Net cash generated from/(used in) investing activities	<u>(23,897)</u>	<u>(61,269)</u>
Net increase in cash and cash equivalents	(1,061,689)	295,076
Cash and cash equivalents at beginning of quarter	<u>5,915,504</u>	<u>7,576,549</u>
Cash and cash equivalents at end of quarter	<u>4,853,815</u>	<u>7,871,625</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2018

1 BASIS OF PREPARATION

The unaudited condensed interim financial report for the quarter ended 30 June 2018 have been prepared under the historical cost convention except for financial assets at fair value through other comprehensive income, financial assets held-for-trading and derivative financial instruments which are stated at fair value.

The unaudited condensed interim financial report have been prepared in accordance with MFRS 134 : *Interim Financial Reporting* issued by the Malaysian Accounting Standard Board ("MASB") and Bank Negara Malaysia's Guidelines on Financial Reporting. The unaudited interim financial report should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 March 2018. The explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 March 2018.

The following are accounting standards, amendments and interpretations 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 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

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

- MFRS 17, *Insurance Contracts*

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*

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

- from the annual period beginning on 1 April 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*, Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*, Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)* and Amendments to MFRS 140, *Investment Property – Transfers of Investment Property* which are not applicable to the Bank.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2018 (CONTD.)

1 BASIS OF PREPARATION (CONTD.)

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

- from the annual period beginning on 1 April 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*, Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)* and Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* which are not applicable to the Bank.

The Bank do not apply MFRS 17, Insurance Contracts that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Bank.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Bank except as mentioned below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

This standard requires all financial assets to be classified based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are to be initially measured at fair value. Subsequent to initial recognition, depending on the business model under which these assets are acquired, these will be measured at either fair value or amortised cost.

This standard also specifies the requirements for the classification and measurement of financial liabilities, which are generally similar to the requirements of MFRS 139. However, this standard requires that for financial liabilities designated at fair value through profit or loss, changes in fair value attributable to the credit risk of that liability are to be presented in other comprehensive income, whereas the remaining amount of the change in fair value will be presented in the income statement.

MFRS 16. *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 16.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2018 (CONTD.)

2 AUDIT REPORT

The audit report on the audited financial statements for the financial year ended 31 March 2018 was not subject to any qualification.

3 SEASONAL OR CYCLICAL FACTORS

The business operations of the Bank have not been affected by any material seasonal cyclical factors.

4 EXCEPTIONAL OR EXTRAORDINARY ITEMS

There were no exceptional or extraordinary items for the financial period ended 30 September 2018.

5 CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial years that have a material effects on the financial results and position of the Bank for the financial period ended 30 September 2018, other than the estimates arising from the adoption of MFRS 9.

6 CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt and equity securities during the financial period ended 30 September 2018.

7 DIVIDEND PAID

No dividend was paid during the financial period ended 30 September 2018.

8 SUBSEQUENT EVENTS

There were no material events subsequent to the balance sheet date that require disclosure or adjustments to the unaudited condensed interim financial report.

9 REVIEW OF PERFORMANCE

The Bank's profit before taxation for the financial period ended 30 September 2018 was RM2141.2 million, a decrease of 32% or RM66.5 million compared to the corresponding period last year. Operating income decreased by RM85.8 million from RM294.3 million to RM208.5 million whilst operating expenses decreased by RM4.2 million mainly attributed to lower cash collateral fees during the financial period.

Total assets increased marginally from RM28.6 billion to RM32.9 billion compared to 31 March 2018. The Bank's CET 1/Tier 1 capital ratio and total capital ratio remained strong at 17.60% and 18.57% respectively.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
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10 PROSPECTS

Global economy will continue to be driven by accommodative policies, positive sentiments across major economies and encouraging macro indicators. The US economy is expected to be supportive of global growth in 2018, coupled with continued growth in the euro area and Japan, as well as ongoing growth-focused policies in China. Among the major advanced economies, the US is on track for further recovery, with the continuation of growth supported by favourable financial conditions and economic sentiments. Japan's economy is projected to grow albeit at a modest pace, partly due to fading fiscal support. Although the recovery in the euro area is expected to be moderate underpinned by domestic demand and improving labour market condition, post-Brexit uncertainties may dampen sentiments in Europe. As for Asia, being the main global growth engine, it is expected to maintain a steady growth path supported by the pickup in global economy, trade activities and broadly accommodative policies. In particular, China will continue to be driven by sustained domestic consumption amid the Government's ongoing rebalancing programmes. While global growth is expected to remain broadly stable in 2018 and risks are more balanced, various challenges could potentially arise due to policy uncertainties in major advanced economies, trade protectionism, post-Brexit uncertainties and geopolitical tensions in the Middle East and East Asia.

The Malaysian economy is expected to remain strong in 2018. GDP growth is likely to be between 5.5% - 6.0% in 2018, supported by domestic demand. Growth momentum will continue to benefit from positive spill overs of better global growth on to domestic economic activity. The domestic economy is expected to be driven by sustained private sector activities. Higher income and stable labour market conditions will continue to support private consumption. Private investment is projected to be sustained by the implementation of existing and new investment projects, particularly in the services and manufacturing sectors.

Exports will be supported by sustainable economic growth of major trading partners and firmer commodity prices. On the supply side, growth is expected to be broad-based. The services sector will be buoyed by strong domestic economic activities while the manufacturing sector will be supported by sustained external demand and consumption activities. In the construction sector, growth is expected to be underpinned by major civil engineering projects. The mining and quarrying sector is projected to be supported by higher output from new oil and gas facilities. As for the agriculture sector, growth is expected to be supported by improvement in Crude Palm Oil ("CPO") yields.

In 2018, economic policies will continue to remain supportive of sustainable growth amid a stable price environment. With the economy on a steady growth path and normalisation of rates, Bank Negara Malaysia ("BNM") raised the Overnight Policy Rate ("OPR") by 25 bps to 3.25% on 25 January 2018. Underpinned by strong capitalisation, stable funding capacity and healthy liquidity position, the banking sector is expected to remain an effective financial intermediary by providing steady access of credit to households and businesses in support of domestic economic activities.

11 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2018 September RM'000	2018 March RM'000
At fair value		
Money market instruments		
• Malaysian Government Securities	-	243,139
• Sukuk	-	193,502
At cost		
Non-money market instruments:		
Unquoted bonds #	-	27
Unquoted shares	-	2,966
	<u>-</u>	<u>439,634</u>

Unquoted bonds are stated net of impairment loss amounting to Nil (2018 March : RM2,429,000).

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12 FINANCIAL ASSETS HELD-FOR-TRADING

	2018 September RM'000	2018 March RM'000
Money market instruments		
• Malaysian Government Securities	<u>50,019</u>	<u>-</u>

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	2018 September RM'000	2018 March RM'000
Money market instruments		
• Malaysian Government Securities	294,342	-
• Sukuk	207,063	-
Non-money market instruments:		
Unquoted bonds #	27	-
Unquoted shares	<u>2,966</u>	<u>-</u>
	<u>504,398</u>	<u>-</u>

The financial investments at FVOCI category was introduced upon the adoption of MFRS 9 on 1 January 2018. Comparative figures are not restated in line with the transition requirements under MFRS 9. The financial effects of the adoption of MFRS 9 are discussed in Note 28 Changes in Accounting Policies.

Movements in allowances for impairment which reflect the expected credit loss ("ECL") model on impairment are as follows:

	2018 September RM'000
12-Month ECL Stage 1	
At beginning of the period	-
Effects of changes in accounting policies	<u>323</u>
At beginning of the period, as restated	323
Allowance made / (written back) due to changes in credit risk	24
Exchange differences	-
At end of the period	<u>347</u>

Unquoted bonds are stated net of impairment loss amounting to RM2,429,000 (2018 March : Nil).

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
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	2018 September RM'000	2018 March RM'000
14 LOANS AND ADVANCES		
(a) By type:		
<i>At amortised cost</i>		
Overdrafts	5,758	17,174
Term loans		
• Housing loans	12,054	12,442
• Other term loans	3,991,908	15,510,309
Revolving credits	6,636,247	3,464,744
Bills receivable	124,436	23,563
Claims on customers under acceptance credits	59,951	43,591
Staff loans	6,347	6,083
	<u>10,836,701</u>	<u>19,077,906</u>
Unearned interest	(490)	(263)
Gross loans and advances	<u>10,836,211</u>	<u>19,077,643</u>
Impairment allowances on loans and advances		
• Individual assessment	-	(3,531)
• Collective assessment	-	(100,755)
• Specific allowances	(1,565)	-
• General allowances	(5,426)	-
Net loans and advances	<u>10,829,220</u>	<u>18,973,357</u>
(b) By maturity structure:		
Maturing within one year	7,148,390	7,794,243
More than one year to three years	542,560	4,363,722
More than three years to five years	1,778,157	4,025,575
More than five years	1,367,104	2,894,103
	<u>10,836,211</u>	<u>19,077,643</u>
(c) By type of customer:		
Domestic non-bank financial institutions	924,057	5,688,007
Domestic business enterprises		
• Small medium enterprises	2,216,885	1,761,607
• Others	3,776,916	9,698,759
Individuals	17,969	18,050
Foreign entities	3,900,384	1,911,220
	<u>10,836,211</u>	<u>19,077,643</u>

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2018 (CONTD.)**

	2018 September RM'000	2018 March RM'000
14 LOANS AND ADVANCES (CONTD.)		
(d) By interest rate sensitivity:		
Fixed rate		
• Staff loans	6,347	5,378
Variable rates	10,829,864	19,072,265
	<u>10,836,211</u>	<u>19,077,643</u>
(e) By economic sector:		
Agricultural, hunting, forestry and fishing	880,140	844,874
Mining and quarrying	43,170	42,547
Manufacturing	2,038,668	2,479,077
Electricity, gas and water	539,205	2,355,820
Construction	917,605	2,280,481
Wholesale and retail trade and restaurants and hotels	675,077	946,816
Transport, storage and communication	2,057,107	2,601,652
Finance, insurance, real estate and business services	3,666,838	7,384,059
Households	18,401	18,526
Others	-	123,791
	<u>10,836,211</u>	<u>19,077,643</u>
(f) By geographical location:		
Malaysia	9,242,338	17,589,538
Other countries	1,593,873	1,488,105
	<u>10,836,211</u>	<u>19,077,643</u>
(g) Movements in impaired loans and advances are as follows:		
At beginning of the period	4,702	4,562
Impaired during the period	701	1,055
Amount recovered	(16)	(24)
Reclassified as non-impaired	(672)	(575)
Amount written off	-	(316)
At end of the period	<u>4,715</u>	<u>4,702</u>

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	2018 September RM'000	2018 March RM'000
14 LOANS AND ADVANCES (CONTD.)		
(h) Impaired loans according to economic sectors are as follows:		
Finance, insurance and business services	3,807	3,863
Household	908	839
	<u>4,715</u>	<u>4,702</u>
(i) Impaired loans by geographical location are as follows:		
Malaysia	<u>4,715</u>	<u>4,702</u>
(j) Movements in impairment allowances on loans and advances are as follows:		
(i) Specific allowances		
At beginning of the period		
- As previously stated	3,531	-
- Effects of changes in accounting policies	1,716	-
At beginning of the period, as restated	<u>5,247</u>	-
Allowance written back during the period	(3,681)	-
At end of the period	<u>1,566</u>	-
(ii) General allowances		
At beginning of the period		
- As previously stated	100,755	-
- Effects of changes in accounting policies	(84,290)	-
At beginning of the period, as restated	<u>16,465</u>	-
Amount transfer from allowance for specific allowances	-	-
Amount written back in respect of recoveries	-	-
Allowance written back during the period	(11,039)	-
At end of the period	<u>5,426</u>	-
(iii) Individual assessment		
At beginning of the period	-	3,343
Allowance made during the period	-	188
At end of the period	<u>-</u>	<u>3,531</u>
(iv) Collective assessment		
At beginning of the period	-	100,755
Allowance made during the period	-	-
At end of the period	<u>-</u>	<u>100,755</u>

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14 LOANS AND ADVANCES (CONTD.)

(k) **Movements in impairment allowances on loans and advances which reflect the ECL model on impairment are as follows:**

	12 month	Lifetime ECL		Total RM'000
	ECL Stage 1 RM'000	Not credit impaired Stage 2 RM'000	Credit impaired Stage 3 RM'000	
At beginning of the period				104,286
Effects of changes in accounting policies				(82,574)
At beginning of the period, as restated	2,236	14,229	5,247	21,712
Changes due to loans and advances recognised as at beginning of the period				
- Transfer to 12-Month ECL (Stage 1)	839	(7,575)	(3,639)	(10,375)
- Transfer to Lifetime ECL not credit impaired (Stage 2)	-	-	-	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	-	-	-	-
New financial assets originated	669	307	-	976
Financial assets derecognised (other than write-off)	(108)	(3,745)	(28)	(3,881)
Net remeasurement due to changes in credit risk	(330)	(1,096)	(14)	(1,440)
Amount written off	-	-	-	-
Exchange differences	-	-	-	-
At end of the period	3,306	2,120	1,566	6,992

Comparative figures are not restated in line with the transition requirements under MFRS 9. The financial effects of the adoption of MFRS 9 are discussed in Note 28 Changes in Accounting Policies.

15 EMBEDDED LOANS

	2018 September RM'000	2018 March RM'000
<i>At fair value</i>		
Embedded loans	13,521,428	-

Embedded loans category was introduced upon the adoption of MFRS 9 on 1 January 2018. Comparative figures are not restated in line with the transition requirements under MFRS 9. The financial effects of the adoption of MFRS 9 are discussed in Note 28 Changes in Accounting Policies.

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15 EMBEDDED LOANS (CONTD.)

	2018 September	2018 March
	RM'000	RM'000
(a) By maturity structure:		
Maturing within one year	2,668,070	-
More than one year to three years	5,303,105	-
More than three years to five years	3,567,300	-
More than five years	1,982,953	-
	<u>13,521,428</u>	<u>-</u>
(b) By type of customer:		
Domestic financial institutions		-
Domestic non-bank financial institutions	5,437,412	-
Domestic business enterprises		
- Small medium enterprises	567,982	-
- Others	7,516,034	-
Individuals	-	-
Foreign entities	-	-
	<u>13,521,428</u>	<u>-</u>
(c) By interest rate sensitivity:		
Variable rates	<u>13,521,428</u>	<u>-</u>
(d) By economic sector:		
Agricultural, hunting, forestry and fishing	-	-
Mining and quarrying	6,194	-
Manufacturing	976,592	-
Electricity, gas and water	2,240,824	-
Construction	1,136,515	-
Wholesale and retail trade and restaurants and hotels	734,940	-
Transport, storage and communication	1,408,588	-
Finance, insurance, real estate and business services	7,005,445	-
Households	-	-
Others	12,330	-
	<u>13,521,428</u>	<u>-</u>
(e) By geographical location:		
Malaysia	13,538,117	-
Other countries	(16,689)	-
	<u>13,521,428</u>	<u>-</u>

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16 PURCHASED RECEIVABLES

	2018 September RM'000	2018 March RM'000
Purchased receivables	696,515	225,947
Collective assessment	-	(185)
General allowances	(233)	-
	696,282	225,762

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 one to two months. Included in purchased receivables are non-recourse bills receivable amounting to RM662,456,000 (2018 March: RM197,849,000).

(a) Movements in impairment allowances on purchased receivables:

	2018 September RM'000	2018 March RM'000
(i) General allowances		
At beginning of the period		
- As previously stated	185	-
- Effects of changes in accounting policies	(142)	-
At beginning of the period, as restated	43	-
Allowance made during the period	190	-
At end of the period	233	-
(ii) Collective assessment		
At 1 January	-	185
Allowance made during the year	-	-
At 31 December	-	185

(b) Movements in impairment allowances on loans and advances which reflect the ECL model on impairment are as follows:

	12 month ECL, Stage 1 RM'000	Not credit Stage 2 RM'000	Lifetime ECL Credit impaired Stage 3 RM'000	Total RM'000
At beginning of the period				185
Effects of changes in accounting policies				(142)
At beginning of the period, as restated	1	42	-	43
Changes due to loans and advances recognised as at beginning of the period				
- Transfer to 12-Month ECL (Stage 1)	-	-	-	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	-	-	-	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	-	-	-	-
New financial assets originated	232	1	-	233
Financial assets derecognised (other than write-off)	(1)	(42)	-	(43)
Net remeasurement due to changes in credit risk	-	-	-	-
Amount written off	-	-	-	-
Exchange differences	-	-	-	-
At end of the period	232	1	-	233

Comparative figures are not restated in line with the transition requirements under MFRS 9. The financial effects of the adoption of MFRS 9 are discussed in Note 28 Changes in Accounting Policies.

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	2018 September RM'000	2018 March RM'000
17 DEPOSITS FROM CUSTOMERS		
At amortised cost		
Demand deposits	3,396,571	3,720,544
Money market deposits	1,286,547	1,154,076
Savings deposits	17,780	25,137
Fixed deposits	<u>3,961,872</u>	<u>3,791,866</u>
	<u>8,662,770</u>	<u>8,691,623</u>
(a) The maturity structure of fixed deposits are as follows:		
Due within six months	3,891,362	3,546,941
Six months to one year	64,232	241,335
Above one year	<u>6,278</u>	<u>3,590</u>
	<u>3,961,872</u>	<u>3,791,866</u>
(b) The deposits are sourced from the following customers:		
Business enterprises	8,590,447	8,607,082
Individuals	<u>72,323</u>	<u>84,541</u>
	<u>8,662,770</u>	<u>8,691,623</u>

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 September RM'000	2018 March RM'000
At amortised cost		
Licensed banks	<u>911,678</u>	<u>734,131</u>

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19 COMMITMENTS AND CONTINGENCIES

	2018 September				2018 March			
	Principal Amount RM'000	Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000	Principal Amount RM'000	Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Credit-related Exposures								
Direct credit substitutes	2,775		2,775	1,387	2,975		2,975	1,488
Transaction-related contingent items	992,581		496,291	412,459	880,159		440,080	352,541
Short-term self-liquidating trade-related contingencies	144,583		28,917	28,917	171,907		34,381	34,381
Other commitments, such as formal standby facilities and credit lines, with an original maturity of : - not exceeding one year - exceeding one year	182,406 38		36,481 19	36,481 14	- 49,147		24,574	- 24,574
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	6,846,339		-	-	4,608,628		-	-
Securitisation exposures	15,000		3,000	2,250	15,000		3,000	2,250
	<u>8,183,722</u>		<u>567,483</u>	<u>481,508</u>	<u>5,727,816</u>		<u>505,010</u>	<u>415,234</u>
Derivative Financial Instruments:								
Foreign exchange related contracts								
- less than one year	11,343,802	470,051	661,719	402,928	10,929,703	603,734	787,873	449,635
- one year to less than five years	17,349,404	438,489	1,289,141	952,424	19,911,846	858,721	1,651,310	1,196,330
- five years and above	7,872,737	239,206	1,465,773	1,170,732	8,792,900	504,111	1,687,242	1,371,042
Interest rate related contracts								
- less than one year	3,983,110	1,921	6,921	2,997	8,619,594	2,055	9,878	3,152
- one year to less than five years	16,133,018	65,143	315,524	145,511	13,737,227	69,240	253,444	119,016
- five years and above	5,408,668	26,045	282,009	169,987	6,469,131	49,045	344,042	191,676
Currency options								
- less than one year	92,990	804	2,199	2,199	148,547	288	2,516	2,516
Premium yielder investments								
- one year to less than five years	1,655,200	11,215	93,975	18,795	3,089,440	91,838	277,205	83,246
	<u>63,838,929</u>	<u>1,272,874</u>	<u>4,117,261</u>	<u>2,865,573</u>	<u>71,698,388</u>	<u>2,179,032</u>	<u>5,013,510</u>	<u>3,416,613</u>
Total	<u>72,022,651</u>	<u>1,272,874</u>	<u>4,684,744</u>	<u>3,347,081</u>	<u>77,426,204</u>	<u>2,179,032</u>	<u>5,518,520</u>	<u>3,831,847</u>

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	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
20 INTEREST INCOME				
Loans and advances	188,514	112,529	351,174	211,752
Money at call and deposit placements with financial institutions	37,318	49,615	77,687	97,977
Financial assets with fair value through other comprehensive income/Securities available-for-sale	4,365	6,240	8,421	12,265
	<u>230,197</u>	<u>168,384</u>	<u>437,282</u>	<u>321,994</u>
21 INTEREST EXPENSE				
Deposits and placements of banks and other financial institutions	119,791	59,950	210,266	114,456
Deposits from other customers	43,489	33,996	87,391	66,339
	<u>163,280</u>	<u>93,946</u>	<u>297,657</u>	<u>180,795</u>
OTHER OPERATING INCOME				
Fee income				
Commission	492	510	965	870
Guarantee fees	1,075	1,025	1,982	2,018
Service charges and fees	837	740	1,577	1,488
Commitment fees	194	187	368	376
Other fee income	3,974	6,117	6,265	7,029
	<u>6,572</u>	<u>8,579</u>	<u>11,157</u>	<u>11,781</u>
Investment income				
Gross dividends	73	-	184	184
Realised gain/(loss) in fair value of derivative financial instruments	40,718	15,122	58,977	1,159
Realised gain/(loss) in fair value of trading securities	170	-	170	-
Unrealised gain/(loss) in fair value of derivative financial instruments	(20,746)	11,995	(5,165)	56,731
Unrealised gain/(loss) in fair value of trading securities	1	-	1	-
Unrealised gain/(loss) in fair value of embedded loans	12,205	-	(23,828)	-
Net premium (paid)/received for options	6	-	(8)	-
	<u>32,427</u>	<u>27,117</u>	<u>30,331</u>	<u>58,074</u>
Other income				
Foreign exchange gain/(loss)	20,794	68,507	25,490	80,406
Other operating income	1,679	2,838	1,938	2,842
	<u>22,473</u>	<u>71,345</u>	<u>27,428</u>	<u>83,248</u>
	<u>61,472</u>	<u>107,041</u>	<u>68,916</u>	<u>153,103</u>

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	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
23 OTHER OPERATING EXPENSES				
Personnel expenses	25,878	22,044	52,808	47,745
Establishment related expenses	5,602	5,097	11,180	9,906
Promotion and marketing related expenses	531	503	1,036	913
Administrative and other expenses	8,691	12,682	17,195	27,902
	<u>40,702</u>	<u>40,326</u>	<u>82,219</u>	<u>86,466</u>
Personnel expenses				
- Wages, salaries and bonus	19,241	15,794	39,821	34,794
- Defined benefit plan	1,141	851	2,127	1,703
- Defined contribution plan	2,122	1,554	4,169	4,842
- Other employee benefits	3,374	3,845	6,691	6,406
	<u>25,878</u>	<u>22,044</u>	<u>52,808</u>	<u>47,745</u>
Establishment related expenses				
- Depreciation of property, plant and equipment	1,169	1,148	2,342	2,403
- Amortisation of intangible assets	2,709	2,395	5,404	4,678
- Hire of equipment	200	185	351	340
- Repair and maintenance	121	106	233	203
- Rental of premises	1,211	1,042	2,431	1,908
- Others	192	221	419	374
	<u>5,602</u>	<u>5,097</u>	<u>11,180</u>	<u>9,906</u>
Promotion and marketing related expenses				
- Advertising and publicity	45	-	96	70
- Others	486	503	940	843
	<u>531</u>	<u>503</u>	<u>1,036</u>	<u>913</u>
Administrative and other expenses				
- Collateral deposit fees	4,848	4,169	8,708	15,004
- Communication expenses	275	260	446	416
- Legal and professional fees	427	3,646	618	3,869
- Others	3,141	4,607	7,423	8,613
	<u>8,691</u>	<u>12,682</u>	<u>17,195</u>	<u>27,902</u>
24 (ALLOWANCE)/WRITEBACK FOR IMPAIRMENT ON LOANS AND ADVANCES				
Allowance for impaired loans and advances				
- Individual assessment	-	(63)	-	(119)
- General allowances	390	-	11,180	-
- Specific allowances	(13)	-	3,681	-
Impaired loans and advances written off	-	-	-	-
Bad debts written back	35	68	46	68
	<u>412</u>	<u>5</u>	<u>14,907</u>	<u>(51)</u>

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25 CAPITAL ADEQUACY

(a) 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.

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

	2018 September	2018 March
Common equity Tier 1 ("CET 1") capital ratio	17.601%	18.228%
Tier 1 capital ratio	17.601%	18.228%
Total capital ratio	<u>18.570%</u>	<u>19.270%</u>

(c) The components of Tier 1 and Tier 2 capital of the Bank are as follows:

	2018 September RM'000	2018 March RM'000
<u>CET 1 and Tier 1 capital</u>		
· Paid-up share capital	200,000	200,000
· Retained profits	2,209,389	2,271,854
· Other reserves	<u>143,053</u>	<u>160,204</u>
	2,552,442	2,632,058
<u>Less</u>		
· Deferred tax assets	-	(1,293)
· Intangible assets	(32,621)	(36,415)
· 55% of fair value reserve	(12,756)	(911)
· Regulatory reserve	<u>(125,662)</u>	<u>(164,349)</u>
	2,381,403	2,429,090
<u>Tier 2 capital</u>		
· Impairment allowance for collective assessment * and regulatory reserve	<u>131,088</u>	<u>138,887</u>
Total Capital	<u>2,512,491</u>	<u>2,567,977</u>

* Excludes impairment allowance for collective assessment on impaired loans restricted from Tier 2 capital of the Bank of nil (2018 March: RM260,000).

(d) Comparative figures are not restated in line with the transition requirements under MFRS 9. The financial effects of the adoption of MFRS 9 are discussed in Note 28 Changes in Accounting Policies.

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25 CAPITAL ADEQUACY (CONT'D)

(e) The components of risk-weighted assets of the Bank are as follows:

2018 September

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures :				
Sovereigns/Central Banks	4,078,959	4,078,959	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	2,986,898	2,986,402	694,673	55,574
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	24,157,215	6,733,659	6,974,841	557,987
Regulatory Retail	1,989	1,989	1,989	159
Residential Mortgages	13,797	13,797	6,449	516
Equity Exposures	2,993	2,993	2,993	239
Other Assets	400,160	400,160	345,297	27,624
Defaulted Exposures	2,723	2,723	2,557	205
Total On-Balance Sheet Exposures	31,644,734	14,220,682	8,028,799	642,304
Off-Balance Sheet Exposures :				
Credit-related exposures	564,482	564,482	479,258	38,341
Securitisation exposures	3,000	3,000	2,250	180
Derivatives financial instruments	4,117,262	4,117,262	2,865,573	229,246
Total Off-Balance Sheet Exposures	4,684,744	4,684,744	3,347,081	267,766
Total On and Off-Balance Sheet Exposures	36,329,478	18,905,426	11,375,880	910,070
(ii) Large Exposure Risk Requirement				
	-	-	-	-
(iii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	63,161,797	(62,834,161)	1,279,888	102,391
Foreign Exchange Risk	16,547	(6,176)	16,547	1,324
	63,178,344	(62,840,337)	1,296,435	103,716
(iv) Operational Risk				
			857,575	68,606
Total RWA and Capital Requirements	36,329,478	18,905,426	13,529,890	1,082,392

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25 CAPITAL ADEQUACY (CONTD.)

(e) The components of risk-weighted assets of the Bank are as follows:

2018 March

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	3,919,960	3,919,960	-	-
Public Sector Entities	10,778	10,778	2,156	172
Banks, Development Financial Institutions & MDBs	3,353,765	3,353,557	782,770	62,622
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	18,908,306	5,976,923	6,141,167	491,293
Regulatory Retail	1,691	1,691	1,691	135
Residential Mortgages	14,117	14,117	6,418	513
Equity Exposures	2,993	2,993	2,993	239
Other Assets	342,385	342,385	339,277	27,142
Defaulted Exposures	2,837	2,837	2,671	214
Total On-Balance Sheet Exposures	26,556,832	13,625,241	7,279,143	582,330
Off-Balance Sheet Exposures :				
Credit-related exposures	502,010	502,010	412,984	33,039
Securitisation exposures	3,000	3,000	2,250	180
Derivatives financial instruments	5,013,510	5,013,510	3,416,613	273,329
Total Off-Balance Sheet Exposures	5,518,520	5,518,520	3,831,847	306,548
Total On and Off-Balance Sheet Exposures	32,075,352	19,143,761	11,110,990	888,878
(ii) Large Exposure Risk Requirement				
	-	-	-	-
(iii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	67,523,173	(67,224,934)	1,292,546	103,404
Foreign Exchange Risk	20,155	(84,225)	84,225	6,738
	67,543,328	(67,309,159)	1,376,771	110,142
(iv) Operational Risk				
			838,540	67,083
Total RWA and Capital Requirements	32,075,352	19,143,761	13,326,301	1,066,103

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	2018 September RM'000	2018 March RM'000
26 CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES		
Outstanding credit exposures with connected parties	<u>563,492</u>	<u>653,457</u>
Total credit exposures	<u>32,634,103</u>	<u>27,800,126</u>
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	1.7%	2.4%
- as a proportion of total capital	<u>22.3%</u>	<u>25.4%</u>

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

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

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27 THE OPERATIONS OF ISLAMIC BANKING

UNAUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2018

		2018 September RM'000	2018 March RM'000
ASSETS			
Cash and short-term funds	(a)	32,948	31,192
Other assets		9	5
TOTAL ASSETS		<u>32,957</u>	<u>31,197</u>
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(b)	77	3
Other liabilities	(c)	7,648	6,507
TOTAL LIABILITIES		<u>7,725</u>	<u>6,510</u>
CAPITAL FUND		25,000	25,000
RESERVE		232	(313)
ISLAMIC BANKING FUNDS		<u>25,232</u>	<u>24,687</u>
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		<u>32,957</u>	<u>31,197</u>
COMMITMENTS AND CONTINGENCIES		<u>-</u>	<u>-</u>

Islamic financing based on Commodity Murabahah (Tawarruq) of RM662,934,957 (2018: RM546,211,822) was financed under an internal Wakalah scheme and is reported at the entity level.

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27 THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

**UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
Income attributable to depositors	-	-	-	-
Income derived from investment of Islamic Banking Capital funds (d)	272	214	529	431
Other operating income (e)	215	13	331	71
Other operating expenses (f)	(133)	(90)	(315)	(265)
Profit/(Loss) before tax	354	137	545	237
Tax expense	-	-	-	-
Profit/(Loss) for the period	354	137	545	237

**UNAUDITED STATEMENT OF CHANGES IN EQUITY
 FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	Capital Fund RM '000	Accumulated Losses RM '000	Total RM '000
2018 September			
At beginning of the period	25,000	(313)	24,687
Profit for the period	-	545	545
At end of the period	25,000	232	25,232
2017 September			
At beginning of the period	25,000	(2,084)	22,916
Profit for the period	-	237	237
At end of the period	25,000	(1,847)	23,153

**UNAUDITED STATEMENT OF CASH FLOWS
 FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

	2018 September RM'000	2017 September RM'000
Cash flows from operating activities		
Profit before tax	545	237
Operating profit before working capital changes	545	237
(Decrease)/Increase in operating liabilities:		
Other assets	(4)	(2)
Deposits from customers	74	-
Other liabilities	1,141	260
Net cash from operating activities	1,756	495
Net increase in cash and cash equivalents	1,756	495
Cash and cash equivalents at beginning of period	31,192	27,432
Cash and cash equivalents at end of period	32,948	27,927
Cash and cash equivalents at end of period	32,948	27,927

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27 THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

Shariah Committee

The Shariah Committee was established under BNM's "Shariah Governance Framework for Islamic Financial Institutions" (BNM/RH/GL_012_3) 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.

The committee comprises: Dr. Luqman bin Haji Abdullah, 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 measurement

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 2018.

(a) Cash and short-term funds

	2018 September RM'000	2018 March RM'000
Cash and balances with banks and other financial institution	32,948	31,192

(b) Deposits from customers

	2018 September RM'000	2018 March RM'000
Current accounts	77	3

(c) Other liabilities

	2018 September RM'000	2018 March RM'000
Accruals and provisions for operational expenses	7,648	6,507

(d) Income derived from investment of Islamic Banking Capital funds

	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
Money at call and placements with financial institutions	272	214	529	431

(e) Other Operating Income

	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
Other fee income	215	13	331	71

(f) Other Operating Expenses

	2nd Quarter Ended		Six Months Ended	
	2018 September RM'000	2017 September RM'000	2018 September RM'000	2017 September RM'000
Personnel expenses	96	72	257	234
Other expenses	37	18	58	31
	133	90	315	265

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27 THE OPERATIONS OF ISLAMIC BANKING (CONTD.)

(g) 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:

	2018 September	2018 March
Common equity tier 1 capital ratio	141.64%	294.77%
Tier 1 capital ratio	141.64%	294.77%
Total capital ratio	<u>141.64%</u>	<u>294.77%</u>

The components of Tier 1 and Tier 2 capital of the Bank's Islamic Banking business are as follows:

	2018 September RM'000	2018 March RM'000
<u>CET 1 and Tier 1 capital</u>		
· Paid-up share capital	25,000	25,000
· Accumulated losses	<u>(313)</u>	<u>(313)</u>
	24,687	24,687
<u>Tier 2 capital</u>	<u>-</u>	<u>-</u>
Total capital	<u>24,687</u>	<u>24,687</u>

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

	2018 September RM'000	2018 March RM'000
Operational risk	<u>17,429</u>	<u>8,375</u>

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.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
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28 CHANGES IN ACCOUNTING POLICIES

(a) Adoption of MFRS 9 Financial Instruments (2014)

The Bank has adopted the requirements of MFRS 9 on 1 April 2018. MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting which have resulted in the following significant changes in accounting policies.

The changes in accounting policies have been applied retrospectively from 1 April 2018. In accordance with the transition requirements, comparatives are not restated. The significant changes to accounting policies are discussed and summarised below:

(i) Classification and measurement

The Bank classify financial assets into three primary measurement categories: Amortised Cost, Fair Value Through Profit or Loss (“FVTPL”) and Fair Value Through Other Comprehensive Income (“FVOCI”). The basis of classification depends on the Bank’s business model and contractual cash flow characteristics of the financial asset.

Financial assets

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows represent solely payments of principal and interest. All other financial assets are classified and measured at FVTPL. On initial recognition of certain equity investments that are not held for trading, the Bank has irrevocably elected to present subsequent changes in fair value in OCI.

Financial liabilities

As MFRS 9 retains most of the MFRS 139 requirements, there is no change to the classification and measurement of the Bank’s financial liabilities.

Impact as a result of MFRS 9 adoption

The unquoted equity instruments which are not held for trading and were previously classified as financial assets available-for-sale are now classified and measured at FVOCI.

Certain debt instruments which were previously classified as loans and advances are redesignated and now measured at FVTPL.

The financial effects arising from the adoption of MFRS 9 are presented in Note 28 (c).

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
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28 CHANGES IN ACCOUNTING POLICIES (CONTD)

(a) Adoption of MFRS 9 Financial Instruments (2014) (Contd)

(ii) Impairment

MFRS 9 introduces expected credit losses ("ECL") model on impairment that replaces the incurred loss impairment model used in MFRS 139. The ECL model requires impairment to be recognised on initial recognition including expected future credit losses whilst the incurred loss impairment model only requires recognition of credit losses incurred as at reporting date. The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments as well as financial guarantee contracts, which include loans, advances and financing and investment securities.

MFRS 9 does not distinguish between individual assessment and collective assessment. The Bank applies a three-stage approach to measure ECL on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: lifetime ECL - non-credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, a lifetime ECL will be recognised.

Stage 3: lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit impaired, a lifetime ECL will be recognised.

Stage 1 and 2 ECL are collectively aggregated as general allowances while Stage 3 ECL is specific allowances as disclosed in this set of unaudited interim financial report.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Impact as a result of MFRS 9 adoption

The total ECL allowances computed under MFRS 9 is lower than the total allowance for impairment on loans and advances under MFRS 139, despite of forward looking approach is adopted as well as more financial assets (MFRS 9 includes loan commitments and financial guarantee contracts) were assessed for impairment and allowances. This is contributed by revision to Loss Given Default ("LGD") and recognition of certain debt instruments which were previously classified as loans and advances, now measured at FVTPL.

The financial effects arising from the adoption of MFRS 9 are presented in Note 28 (c).

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2018 (CONTD.)****28 CHANGES IN ACCOUNTING POLICIES (CONTD)****(b) BNM's Revised Policy Documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions**

On 2 February 2018, BNM issued the revised policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions ("BNM's revised Policy Documents") which prescribe the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. The Bank had previously maintained, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment provisions.

The financial effects arising from the adoption of MFRS 9 are presented in Note 28 (c).

(c) Financial Effects Due to the Changes in Accounting Policies

The following table analyses the impact, net of tax, of transition to MFRS 9 on the statements of financial position of the Bank:

	Impact of adopting MFRS 9 as at 1 April 2018
	RM'000
Financial assets available-for-sale	
Closing balance under MFRS 139 at 31 March 2018	439,634
- Redesignation to financial assets at FVOCI	(439,634)
Opening balance under MFRS 9 at 1 April 2018	<u>-</u>
Financial assets at FVOCI	
Closing balance under MFRS 139 at 31 March 2018	-
- Redesignation from securities available-for-sale	439,634
- Recognition of expected credit losses under MFRS 9	(323)
- Unrealised gain on financial investments at FVOCI	22,189
Opening balance under MFRS 9 at 1 April 2018	<u>461,500</u>
Loans and advances	
Closing balance under MFRS 139 at 31 March 2018	18,973,357
- Redesignation to financial assets at FVTPL	(11,832,503)
- Recognition of expected credit losses under MFRS 9	82,574
Opening balance under MFRS 9 at 1 April 2018	<u>7,223,428</u>
Embedded loans	
Closing balance under MFRS 139 at 31 March 2018	-
- Redesignation from loans and advances	11,832,503
- Reclassification from derivative financial assets	736,646
- Reclassification from derivative financial liabilities	(438,796)
- Unrealised gain on embedded loans	186,037
Opening balance under MFRS 9 at 1 April 2018	<u>12,316,390</u>
Purchased receivables	
Closing balance under MFRS 139 at 31 March 2018	225,762
- Recognition of expected credit losses under MFRS 9	142
Opening balance under MFRS 9 at 1 April 2018	<u>225,904</u>

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	Impact of adopting MFRS 9 as at 1 April 2018
	RM'000
Derivative financial assets	
Closing balance under MFRS 139 at 31 March 2018	2,179,032
- Reclassification to embedded loans	(736,646)
- Other adjustments	37,901
Opening balance under MFRS 9 at 1 April 2018	<u>1,480,287</u>
Deferred tax assets/(liabilities)	
Closing balance under MFRS 139 at 31 March 2018	1,293
- In respect of recognition of expected credit losses under MFRS 9	<u>(49,893)</u>
Opening balance under MFRS 9 at 1 April 2018	<u>(48,600)</u>
Derivative financial liabilities	
Closing balance under MFRS 139 at 31 March 2018	1,907,749
- Reclassification to embedded loans	(438,796)
- Other adjustments	37,901
Opening balance under MFRS 9 at 1 April 2018	<u>1,506,854</u>
Other liabilities	
Closing balance under MFRS 139 at 31 March 2018	98,145
- Recognition of expected credit losses under MFRS 9	<u>1,233</u>
Opening balance under MFRS 9 at 1 April 2018	<u>99,378</u>
Provision for tax	
Closing balance under MFRS 139 at 31 March 2018	8,437
- In respect of recognition of expected credit losses under MFRS 9	<u>19,558</u>
Opening balance under MFRS 9 at 1 April 2018	<u>27,995</u>
Regulatory Reserves	
Closing balance under MFRS 139 at 31 March 2018	164,349
- Transfer to retained profits	<u>(101,152)</u>
Opening balance under MFRS 9 at 1 April 2018	<u>63,197</u>
Fair value reserve	
Closing balance under MFRS 139 at 31 March 2018	1,656
- Transfer from retained profits	-
- Recognition of expected credit losses under MFRS 9	(323)
- Unrealised gain on financial investments at FVOCI	22,189
- Deferred tax in respect of unrealised gain on FVOCI	-
Opening balance under MFRS 9 at 1 April 2018	<u>23,522</u>
Retained profits	
Closing balance under MFRS 139 at 31 March 2018	2,271,854
- Transfer from regulatory reserve	101,152
- Transfer to fair value reserve	-
- Unrealised gain on embedded loans	186,037
- Recognition of expected credit losses under MFRS 9	81,483
- Tax effect arising from the recognition of expected credit losses under MFRS 9	<u>(69,452)</u>
Opening balance under MFRS 9 at 1 April 2018	<u>2,571,074</u>

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28 CHANGES IN ACCOUNTING POLICIES (CONTD)

(c) Financial Effects Due to the Changes in Accounting Policies (Contd)

The following table is a reconciliation of the impairment allowance from the closing balance as at 31 March 2018 in accordance with MFRS 139 to the opening balance as at 1 April 2018 in accordance with MFRS 9:

	31 March 2018 (MFRS 139) RM'000	Remeasurement RM'000	1 April 2018 (MFRS 9) RM'000
Financial assets at FVOCI	-	323	323
Loans and advances			
- Collective assessment/General allowances	100,755	(84,290)	16,465
- Individual assessment/Specific allowances	3,531	1,716	5,247
Purchased receivables			
- Collective assessment/General allowances	185	(142)	43
Other liabilities	-	1,233	1,233

The financial effects due to the changes in accounting policies have been adjusted to the statements of financial position and capital adequacy ratios of the Bank as at 1 April 2018. There are no changes to the comparatives in the statements of profit or loss and statements of cash flows of the Bank. A reconciliation of these changes is summarised in the following tables:

	31 March 2018 (MFRS 139) RM'000	Reclassification & remeasurement RM'000	Impairment RM'000	1 April 2018 (MFRS 9) RM'000
Statement of financial position				
Cash and short-term funds	6,361,494	-	-	6,361,494
Financial assets available-for-sale	439,634	(439,634)	-	-
Financial assets at FVOCI	-	461,823	(323)	461,500
Loans and advances	18,973,357	(11,832,503)	82,574	7,223,428
Embedded loans	-	12,316,390	-	12,316,390
Purchased receivables	225,762	-	142	225,904
Derivative financial assets	2,179,032	(698,745)	-	1,480,287
Statutory deposits with Bank				
Negara Malaysia	5,776	-	-	5,776
Other assets	375,738	-	-	375,738
Property, plant and equipment	21,084	-	-	21,084
Intangible assets	36,415	-	-	36,415
Deferred tax assets	1,293	(1,293)	-	-
TOTAL ASSETS	<u>28,619,585</u>	<u>(193,962)</u>	<u>82,393</u>	<u>28,508,016</u>
Deposits from customers	8,688,063	-	-	8,688,063
Deposits and placements of banks and other financial institutions	737,691	-	-	737,691
Collateral deposits	14,547,442	-	-	14,547,442
Derivative financial liabilities	1,907,749	(400,895)	-	1,506,854
Other liabilities	98,145	-	1,233	99,378
Deferred tax liabilities	-	48,600	-	48,600
Provision for tax	8,437	19,558	-	27,995
TOTAL LIABILITIES	<u>25,987,527</u>	<u>(332,737)</u>	<u>1,233</u>	<u>25,656,023</u>
SHARE CAPITAL	200,000	-	-	200,000
RESERVES	2,432,058	208,226	11,708	2,651,992
SHAREHOLDER'S FUNDS	<u>2,632,058</u>	<u>208,226</u>	<u>11,708</u>	<u>2,851,992</u>
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	<u>28,619,585</u>	<u>(124,511)</u>	<u>12,941</u>	<u>28,508,015</u>

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28 CHANGES IN ACCOUNTING POLICIES (CONTD)

(c) Financial Effects Due to the Changes in Accounting Policies (Contd)

	31 March 2018	Impact of MFRS 9	1 April 2018
Capital adequacy			
CET I capital	18.228%	2.094%	20.322%
Tier I capital	18.228%	2.094%	20.322%
Total capital	19.270%	2.082%	21.352%
Risk-weighted assets (RM'000)	<u>13,326,301</u>	<u>153,784</u>	<u>13,480,085</u>

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PILLAR 3 DISCLOSURES

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.

1. OVERVIEW (CONTD)

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.

	2018 September		2018 March	
	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	11,375,880	910,070	11,110,990	888,878
Market Risk	1,296,435	103,715	1,376,771	110,142
Operational Risk	857,575	68,606	838,540	67,083
	<u>13,529,890</u>	<u>1,082,391</u>	<u>13,326,301</u>	<u>1,066,103</u>

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.

2. CAPITAL MANAGEMENT (CONTD)

(a) Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	2018 September %	2018 March %
Common equity Tier 1 ("CET 1") capital ratio	17.601	18.228
Tier 1 capital ratio	17.601	18.228
Total capital ratio	<u>18.570</u>	<u>19.270</u>

The capital adequacy ratios consist of total capital and risk-weighted assets derived from balances of the Bank.

The minimum regulatory capital adequacy requirements under CAF for the capital adequacy ratios are:

CET 1 capital ratio	4.50 %
Tier 1 capital ratio	6.00 %
Total capital ratio	8.00 %

Please refer to Note 26(g) for Islamic Banking operation capital adequacy.

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

	2018 September RM'000	2018 March RM'000
<u>CET 1 and Tier 1 capital</u>		
· Paid-up share capital	200,000	200,000
· Retained profits	2,209,389	2,271,854
· Other reserves	143,053	160,204
	<u>2,552,442</u>	<u>2,632,058</u>
<u>Less</u>		
· Deferred tax assets	-	(1,293)
· Intangible assets	(32,621)	(36,415)
· 55% of fair value reserve	(12,756)	(911)
· Regulatory reserve	(125,662)	(164,349)
	<u>2,381,403</u>	<u>2,429,090</u>
<u>Tier 2 capital</u>		
· Impairment allowance for collective assessment * and regulatory reserve	131,088	138,887
Total capital	<u>2,512,491</u>	<u>2,567,977</u>

* Excludes impairment allowance for collective assessment on impaired loans restricted from Tier 2 capital of the Bank of nil (2018 March: RM260,000).

2. CAPITAL MANAGEMENT (CONTD)

(c) The components of risk-weighted assets of the Bank are as follows:

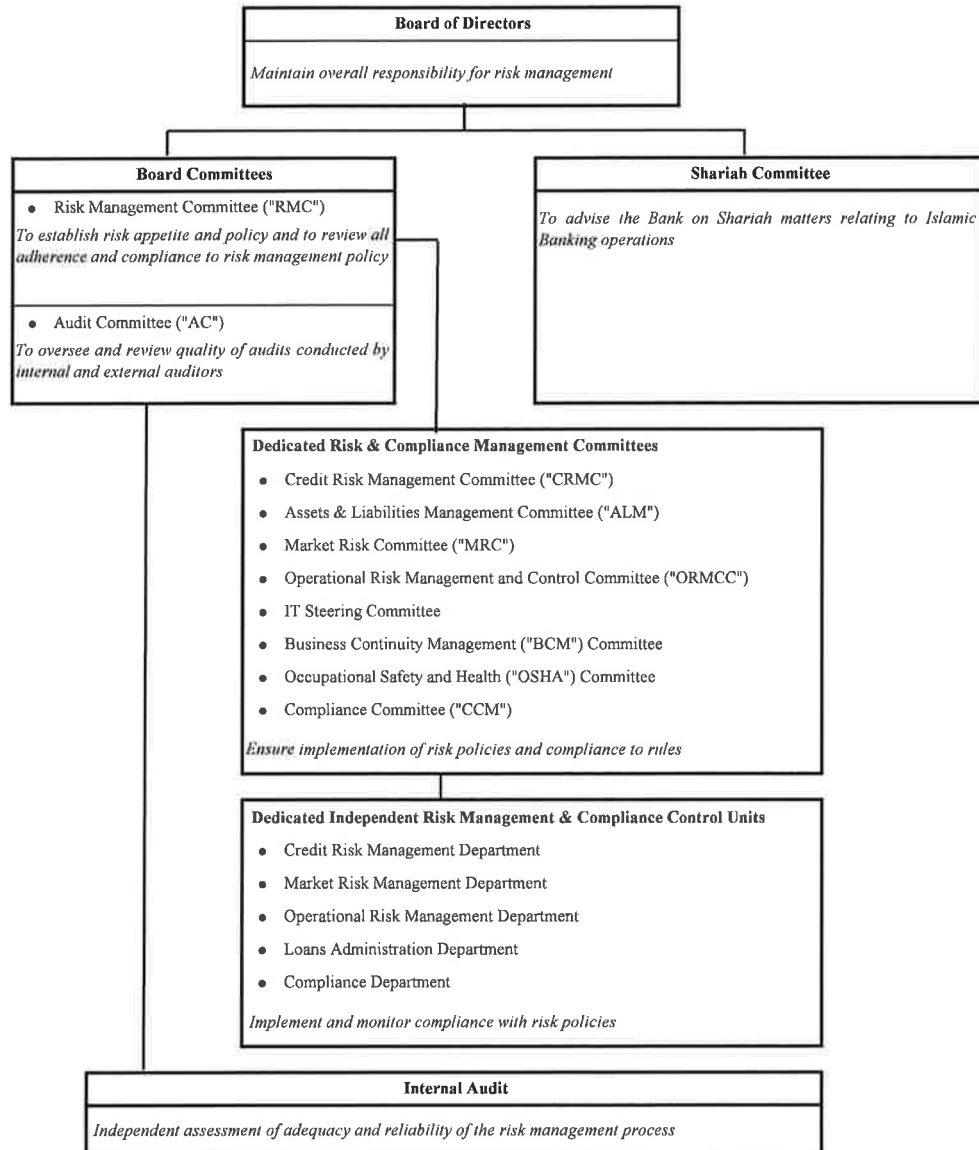
2018 September					
Exposure Class	Gross	Net	Risk-	Minimum	
	Exposures	Exposures	Weighted	Capital	
	RM'000	RM'000	Assets	Requirements	
			RM'000	at 8%	RM'000
(i) Credit Risk					
On-Balance Sheet Exposures :					
Sovereigns/Central Banks	4,078,959	4,078,959	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	2,986,898	2,986,402	694,673	55,574	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporates	24,157,215	6,733,659	6,974,841	557,987	-
Regulatory Retail	1,989	1,989	1,989	159	-
Residential Mortgages	13,797	13,797	6,449	516	-
Other Assets	2,993	2,993	2,993	239	-
Equity Exposures	400,160	400,160	345,297	27,624	-
Defaulted Exposures	2,723	2,723	2,557	205	-
Total On-Balance Sheet Exposures	31,644,734	14,220,682	8,028,799	642,304	
Off-Balance Sheet Exposures:					
Credit-related exposures	564,482	564,482	479,258	38,341	-
Securitisation exposures	3,000	3,000	2,250	180	-
Derivatives financial instruments	4,117,262	4,117,262	2,865,573	229,246	-
Total Off-Balance Sheet Exposures	4,684,744	4,684,744	3,347,081	267,766	
Total On and Off-Balance Sheet Exposures	36,329,478	18,905,426	11,375,880	910,070	
(ii) Large Exposure Risk Requirement					
	-	-	-	-	-
(iii) Market Risk					
	Long	Short			
	Position	Position			
Interest Rate Risk	63,161,797	(62,834,161)	1,279,888	102,391	
Foreign Currency Risk	16,547	(6,176)	16,547	1,324	
	63,178,344	(62,840,337)	1,296,435	103,715	
(iv) Operational Risk					
			857,575	68,606	
Total RWA and Capital Requirements	36,329,478	18,905,426	13,529,890	1,082,391	

2. CAPITAL MANAGEMENT (CONTD)

2018 March					
Exposure Class	Gross	Net	Risk-Weighted	Minimum Capital	
	Exposures	Exposures	Assets	Requirements	
	RM'000	RM'000	RM'000	at 8%	
				RM'000	
(i) Credit Risk					
On-Balance Sheet Exposures:					
Sovereigns/Central Banks	3,919,960	3,919,960	-	-	-
Public Sector Entities	10,778	10,778	2,156	172	
Banks, Development Financial Institutions & MDBs	3,353,765	3,353,557	782,770	62,622	
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporates	18,908,306	5,976,923	6,141,167	491,293	
Regulatory Retail	1,691	1,691	1,691	135	
Residential Mortgages	14,117	14,117	6,418	513	
Equity Exposures	2,993	2,993	2,993	239	
Other Assets	342,385	342,385	339,277	27,142	
Defaulted Exposures	2,837	2,837	2,671	214	
Total On-Balance Sheet Exposures	26,556,832	13,625,241	7,279,143	582,330	
Off-Balance Sheet Exposures:					
Credit-related exposures	502,010	502,010	412,984	33,039	
Securitisation exposures	3,000	3,000	2,250	180	
Derivatives financial instruments	5,013,510	5,013,510	3,416,613	273,329	
Total Off-Balance Sheet Exposures	5,518,520	5,518,520	3,831,847	306,548	
Total On and Off-Balance Sheet Exposures	32,075,352	19,143,761	11,110,990	888,878	
(ii) Large Exposure Risk Requirement					
	-	-	-	-	-
(iii) Market Risk					
	Long	Short			
	Position	Position			
Interest Rate Risk	67,523,173	(67,224,934)	1,292,546	103,404	
Foreign Currency Risk	20,155	(84,225)	84,225	6,738	
	67,543,328	(67,309,159)	1,376,771	110,142	
(iv) Operational Risk					
			838,540	67,083	
Total RWA and Capital Requirements	32,075,352	19,143,761	13,326,301	1,066,103	

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:



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 and operational 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.

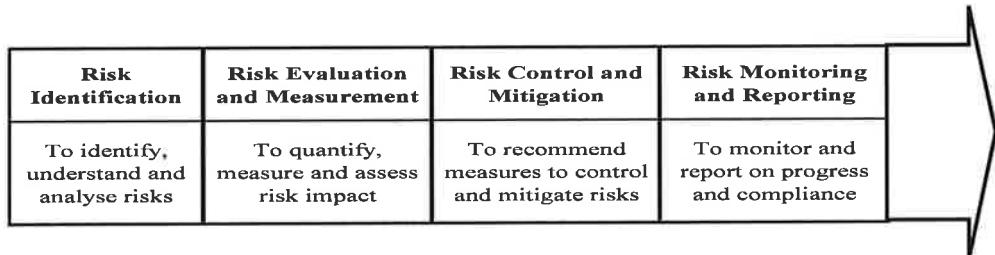
The Shariah Committee ("SC") advises the Bank on Shariah matters relating to the Islamic banking operations. The Committee ensures that the operations of Islamic banking, its products, processes and legal documentation are in line with Shariah principles.

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 monitor and manage at the Compliance Committee Meeting ("CCM"). These committees are responsible for overseeing the development and assessing the effectiveness of risk management policies and also for reviewing risk exposures and portfolio composition in ensuring that infrastructure, resources and systems are put in place for effective risk management activities.

The dedicated independent risk management control units provide crucial support to the dedicated risk management committees and are responsible for ensuring risk policies are implemented and complied with. They are also responsible for the identification, measurement and monitoring 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 assessment and measurement, risk control and mitigation and risk monitoring 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 brought about by the changing market place 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

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 and 2 and the risk profile of the Bank 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 subjected to revision whenever there are changes to its business plan, operating environment or other factors affecting 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 results of the Bank's capital ratio is measured against internal capital trigger and target on a quarterly basis to determine the capital adequacy and are reported to the RMC and the Board.

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.

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, which are reported to RMC and the Board on a quarterly 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.

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.

Internal risk management reports are presented to both the CRMC and the RMC, containing information on trends across major portfolios, quality of credit portfolios, results of credit assessment and review, 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:

2018 September	Cash and Short-Term Funds RM'000	Deposits and Placement with Financial Institutions RM'000	Financial assets Available-for-Sale RM'000	Financial assets Held-for Trading RM'000	Financial Instruments at FVOCI [@] RM'000	Loans and Advances [#] RM'000	Embedded Loans RM'000	Purchased Receivables [^] RM'000	Derivative Financial Assets RM'000	Statutory Deposits with BNM RM'000	Other Assets RM'000	On-Sheet Total RM'000	Commitment and Contingencies * RM'000
Agricultural	-	-	-	-	-	880,140	-	-	3,202	-	-	883,342	897,163
Manufacturing	-	-	-	-	-	2,038,668	976,592	32,562	47,355	-	-	3,095,177	8,534,050
Electricity, gas and water	-	-	-	-	-	539,205	2,240,824	-	11,222	-	-	2,791,251	4,428,062
Mining and quarrying	-	-	-	-	-	43,170	6,194	-	-	-	-	49,364	170,641
Construction	-	-	-	-	-	917,605	1,136,515	-	19	-	-	2,054,139	1,517,351
Wholesale and retail trade and restaurants and hotels	-	-	-	-	-	675,077	734,940	1,497	12,002	-	-	1,423,516	4,103,313
Transport, storage and communication	-	-	-	-	207,410	2,057,107	1,408,587	-	84,127	-	-	3,757,231	2,427,737
Finance, insurance and business services	2,024,992	-	-	-	23,985	3,666,838	7,005,446	662,456	1,114,936	-	108,097	14,606,957	49,919,367
Government and government agencies	2,824,000	-	-	50,019	271,815	-	-	-	-	74,262	-	4,179,359	38
Households	-	-	-	-	1,535	18,401	-	-	-	-	-	18,401	-
Others	-	-	-	-	-	-	12,330	-	11	-	-	13,876	24,929
Other assets not subject to credit risk	4,848,992	959,470	-	50,019	504,745	10,836,211	13,521,428	696,515	1,272,874	74,262	108,097	32,872,613	72,022,651
	4,823	959,470	-	50,019	504,745	10,836,211	13,521,428	696,515	1,272,874	74,262	73,947	78,770	-
	4,853,815	959,470	-	50,019	504,745	10,836,211	13,521,428	696,515	1,272,874	74,262	182,044	32,951,383	72,022,651

Excludes collective and individual impairment of RM5,426,000 and RM1,565,000 respectively.

^ Excludes collective impairment of RM233,000.

@ Excludes collective impairment of RM347,000.

* Commitment and contingencies excluding derivative financial assets.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

	Cash and Short-Term Funds	Deposits and Placement with Financial Institutions	Financial assets Available-for-Sale	Financial assets Held-for Trading	Financial Instruments at FVOCI	Loans and Advances #	Embedded Loans	Purchased Receivables	Derivative Financial Assets	Statutory Deposits with RNM	Other Assets	Or-Sheet Total	Commitment and Contingencies *
2018 March	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	-	-	844,874	-	-	11,664	-	-	856,538	78,797
Manufacturing	-	-	-	-	-	2,479,077	-	28,098	84,241	-	-	2,591,416	2,491,932
Electricity, gas and water	-	-	-	-	-	2,355,820	-	-	158,485	-	-	2,514,305	220,233
Mining and quarrying	-	-	-	-	-	42,547	-	-	-	-	-	42,547	159,961
Construction	-	-	-	-	-	2,280,481	-	-	210,379	-	-	2,490,860	186,857
Wholesale and retail trade	-	-	-	-	-	-	-	-	63,324	-	-	1,010,140	1,403,220
and restaurants and hotels	-	-	-	-	-	946,816	-	-	-	-	-	1,010,140	1,403,220
Transport, storage and communication	-	-	193,502	-	-	2,601,652	-	-	146,014	-	-	2,941,168	261,630
Finance, insurance and business services	2,643,896	208	2,730	-	-	7,384,059	-	197,849	1,485,295	-	359,350	12,073,387	922,172
Government and government agencies	3,268,500	445,782	243,139	-	-	-	-	-	-	5,776	-	3,963,197	-
Households	-	-	-	-	-	18,526	-	-	-	-	-	18,526	1,437
Others	-	-	263	-	-	123,791	-	-	19,630	-	-	143,684	1,577
	5,912,396	445,990	439,634	-	-	19,077,643	-	225,947	2,179,032	5,776	359,350	28,645,768	5,727,816
	3,108	-	-	-	-	-	-	-	-	-	75,180	78,288	-
Other assets not subject to credit risk	5,915,504	445,990	439,634	-	-	19,077,643	-	225,947	2,179,032	5,776	434,530	28,724,056	5,727,816

Excludes collective and individual impairment of RM100,755,000 and RM3,531,000 respectively.

* Commitment and contingencies excluding derivative financial assets.

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:

	2018 September		2018 March	
	Malaysia RM'000	Other Countries RM'000	Malaysia RM'000	Other Countries RM'000
Cash and short-term funds	4,304,003	549,812	5,378,217	537,287
Deposits and placement with financial institutions	959,470	-	445,990	-
Financial assets available-for-sale	-	-	439,634	-
Financial assets held-for-trading	50,019	-	-	-
Financial assets at fair value through other comprehensive income	504,745	-	-	-
Loans and advances	9,242,338	1,593,873	17,589,538	1,488,105
Embedded loans	13,521,428	-	-	-
Purchased receivables	23,113	673,402	206,825	19,122
Derivative financial assets	1,129,375	143,499	1,982,041	196,991
Statutory deposits with Bank Negara Malaysia	74,262	-	5,776	-
Other assets	182,044	-	434,530	-
On-Balance Sheet Exposures	29,990,797	2,960,586	26,482,551	2,241,505
Off-Balance Sheet Exposures	4,039,854	644,890	4,728,045	790,475
	34,030,651	3,605,476	31,210,596	3,031,980

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% (March 2018: 52%) of the Bank's exposures to customers is short-term, having contractual maturity of one year or less:

2018 September	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	Total RM'000
Assets							
Cash and short-term funds	4,299,180	-	-	-	-	554,635	4,853,815
Deposits and placement with financial institutions	912,025	-	-	-	-	47,445	959,470
Financial assets available-for-sale	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	50,019	-	-	50,019
Financial assets at fair value through other comprehensive income	-	-	130,835	348,043	-	25,520	504,398
Loans and advances	5,581,819	992,037	572,317	2,320,717	1,367,104	(4,774)	10,829,220
Embedded loans	101,554	1,708,265	858,250	8,870,406	1,982,953	-	13,521,428
Purchased receivables	184,381	415,274	96,859	-	-	(233)	696,282
Derivative financial assets	1,272,874	-	-	-	-	-	1,272,874
Statutory deposits with Bank Negara Malaysia	108,097	-	-	-	-	74,262	74,262
Other assets	12,459,929	3,115,577	1,658,261	11,589,185	3,350,057	21,136	129,233
						717,991	32,891,001

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

2018 March	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	Total RM'000
Assets							
Cash and short-term funds	4,638,743	700,000	-	-	-	576,761	5,915,504
Deposits and placement with financial institutions	411,292	-	-	-	-	34,698	445,990
Financial assets available-for-sale	-	-	100,544	142,595	193,502	2,993	439,634
Financial assets held-for-trading	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Loans and advances	2,555,107	1,318,775	3,816,075	8,389,297	2,894,103	-	18,973,357
Embedded loans	-	-	-	-	-	-	-
Purchased receivables	87,193	137,551	1,018	-	-	-	225,762
Derivative financial assets	103,779	142,211	360,086	1,019,799	553,157	-	2,179,032
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	5,776	5,776
Other assets	362,839	-	-	-	-	12,899	375,738
	8,158,953	2,298,537	4,277,723	9,551,691	3,640,762	633,127	28,560,793

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. 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.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(d) Off-Balance Sheet Exposures and Counterparty Credit Risk (Contd)

(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 RM8,276,000 for 30 September 2018 (March 2018: RM7,723,600).

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(d) Off-Balance Sheet Exposures and Counterparty Credit Risk (Contd)

The following table presents a breakdown of the off-balance sheet exposures of the Bank:

2018 September	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
Credit-related Exposures:				
Direct credit substitutes	2,775		2,775	1,387
Transaction related contingent items	992,581		496,291	412,459
Short term self liquidating trade-related contingencies	144,583		28,917	28,917
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	182,406		36,481	36,481
• exceeding one year	38		19	14
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	6,846,339		-	-
Securitisation exposures	15,000		3,000	2,250
	<u>8,183,722</u>		<u>567,483</u>	<u>481,508</u>
Derivative Financial Instruments:				
Foreign exchange related contracts				
• less than one year	11,343,802	470,051	661,719	402,928
• one year to less than five years	17,349,404	438,489	1,289,141	952,424
• five years and above	7,872,737	259,206	1,465,773	1,170,732
Interest rate related contracts				
• less than one year	3,983,110	1,921	6,921	2,997
• one year to less than five years	16,133,018	65,143	315,524	145,511
• five years and above	5,408,668	26,045	282,009	169,987
Currency options				
• less than one year	92,990	804	2,199	2,199
Premium yielder investments				
• one year to less than five years	1,655,200	11,215	93,975	18,795
	<u>63,838,929</u>	<u>1,272,874</u>	<u>4,117,261</u>	<u>2,865,573</u>
	<u>72,022,651</u>	<u>1,272,874</u>	<u>4,684,744</u>	<u>3,347,081</u>

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(d) Off-Balance Sheet Exposures and Counterparty Credit Risk (Contd)

2018 March	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
Credit-related Exposures:				
Direct credit substitutes	2,975		2,975	1,488
Transaction related contingent items	880,159		440,080	352,541
Short term self liquidating trade-related contingencies	171,907		34,381	34,381
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	-		-	-
• exceeding one year	49,147		24,574	24,574
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	4,608,628		-	-
Securitisation exposures	15,000		3,000	2,250
	<u>5,727,816</u>		<u>505,010</u>	<u>415,234</u>
Derivative Financial Instruments:				
Foreign exchange related contracts				
• less than one year	10,929,703	603,734	787,873	449,635
• one year to less than five years	19,911,846	858,721	1,651,310	1,196,330
• five years and above	8,792,900	504,111	1,687,242	1,371,042
Interest rate related contracts				
• less than one year	8,619,594	2,055	9,878	3,152
• one year to less than five years	13,737,227	69,240	253,444	119,016
• five years and above	6,469,131	49,045	344,042	191,676
Currency options				
• less than one year	148,547	288	2,516	2,516
Premium yielder investments				
• one year to less than five years	3,089,440	91,838	277,205	83,246
	<u>71,698,388</u>	<u>2,179,032</u>	<u>5,013,510</u>	<u>3,416,613</u>
	<u>77,426,204</u>	<u>2,179,032</u>	<u>5,518,520</u>	<u>3,831,847</u>

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 securitisations with originators. Special purpose vehicles ("SPV") are formed to enter into an agreement with the originator(s) to purchase or acquire an interest in eligible pool of receivables of such originator for cash and in turn fund its purchase or acquisition of such receivables by the issuance of Asset-Backed Securities ("ABS") to investors. The Bank might also act as a derivative counterparty for the SPV.

The SPVs that the Bank are managing as agent is Merdeka Kapital Berhad ("MKB") and Ziya Capital Berhad ("Ziya"). The current exposure as liquidity provider to MKB is recognised as off-balance sheet in the banking book. MKB which is unrated, issued its ABS to a single investor, Horizon Funding Corporation ("HFC"), a bankruptcy remote special purpose vehicle incorporated in the Cayman Islands. There's no liquidity facility being provided by the Bank to Ziya.

Risk Management Approach

As a liquidity provider to MKB to cover short-term cash flows disruptions to each of the securitisation exposures, the credit and liquidity risks of the Bank is mitigated by the respective waterfall payment obligations of MKB. 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:

	2018 September RM'000	2018 March 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
2018 September				
Off-balance sheet				
• Auto loans	15,000	3,000	2,250	180
	15,000	3,000	2,250	180
2018 March				
Off-balance sheet				
• Auto loans	15,000	3,000	2,250	180
	15,000	3,000	2,250	180

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, CRM including 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. Especially in mortgage loans, the collateral is required to be insured at all times against major risks, for instance, fire, as the loss payee under the insurance policy. 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.

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.

2018 September	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
Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	4,078,959	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	2,986,898	496	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	24,157,215	1,205,921	16,217,635	-
Regulatory Retail	1,989	-	-	-
Residential Mortgages	13,797	-	-	-
Equity Exposures	2,993	-	-	-
Other Assets	400,160	-	-	-
Defaulted Exposures	2,723	-	-	-
Total On-Balance Sheet Exposures	31,644,734	1,206,417	16,217,635	-
Off-Balance Sheet Exposures:				
Credit-related exposures	564,482	-	-	-
Securitisation exposures	3,000	-	-	-
Derivatives financial instruments	4,117,262	-	-	-
Total Off-Balance Sheet Exposures	4,684,744	-	-	-
Total Credit Exposures	36,329,478	1,206,417	16,217,635	-

4. CREDIT RISK (CONTD)

Credit Risk Mitigation (Contd)

2018 March

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
Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	3,919,960	-	-	-
Public Sector Entities	10,778	-	-	-
Banks, Development Financial Institutions & MDBs	3,353,765	208	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	18,908,306	1,052,931	11,878,452	-
Regulatory Retail	1,691	-	-	-
Residential Mortgages	14,117	-	-	-
Equity Exposures	2,993	-	-	-
Other Assets	342,385	-	-	-
Defaulted Exposures	2,837	-	-	-
Total On-Balance Sheet Exposures	26,556,832	1,053,139	11,878,452	-
Off-Balance Sheet Exposures:				
Credit-related exposures	502,010	-	-	-
Securitisation exposures	3,000	-	-	-
Derivatives financial instruments	5,013,510	-	-	-
Total Off-Balance Sheet Exposures	5,518,520	-	-	-
Total Credit Exposures	32,075,352	1,053,139	11,878,452	-

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 issue rating. Where 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.

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

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	R&I	RAM	MARC	Risk Weights
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB+ to BB-	BBB1 to BB3	BBB+ to BB-	100%
4	B+ to D	B1 to C	B+ to D	B+ to D	B1 to D	B+ to D	150%
5	Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	100%

Banking Institutions

Rating Category	S&P	Moody's	Fitch	R&I	RAM	MARC	Risk Weights
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-	50%
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB+ to B-	BB1 to B3	BB+ to B-	100%
5	CCC+ to D	Caa1 to C	CCC+ to D	CCC+ to C	C1 to D	C+ to D	150%
6	Unrated	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.

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

2018 September

Credit Exposure	Ratings of Sovereign and Central Banks by Approved ECAIs						Total
	1	2	3	4	5	6	
On and Off Balance Sheet Exposures Sovereign / Central Banks	4,079,061	-	-	-	-	-	4,079,061

Credit Exposure

On and Off Balance Sheet Exposures Banks, Development Financial Institutions & MDBs	Ratings of Banking Institutions by Approved ECAIs						Total
	1	2	3	4	5	6	
	3,017,139	1,852,397	-	70,375	30,925	-	4,970,836

Credit Exposure

On and Off Balance Sheet Exposures Public Sector Entities Insurance Cos, securities firms & fund managers Corporates Regulatory retail Residential mortgages Other assets Securitisation exposure Equity exposure	Ratings of Corporate by Approved ECAIs						Total
	1	2	3	4	Unrated	6	
	1,523,018	11,383	-	-	25,320,818	26,855,219	
	-	-	-	-	1,989	1,989	
	-	-	-	-	16,207	16,207	
	-	-	-	-	400,160	400,160	
	-	-	-	-	3,000	3,000	
	-	-	-	-	2,993	2,993	
	1,523,018	11,383	-	-	25,745,181	27,279,582	

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

2018 March

Credit Exposure	Ratings of Sovereign and Central Banks by Approved ECAIs						Total
	1	2	3	4	5	6	
On and Off Balance Sheet Exposures Sovereign / Central Banks	3,920,070	-	-	-	-	-	3,920,070

Credit Exposure	Ratings of Banking Institutions by Approved ECAIs						Total
	1	2	3	4	5	6	
On and Off Balance Sheet Exposures Banks, Development Financial Institutions & MDBs	3,456,024	2,274,060	-	-	2,360	-	5,732,444

Credit Exposure	Ratings of Corporate by Approved ECAIs						Total
	1	2	3	4	5	6	
On and Off Balance Sheet Exposures Public Sector Entities	-	-	-	-	10,778	-	10,778
Insurance Cos, securities firms & fund managers	-	-	-	-	23	-	23
Corporates	1,511,387	12,962	-	-	20,520,842	-	22,045,191
Regulatory retail	-	-	-	-	1,691	-	1,691
Residential mortgages	-	-	-	-	16,622	-	16,622
Other assets	-	-	-	-	342,540	-	342,540
Securitisation exposure	-	-	-	-	3,000	-	3,000
Equity exposure	-	-	-	-	2,993	-	2,993
	1,511,387	12,962	-	-	20,898,489	-	22,422,838

4. CREDIT RISK (CONT'D)

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.

2018 September	Exposures after Netting and Credit Risk Mitigation											Total Risk-Weighted Assets RM'000
	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	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	
0%	4,079,039	-	227,023	-	-	-	-	-	-	54,863	4,360,925	-
20%	-	-	2,790,116	-	317,097	-	-	-	-	-	3,107,213	862,626
35%	-	-	-	-	-	8,755	-	-	-	-	8,755	3,064
50%	-	-	1,851,901	-	11,383	2,269	-	-	-	-	1,865,553	933,025
75%	-	-	-	-	-	2,111	3,000	-	-	-	5,111	3,833
100%	-	-	70,375	14	9,103,204	1,989	3,072	-	2,993	345,297	9,526,944	9,526,944
150%	-	-	30,925	-	-	-	-	-	-	-	30,925	46,388
Total Exposures	4,079,039	-	4,970,340	14	9,431,684	1,989	16,207	3,000	2,993	400,160	18,905,426	11,375,880
Risk-Weighted Assets by Exposures	-	-	1,600,984	14	9,413,478	1,989	8,854	2,250	2,993	345,318	11,375,880	-
Average Risk Weight	0%	#DIV/0!	32%	100%	100%	100%	55%	75%	100%	86%	60%	-
Deduction from Total Capital	-	-	-	-	-	-	-	-	-	-	-	-

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach (Contd)

Risk Weights	2018 March											Total Risk-Weighted Assets RM'000
	Exposures after Netting and Credit Risk Mitigation											
	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	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%	3,920,070	-	147,005	-	-	-	-	-	-	3,108	4,070,183	-
20%	-	10,778	3,309,020	-	458,456	-	-	-	-	-	3,778,254	966,237
35%	-	-	-	-	-	-	9,305	-	-	-	9,305	3,257
50%	-	-	2,273,852	-	12,962	-	2,320	-	-	-	2,289,134	1,144,671
75%	-	-	-	-	-	-	1,965	3,000	-	-	4,965	3,724
100%	-	-	-	23	8,642,389	1,691	3,032	-	2,993	339,432	8,989,560	8,989,561
150%	-	-	2,360	-	-	-	-	-	-	-	2,360	3,540
Total Exposures	3,920,070	10,778	5,732,237	23	9,113,807	1,691	16,622	3,000	2,993	342,540	19,143,761	11,110,990
Risk-Weighted Assets by Exposures	-	2,156	1,802,374	23	8,951,148	1,691	8,923	2,250	2,993	339,432	11,110,990	
Average Risk Weight	0%	20%	31%	100%	98%	100%	54%	75%	100%	99%	58%	
Deduction from Total Capital	-	-	-	-	-	-	-	-	-	-	-	-

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans and Advances

The tables below present the gross loans and advances analysed by credit quality:

	2018 September RM'000	2018 March RM'000
Neither past due nor impaired	10,827,478	19,069,248
Past due but not impaired	4,018	3,693
Impaired	4,715	4,702
	<u>10,836,211</u>	<u>19,077,643</u>
Gross impaired loans as a percentage of gross loans and advances	0.04%	0.02%

(a) Neither past due nor impaired

Analysis of gross loans and advances based on the Bank's internal grading:

Borrower's Grading	Carrying Amount	
	2018 September RM'000	2018 March RM'000
Normal	10,659,050	18,913,167
Close Watch	168,428	156,081
	<u>10,827,478</u>	<u>19,069,248</u>

(b) Past due but not impaired

Past due but not impaired loans and advances 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 and advances of the Bank as at 30 September 2018 was 0.04% (March 2018: 0.02%).

The amount of past due but not impaired loans breakdown by economic sector is as follows:

	2018 September RM'000	2018 March RM'000
Household	<u>4,018</u>	<u>3,693</u>

The amount of past due but not impaired loans breakdown by geographical location is as follows:

	2018 September		2018 March	
	Malaysia RM'000	Other Countries RM'000	Malaysia RM'000	Other Countries RM'000
Past due but not impaired	<u>4,018</u>	<u>-</u>	<u>3,693</u>	<u>-</u>

(c) Impaired Loans and Advances

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.

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans and Advances (Contd)

(c) Impaired Loans and Advances (Contd)

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.

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 and advances are sets out in Note 13(g), the movements in allowance for specific and general allowances are set out in Note 13(j) and the amount of impaired loans and advances broken down by economic sector and geographical location are set out in Note 13(h) and Note 13(i) to the financial statements.

The amount of allowance for individual and collective assessment by economic purpose is as follows:

	2018 September		2018 March	
	Specific Allowances RM'000	General Allowances RM'000	Individual Assessment RM'000	Collective Assessment RM'000
Agricultural, hunting, forestry and fishing	-	3	-	-
Mining and quarrying	-	-	-	12
Manufacturing	-	2,004	-	34,373
Electricity, gas and water	-	28	-	557
Construction	-	1,322	-	6,484
Wholesale and retail trade and restaurants and hotels	-	44	-	16,767
Transport, storage and communication	-	1,228	-	11,625
Finance, insurance, real estate and business services	1,427	720	3,531	30,122
Households	138	77	-	801
Others	-	-	-	14
	<u>1,565</u>	<u>5,426</u>	<u>3,531</u>	<u>100,755</u>

The charges for allowance for individual assessment during the period is as follows:

	Specific Allowances 2018 March RM'000	Net Charges for the Period RM'000	Specific Allowances 2018 September RM'000
Finance, insurance, real estate and business services	<u>3,531</u>	<u>(2,104)</u>	<u>1,427</u>

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans and Advances (Contd)

(d) The amount of specific and general allowances/allowance for individual and collective assessment by geographical location and loans written off by economic sector are as per table below:-

Impairment allowances by geographical location:

	2018 September RM'000	2018 March RM'000
Malaysia		
General allowances/Collective impairment allowance	3,819	92,973
Specific allowances/Individual impairment allowance	1,565	3,531
	<u>5,384</u>	<u>96,504</u>
Other countries		
General allowances/Collective impairment allowance	1,607	7,782

Economic sector for loans written off:

	2018 September RM'000	2018 March RM'000
Household	-	316

Islamic Banking Business

There are no significant credit risk exposures as at the reporting period (2018 March: Nil).

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
2018 September				
Interest rate risk- general interest rate risk	63,161,797	(62,834,161)	1,279,888	102,391
Foreign exchange risk	16,547	(6,176)	16,547	1,324
	<u>63,178,344</u>	<u>(62,840,337)</u>	<u>1,296,435</u>	<u>103,715</u>
2018 March				
Interest rate risk- general interest rate risk	67,523,173	(67,224,934)	1,292,546	103,404
Foreign exchange risk	20,155	(84,225)	84,225	6,738
	<u>67,543,328</u>	<u>(67,309,159)</u>	<u>1,376,771</u>	<u>110,142</u>

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.

5. MARKET RISK

Risk Management Approach (Contd)

(a) Interest Rate Risk / Rate of Return in the Banking Book (Contd)

The following tables 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 the reporting period, the Bank had an overall positive interest rate gap of RM5,735,000 (2018 March: RM5,592,000), being the net difference between interest sensitive assets and liabilities.

Sensitivity of Profit

The table below shows the sensitivity of the Bank's banking book to movement in the interest rates:

	2018 September Increase / (Decrease) RM'000	2018 March RM'000
Impact on earnings from 100 bps parallel shift		
MYR	33,243	36,133
USD	(6,551)	825
Others	(7,661)	(758)
Total	<u>19,031</u>	<u>36,200</u>
Impact on economic value from 100 bps parallel shift		
MYR	(13,663)	(19,883)
USD	(4,299)	(5,450)
Others	(4,070)	(3,335)
Total	<u>(22,032)</u>	<u>(28,668)</u>

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.

5. 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						Trading Book RM'000	Total RM'000
	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		
2018 September								
Assets								
Cash and short-term funds	4,019,180	280,000	-	-	-	554,635	4,853,815	
Deposits and placement with financial institutions	912,025	-	-	-	-	47,445	959,470	
Financial assets available-for-sale	-	-	-	-	-	-	-	
Financial assets held-for-trading	-	-	-	50,019	-	-	50,019	
Financial assets at fair value through other comprehensive income	-	-	130,835	348,043	-	25,520	504,398	
Loans and advances								
- Non impaired	5,581,819	992,037	572,317	2,320,717	1,367,104	-	10,833,994	
- Impaired *	-	-	-	-	-	(4,774)	(4,774)	
Embedded loans	101,554	1,708,266	858,250	8,870,405	1,982,953	-	13,521,428	
Purchased receivables	184,381	415,275	96,859	-	-	(233)	696,282	
Derivative financial assets	-	-	-	-	-	-	1,272,874	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	74,262	74,262	
Other assets	68,314	-	-	-	-	60,919	129,233	
Property, plant and equipment	-	-	-	-	-	20,190	20,190	
Intangible assets	-	-	-	-	-	32,621	32,621	
Tax recoverable	-	-	-	-	-	-	-	
	10,867,273	3,395,578	1,658,261	11,589,184	3,350,057	810,585	32,943,812	

* This is arrived after deducting the individual and collective impairment allowances from the outstanding gross impaired loans.

5. MARKET RISK (CONTD)

Interest Rate Risk (Contd)

	Non-Trading Book							Trading Book RM'000	Total RM'000
	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			
2018 September									
Liabilities									
Deposits from customers	4,109,699	474,807	675,415	6,278	-	3,396,571	-	8,662,770	
Deposits and placements of banks and financial institutions	911,678	-	-	-	-	-	-	911,678	
Collateral deposits	4,700,481	1,416,644	1,473,997	9,532,331	2,321,806	-	-	19,445,259	
Derivative financial liabilities	-	-	-	-	-	-	775,219	775,219	
Other liabilities	-	-	-	-	-	120,308	-	120,308	
Deferred tax liabilities	-	-	-	-	-	48,600	-	48,600	
Provision for tax	-	-	-	-	-	33,037	-	33,037	
	9,721,858	1,891,451	2,149,412	9,538,609	2,321,806	3,598,516	775,219	29,996,871	
On-balance sheet interest sensitivity gap	1,145,415	1,504,127	(491,151)	2,050,575	1,028,251	(2,787,931)	497,655	2,946,941	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	327,637	-	
Total interest sensitivity gap	1,145,415	1,504,127	(491,151)	2,050,575	1,028,251	(2,787,931)	825,292	2,946,941	

5. MARKET RISK (CONTD)

Interest Rate Risk (Contd)

2018 March	Non-Trading Book							Trading Book RM'000	Total RM'000
	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			
Assets									
Cash and short-term funds	4,638,743	700,000	-	-	-	576,761	-	5,915,504	
Deposits and placement with financial institutions	411,292	-	100,544	142,595	193,502	34,698	-	445,990	
Financial assets available-for-sale	-	-	-	-	-	2,993	-	439,634	
Financial assets held-for-trading	-	-	-	-	-	-	-	-	
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	
Loans and advances									
- Non impaired	2,657,080	1,318,775	3,816,076	8,389,297	2,894,103	2,312	-	19,077,643	
- Impaired *	-	-	-	-	-	(104,286)	-	(104,286)	
Embedded loans	-	-	-	-	-	-	-	-	
Purchased receivables	87,378	137,551	1,018	-	-	(185)	-	225,762	
Derivative financial assets	-	-	-	-	-	-	2,179,032	2,179,032	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	5,776	-	5,776	
Other assets	359,350	-	-	-	-	16,388	-	375,738	
Property, plant and equipment	-	-	-	-	-	21,084	-	21,084	
Intangible assets	-	-	-	-	-	36,415	-	36,415	
Tax recoverable	-	-	-	-	-	1,293	-	1,293	
	8,153,843	2,156,326	3,917,638	8,531,892	3,087,605	593,249	2,179,032	28,619,585	

* This is arrived after deducting the individual and collective impairment allowances from the outstanding gross impaired loans.

5. MARKET RISK (CONTD)

Interest Rate Risk (Contd)

2018 March	Non-Trading Book						Trading Book RM'000	Total RM'000
	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	3,546,394	822,965	868,934	3,590	-	3,446,180	-	8,688,063
Deposits and placements of banks and financial institutions	544,601	193,090	-	-	-	-	-	737,691
Collateral deposits	1,896,338	413,963	2,122,551	8,330,165	1,784,425	-	-	14,547,442
Derivative financial liabilities	-	-	-	-	-	-	1,907,749	1,907,749
Other liabilities	-	-	-	-	-	98,145	-	98,145
Deferred tax liabilities	-	-	-	-	-	8,437	-	8,437
	5,987,333	1,430,018	2,991,485	8,333,755	1,784,425	3,552,762	1,907,749	25,987,527
On-balance sheet interest sensitivity gap	2,166,510	726,308	926,153	198,137	1,303,180	(2,959,513)	271,283	2,632,058
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	298,239	298,239
Total interest sensitivity gap	2,166,510	726,308	926,153	198,137	1,303,180	(2,959,513)	569,522	2,930,297

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(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 30 September 2018, the NOP of the Bank stood at RM10,370,619 (long position) (March 2018: RM64,070,627 (short position)).

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 30 September 2018, potential maximum loss computed for Scenario 1 to be RM81,527,000 (March 2018: RM80,293,000), Scenario 2 to be RM85,739,000 (March 2018: RM86,635,000) and Scenario 3 to be RM109,337,000 (March 2018: RM112,425,000).

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.

33. 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 amounts as at the reporting period was:

	2018 September			2018 March			
	USD RM'000	JPY RM'000	EUR RM'000	USD RM'000	JPY RM'000	EUR RM'000	Others RM'000
Assets							
Cash and short-term funds	40,682	372,778	42,844	289,861	133,909	68,554	81,330
Deposits and placement with financial institutions	-	912,025	-	193,090	218,202	-	-
Financial assets available-for-sale	-	-	-	193,502	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	207,410	-	-	-	-	-	-
Loans and advances	7,391,741	61,125	-	16,072,486	37,939	-	147,212
Embedded loans	12,720,808	-	-	-	-	-	-
Purchased receivables	673,402	-	-	206,825	-	-	-
Other assets	17,264	-	-	203,832	-	-	-
	21,051,307	1,345,928	42,844	17,159,596	390,050	68,554	228,542
Liabilities							
Deposits from customers	2,761,697	313,770	17,453	2,529,660	243,640	71,095	29,614
Deposits and placements of banks and other financial institutions	910,360	-	-	733,742	-	-	-
Collateral deposits	17,910,858	768,822	-	14,022,560	-	-	147,003
Other liabilities	8,098	12,139	-	6,806	2,344	986	1,237
	21,591,013	1,094,731	17,453	17,292,768	245,984	72,081	177,854

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(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 RM2,966,000 (March 2018: RM2,966,000) which are privately held for social economic purpose and is unquoted and stated at cost and adjusted for impairment loss, if any.

Islamic Banking Business

There are no market risk exposures as at the reporting period (March 2018: Nil).

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 30 September 2018, the Bank holds a sizeable balance of government securities amounting to RM344,361,000 (March 2018: RM243,139,000) or 62% (March 2018: 67%) of its portfolio of financial assets.

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 stability 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.

6. LIQUIDITY RISK (CONTD)

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.

In March 2015, BNM issued a guideline on Liquidity Coverage Ratio ("LCR"), which is a quantitative requirement which seeks to ensure that banking institutions hold sufficient high-quality liquid assets ("HQLA") to withstand an acute liquidity stress scenario over a 30-day horizon. 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 September 2018, the Bank complies to the minimum LCR as stipulated by BNM.

Islamic Banking Business

There are no significant liquidity risk exposures as at the reporting period (March 2018: Nil).

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 threat.

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:

	2018 September		2018 March	
	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	857,575	68,606	838,540	67,083

7. OPERATIONAL RISK (CONTD)

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.

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"), Loss Event Data ("LED") and Key Risk Indicators ("KRI")};
- Descriptions of the RCSA 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.

7. OPERATIONAL RISK (CONTD)

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.

For the financial period ended 30 September 2018, 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 Information Technology Risk Management ("ITRM") practices based on industry best practices and international standards, as well as guidelines as described by Mitsubishi UFJ Financial Group's 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 ORMCC on monthly basis and escalated to the RMC on quarterly basis.

7. OPERATIONAL RISK (CONTD)**Islamic Banking Business**

	2018 September		2018 March	
	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	17,429	1,394	8,375	670

8. PROFIT SHARING INVESTMENT ACCOUNTS AND SHARIAH GOVERNANCE

(a) Profit Sharing Investment Accounts

This disclosure is not applicable as the Islamic Banking business does not have any Profit Sharing Investment Accounts.

(b) Shariah Governance

This is disclosed in the Pillar 3 Disclosures of the Bank attached to the audited financial statements for the financial period ended 31 March 2018.