

 **MUFG MUFG BANK (MALAYSIA) BERHAD**
(Incorporated in Malaysia)

Company No : 199401016638 (302316-U)

**UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED
30 SEPTEMBER 2023**

Registration No. 199401016638 (302316-U)

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(Incorporated in Malaysia)

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UNAUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2023

	Note	2023 September RM'000	2023 March RM'000
ASSETS			
Cash and short-term funds	11	6,151,693	7,033,252
Reverse repurchase agreements	12	127,698	130,439
Deposits and placements with financial institutions	13	2,609,913	1,843,335
Financial assets at fair value through profit or loss	14	1,282,405	48,825
Financial investments at fair value through other comprehensive income	15	1,097,189	869,208
Loans, advances and financing	16	7,443,398	8,562,133
Embedded loans measured at fair value through profit or loss	17	13,579,103	14,956,249
Purchased receivables	18	871,087	1,118,870
Collateral deposits placed	19	5,383	814
Derivative financial assets	20	649,933	398,074
Statutory deposits with Bank Negara Malaysia		961	2,319
Other assets		99,022	15,902
Property, plant and equipment		17,370	19,611
Intangible assets		51,205	63,506
Right-of-use assets		2,438	657
Deferred tax assets		5,636	5,636
TOTAL ASSETS		33,994,434	35,068,830
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	21	13,119,551	11,965,713
Deposits and placements of banks and other financial institutions	22	555,522	421,595
Financial liabilities at fair value through profit or loss	23	88,412	101,619
Collateral deposits received	19	14,930,303	17,626,759
Derivative financial liabilities	20	643,448	468,967
Other liabilities	24	197,743	172,658
Lease liabilities		2,442	688
Obligation on securities sold on repurchase agreements	12	124,779	124,779
Current tax liabilities		22,494	29,852
TOTAL LIABILITIES		29,684,694	30,912,630
SHARE CAPITAL		200,000	200,000
RESERVES		4,109,740	3,956,200
SHAREHOLDER'S FUNDS		4,309,740	4,156,200
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		33,994,434	35,068,830
COMMITMENTS AND CONTINGENCIES	25	88,109,827	90,204,765

**UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

	Note	2nd Quarter Ended		Six Months Ended	
		2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
Operating revenue		206,862	211,242	353,813	346,093
Interest income	26	185,678	121,768	374,105	205,108
Interest expense	27	(95,454)	(51,160)	(210,500)	(76,244)
Net interest income		90,224	70,608	163,605	128,864
Net income from embedded loans measured at FVTPL	28	23,482	74,318	27,661	109,021
Net income from Islamic Banking operations	34	5,130	3,684	10,980	7,914
Other operating income	29	88,026	62,632	151,567	100,294
Operating income		206,862	211,242	353,813	346,093
Other operating expenses	30	(50,252)	(45,025)	(111,662)	(97,192)
Operating profit before allowance for impairment		156,610	166,217	242,151	248,901
(Allowance for)/Reversal of impairment on financial instruments	31	(1,139)	(1,467)	(11,827)	403
Profit before tax		155,471	164,750	230,324	249,304
Tax expense		(36,576)	(23,941)	(73,150)	(44,702)
Profit after tax for the period		118,895	140,809	157,174	204,602
Items that are or may be reclassified subsequently to profit or loss					
Change in fair value reserve:					
- Debt instruments at FVOCI		(1,325)	(1,473)	(3,634)	(4,795)
Change in expected credit loss reserve		-	(368)	-	(351)
Other comprehensive loss for the period, net of tax		(1,325)	(1,841)	(3,634)	(5,146)
Total comprehensive income for the period		117,570	138,968	153,540	199,456
Profit attributable to:					
Owner of the Bank		118,895	140,809	157,174	204,602
Total comprehensive income attributable to:					
Owner of the Bank		117,570	138,968	153,540	199,456
Basic earnings per share (sen)		59.45	70.40	78.59	102.30

**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

	----- Non-distributable -----			----- Distributable -----			
	Share Capital RM'000	Regulatory Reserve RM'000	Defined Benefit Reserve RM'000	ECL Reserve RM'000	Fair Value Reserve RM'000	Retained Profits RM'000	Total RM'000
At 1 April 2022	200,000	103,731	(4,252)	351	26,504	3,487,898	3,814,232
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(4,795)	-	(4,795)
Change in expected credit loss of financial assets at fair value through other comprehensive income	-	-	-	(351)	-	-	(351)
Total other comprehensive loss for the period	-	-	-	(351)	(4,795)	-	(5,146)
Profit for the period	-	-	-	-	-	204,602	204,602
Total comprehensive (loss)/ income for the period	-	-	-	(351)	(4,795)	204,602	199,456
Transfer of retained profits to regulatory reserve	-	9,244	-	-	-	(9,244)	-
At 30 September 2022	200,000	112,975	(4,252)	-	21,709	3,683,256	4,013,688
At 1 April 2023	200,000	112,975	(4,254)	-	27,580	3,819,899	4,156,200
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(3,634)	-	(3,634)
Total other comprehensive loss for the period	-	-	-	-	(3,634)	-	(3,634)
Profit for the period	-	-	-	-	-	157,174	157,174
Total comprehensive (loss)/income for the period	-	-	-	-	(3,634)	157,174	153,540
Transfer of regulatory reserve to retained profits	-	(49,975)	-	-	-	49,975	-
At 30 September 2023	200,000	63,000	(4,254)	-	23,946	4,027,048	4,309,740

**UNAUDITED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

	2023 September RM'000	2022 September RM'000
Cash Flows From Operating Activities		
Profit before tax	230,324	249,304
Adjustments for:		
Depreciation of property, plant and equipment	2,241	2,375
Amortisation of intangible assets	12,675	12,428
Gain on lease modification	(3,023)	-
Loss on disposal of property, plant and equipment	-	18
Depreciation of right-of-use assets	1,772	1,496
Allowance for/(Reversal of) impairment on financial instruments	11,827	(403)
Defined benefit plan	1,658	1,704
Dividend income	(148)	(295)
Interest income from financial investments at fair value through other comprehensive income	(13,536)	(12,580)
Interest income from financial assets at fair value through profit or loss	(11,188)	(4,273)
Finance cost on lease liabilities	54	51
Unrealised loss on changes in trading securities	2,822	4,811
Unrealised gain on changes in fair value of embedded loans measured at fair value through profit or loss	(10,849)	(49,295)
Unrealised gain on changes in fair value of derivative financial instruments	(142,251)	(153,441)
Unrealised loss/(gain) on changes in fair value of loans designated at fair value	6,016	(1,111)
Operating profit before working capital changes	88,394	50,789
(Increase)/Decrease in operating assets:		
Deposits and placements with financial institutions	(766,578)	69,753
Reverse repurchase agreements	2,741	(136,399)
Financial assets at fair value through profit or loss	(1,793)	122,523
Financial investments at fair value through other comprehensive income	16,231	238,265
Loans, advances and financing	1,105,631	(273,857)
Embedded loans measured at fair value through profit or loss	1,368,435	(2,232,047)
Collateral deposits placed	(4,569)	42,154
Purchased receivables	248,094	(100,853)
Derivative financial assets	312,307	90,839
Statutory deposits with Bank Negara Malaysia	1,358	-
Other assets	(83,650)	40,722
Increase/(Decrease) in operating liabilities:		
Deposits from customers	1,153,838	873,983
Deposits and placements of banks and other financial institutions	133,927	(151,737)
Derivative financial liabilities	(227,874)	(10,851)
Collateral deposits received	(2,696,456)	3,236,720
Other liabilities	26,340	94,094
Obligation on securities sold on repurchase agreement	-	373
Cash generated from operations	676,376	1,954,471
Income tax paid	(84,340)	(41,829)
Payment of staff benefits	(582)	(3,156)
Interest paid in relation to lease liabilities	(54)	(51)
Net cash generated from operating activities	591,400	1,909,435

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UNAUDITED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)

	2023 September RM'000	2022 September RM'000
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	-	(155)
Purchase of intangible assets	(374)	(1,805)
Proceeds from disposals of property, plant and equipment	-	3
Proceeds from sale of financial assets at fair value through profit or loss	2,387,085	1,955,289
Purchase of financial assets at fair value through profit or loss	(3,634,901)	(2,470,201)
Proceeds from sale of financial assets at fair value through other comprehensive income	394,516	391,650
Purchase of financial assets at fair value through other comprehensive income	(640,000)	(396,297)
Interest received from financial assets at fair value through other comprehensive income	11,174	13,911
Interest received from financial assets at fair value through profit or loss	11,188	4,273
Dividend received	148	295
Net cash used in investing activities	<u>(1,471,164)</u>	<u>(503,037)</u>
Cash Flows From Financing Activities		
Payment of lease liabilities	(1,795)	(1,408)
Net cash used in from financing activities	<u>(1,795)</u>	<u>(1,408)</u>
Net (decrease)/increase in cash and cash equivalents	(881,559)	1,404,990
Cash and cash equivalents at beginning of year	7,033,252	6,614,758
Cash and cash equivalents at end of year	<u>6,151,693</u>	<u>8,019,748</u>
Cash outflows for leases as a lessee		
Included in net cash from operating activities:		
Payment relating to short-term leases	777	845
Payment relating to leases of low-value assets	281	435
Interest paid in relation to lease liabilities	54	51
Included in net cash from financing activities:		
Payment of lease liabilities	1,795	1,408
Total cash outflows for leases	<u>2,907</u>	<u>2,739</u>

**UNAUDITED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

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

	At 1 April 2023 RM'000	Net change from financing cash flows RM'000	Acquisition RM'000	Other changes RM'000	At 30 September 2023 RM'000
Lease liabilities	688	(1,795)	362	3,187	2,442
	<u>688</u>	<u>(1,795)</u>	<u>362</u>	<u>3,187</u>	<u>2,442</u>
	At 1 April 2022 RM'000	Net change from financing cash flows RM'000	Acquisition RM'000	Other changes RM'000	At 30 September 2022 RM'000
Lease liabilities	3,844	(1,408)	-	51	2,487
Sukuk	250,000	-	-	-	250,000
	<u>253,844</u>	<u>(1,408)</u>	<u>-</u>	<u>51</u>	<u>252,487</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

1. BASIS OF PREPARATION

(a) Statement of compliance

The unaudited condensed interim financial report for the quarter ended 30 September 2023 have been prepared under the historical cost convention except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, loans, advances and financing at fair value through profit or loss, embedded loans measured at fair value through profit or loss 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 2023. 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 2023.

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

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

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 17, *Insurance Contracts – Initial application of MFRS 17 and MFRS 9 – Comparative Information*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current and Disclosures of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
- Amendments to MFRS 112, *Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction and International Tax Reform - Pillar Two Model Rules*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2024

- Amendments to MFRS 16, *Leases – Lease Liability in a Sale and Leaseback*
- Amendments to MFRS 101, *Presentation of Financial Statements – Non-current Liabilities with Covenants and Classification of Liabilities as Current or Non-current*
- Amendments to MFRS 107, *Statement of Cash Flows* and MFRS 7, *Financial Instruments: Disclosures – Supplier Finance Arrangements*

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, interpretations and amendments:

- from the annual period beginning on 1 April 2023 for the accounting standard and amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17, *Insurance Contracts* and amendments to MFRS 17 *Insurance Contracts* which are not applicable to the Bank; and
- from the annual period beginning on 1 April 2024 for amendments that are effective for annual periods beginning on or after 1 January 2024.

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

2. AUDIT REPORT

The audit report on the audited financial statements for the financial year ended 31 March 2023 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 2023.

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 2023.

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 2023.

7. DIVIDEND PAID

No dividend was paid during the financial period ended 30 September 2023.

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 2023 was RM230.3 million, decrease of 7.61% or RM19.0 million compared to the corresponding period last year. Operating income increased by RM7.7 million from RM346.1 million to RM353.8 million whilst operating expenses increased by RM14.5 million mainly attributed to higher administrative and other expenses.

Total assets decreased from RM35.1 billion as at 31 March 2023 to RM34.0 billion as at 30 September 2023. The Bank's CET 1/Tier 1 capital ratio and total capital ratio remained strong at 28.149% and 28.902% respectively.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

10. PROSPECTS

Global economy is expected to decelerate this year, subject to considerable uncertainties in particular in the advanced economies. The interplay between the ongoing elevated inflationary pressure, potential credit crunch, heightened geopolitical tensions, and the speed of monetary policy normalization in major economies will be key determinants of the pace of global economic activities. In our view, risks to global growth outlook remain tilted to the downside given the rising risk of a recession in the US and the impact on the recent financial sector turmoil to the underlying economy. Side effects from the aggressive rate hikes are becoming apparent, as banking sector vulnerabilities have come into focus and fears of contagion have increased across the broader financial sectors. Although global inflation is expected to moderate, it will remain above pre-pandemic levels. On the flip side, following China's swift reopening of the economy, GDP growth is expected to rebound above 5% this year will be led by a recovery in demand, particularly for services.

The Bank foresees the current high volatility in the global financial markets to persist in the near term as market players continue to digest the pace of monetary tightening in the US and in the region and its impact on the underlying economy. Commodities prices generally remain elevated. Brent crude oil prices currently consolidating around USD80 per barrel after hitting a new recent year low of USD72 per barrel back in March 2023, there is a tug-of-war of where oil prices go next, positive China re-opening story and OPEC+ production cuts countervailed by the hard landing concerns due to US Federal Reserve's policy mistake. In the intermediate term, mixed economic data globally is expected to create more uncertainty about the crude oil demand outlook, however over the long term, we forecast Brent crude oil prices to inch higher later this year to around USD90 to USD94 per barrel driven by sustained supply deficits.

Malaysian economic growth is projected to continue this year, albeit at a more modest pace, reflecting an increasingly challenging global environment and the normalization in domestic demand. Malaysia reported an impressive 8.7% GDP growth for 2022, topping 8% mark for the first time in 22 years, which placed its growth rate among the highest in the region. Despite the external uncertainties, domestic economy is expected to remain resilient underpinned by strong macroeconomic fundamentals, ample domestic liquidity and strong capital market infrastructure. The economy is expected to grow by 4.5% this year, supported by stable domestic demand, mainly from household spending, in line with the recovery in the labour market. The expected acceleration of infrastructure projects with high multiplier effects, robust growth in private investment and sustained external demand particularly among major trading partners will further support the economy.

Headline and core inflation have stayed above-trend averages at 3.7% and 3.9% respectively in recent months, mainly due to the elevated food inflation. We anticipate that lower international food prices will help to reduce pressures by middle of 2023. Meantime, Bank Negara Malaysia (BNM) has confirmed that the impact of the past overnight policy rate (OPR) adjustments on financial condition and market generally has been orderly with no signs of tightening in consumption as well as investment while continue to reiterate its view that inflation remains elevated. BNM remains vigilant to cost factors, including those arising from financial market development, that could affect the inflation outlook.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

11. CASH AND SHORT-TERM FUNDS

	2023 September RM'000	2023 March RM'000
<i>Amortised cost</i>		
Cash and balances with banks and other financial institutions	907,635	315,779
Money at call and deposit placements maturing within three months	5,244,058	6,717,473
	<u>6,151,693</u>	<u>7,033,252</u>

12. REVERSE REPURCHASE AGREEMENTS AND OBLIGATION ON SECURITIES SOLD ON REPURCHASE AGREEMENTS

	2023 September RM'000	2023 March RM'000
<i>Amortised cost</i>		
Reverse repurchase agreement	127,698	130,439
<i>Amortised cost</i>		
Obligation on securities sold on repurchase agreements	124,779	124,779

13. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2023 September RM'000	2023 March RM'000
<i>Amortised cost</i>		
Licensed banks		
• Malaysia	2,484,061	1,743,846
• Other countries	125,852	99,489
	<u>2,609,913</u>	<u>1,843,335</u>

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

	2023 September RM'000	2023 March RM'000
Money market instruments:		
Malaysian Government Securities	958,794	48,825
Government Investment Issues	323,611	-
	<u>1,282,405</u>	<u>48,825</u>

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

	2023 September RM'000	2023 March RM'000
Money market instruments:		
Malaysian Government Securities	685,778	325,682
Government Investment Issues	131,207	182,797
Japan Government Bonds	252,110	332,635
	<u>1,069,095</u>	<u>841,114</u>
Non-money market instruments:		
Unquoted shares	28,094	28,094
	<u>28,094</u>	<u>28,094</u>
Total	<u>1,097,189</u>	<u>869,208</u>

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

	2023 September RM'000	2023 March RM'000
<u>12-Month ECL Stage 1</u>		
At 1 April	-	351
Allowance made due to changes in credit risk	-	(351)
At 30 September	<u>-</u>	<u>-</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

16. LOANS, ADVANCES AND FINANCING

(a) By type:

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Term loans		
• Housing loans	8,207	8,731
• Other term loans	2,692,275	2,764,001
Revolving credits	4,389,392	5,405,436
Overdrafts	1,765	448
Bills receivable	13,382	48,945
Claims on customers under acceptance credits	27,988	11,767
Staff loans	5,721	5,939
	<u>7,138,730</u>	<u>8,245,267</u>
Unearned interest	(193)	(685)
Gross loans, advances and financing at amortised cost	<u>7,138,537</u>	<u>8,244,582</u>
Impairment allowances on loans, advances and financing		
• Stage 1 - 12-month ECL	(9,957)	(8,936)
• Stage 2 - lifetime ECL not credit-impaired	(18,837)	(12,632)
• Stage 3 - lifetime ECL credit-impaired	(298)	(273)
Net loans, advances and financing at amortised cost	<u>7,109,445</u>	<u>8,222,741</u>
<i>At fair value</i>		
Other term loans	333,953	339,392
Net loans, advances and financing	<u>7,443,398</u>	<u>339,392</u>
Gross loans, advances and financing		
<i>At amortised cost</i>	7,138,537	8,244,582
<i>At fair value</i>	333,953	339,392
	<u>7,472,490</u>	<u>8,583,974</u>

(b) By maturity structure:

	2023 September RM'000	2023 March RM'000
Maturing within one year	4,822,275	5,943,003
More than one year to three years	1,342,035	953,198
More than three years to five years	612,475	1,029,579
More than five years	695,705	658,194
	<u>7,472,490</u>	<u>8,583,974</u>

(c) By type of customer:

	2023 September RM'000	2023 March RM'000
Domestic business enterprises		
• Small medium enterprises	3,943	3,075
• Others	4,316,505	3,789,187
Individuals	13,929	14,476
Foreign entities	1,703,711	3,636,274
	<u>7,472,490</u>	<u>8,583,974</u>

(d) By interest/profit rate sensitivity:

	2023 September RM'000	2023 March RM'000
Variable rates	7,470,141	8,581,403
Fixed rate		
• Staff loans	2,349	2,571
	<u>7,472,490</u>	<u>8,583,974</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

16. LOANS, ADVANCES AND FINANCING (CONTD)

(e) By economic sector:

	2023 September RM'000	2023 March RM'000
Agricultural, hunting, forestry and fishing	210,452	200,300
Mining and quarrying	383,964	389,542
Manufacturing	1,126,745	1,173,583
Electricity, gas and water	290,767	236,946
Construction	608,092	485,315
Wholesale, retail trade, restaurants and hotels	698,001	546,685
Transport, storage and communication	1,183,227	1,142,031
Finance, insurance, real estate and business services	2,391,030	3,982,664
Households	13,929	14,670
Others	566,283	412,238
	<u>7,472,490</u>	<u>8,583,974</u>

(f) By geographical location:

	2023 September RM'000	2023 March RM'000
Malaysia	6,050,286	7,163,277
Other countries	1,422,204	1,420,697
	<u>7,472,490</u>	<u>8,583,974</u>

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

	2023 September RM'000	2023 March RM'000
Household	857	821
	<u>857</u>	<u>821</u>

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

	2023 September RM'000	2023 March RM'000
Malaysia	857	821
	<u>857</u>	<u>821</u>

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

	2023 September RM'000	2023 March RM'000
At 1 April	821	701
Classified as credit-impaired during the year	274	335
Amount recovered	(16)	(12)
Reclassified as performing	(222)	(203)
At 31 March	<u>857</u>	<u>821</u>

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16. LOANS, ADVANCES AND FINANCING (CONTD)

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

	Lifetime ECL			Total RM'000
	12-month ECL Stage 1 RM'000	Not credit- impaired Stage 2 RM'000	Credit-impaired Stage 3 RM'000	
At 1 April 2023	8,936	12,632	273	21,841
Transfer to 12-month ECL (Stage 1)	1	(1)	-	-
Transfer to lifetime ECL not credit-impaired (Stage 2)	(60)	189	-	129
Transfer to lifetime ECL credit-impaired (Stage 3)	(7)	-	14	7
New financial assets originated	7,997	10,583	-	18,580
Financial assets derecognised (other than write-off)	(7,549)	(6,405)	-	(13,954)
Net remeasurement due to changes in credit risk	639	1,839	11	2,489
At 30 September 2023	9,957	18,837	298	29,092
At 1 April 2022	4,660	18,713	240	23,613
Transfer to 12-month ECL (Stage 1)	4	-	-	4
Transfer to lifetime ECL not credit-impaired (Stage 2)	(17)	6	-	(11)
Transfer to lifetime ECL credit-impaired (Stage 3)	(7)	-	-	(7)
New financial assets originated	8,136	6,399	-	14,535
Financial assets derecognised (other than write-off)	(3,547)	(10,464)	-	(14,011)
Net remeasurement due to changes in credit risk	(293)	(2,022)	33	(2,282)
At 31 March 2023	8,936	12,632	273	21,841

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

	2023 September RM'000	2023 March RM'000
<i>At fair value</i>		
Embedded loans with term loans nature	13,544,467	14,887,591
Embedded loans with revolving credits nature	34,636	68,658
	13,579,103	14,956,249

Loans measured at FVTPL included RM13,188,637,000 (2023 March: RM14,450,726,000) of outstanding balance for loans, advances and financing, and fair value for derivative financial assets and liabilities of RM168,558,000 (2023 March: RM278,413,000).

Included in embedded loans are fair value from derivative financial assets and derivative financial liabilities transacted with the holding company and related companies amounting to RM259,000 (2023 March: RM283,000) and RM1,118,000 (2023 March: RM3,292,000) respectively.

(a) By maturity structure:

	2023 September RM'000	2023 March RM'000
Maturing within one year	6,368,544	5,791,695
More than one year to three years	2,928,099	3,386,905
More than three years to five years	3,317,691	4,574,719
More than five years	964,769	1,202,930
	13,579,103	14,956,249

(b) By type of customer:

	2023 September RM'000	2023 March RM'000
Domestic non-bank financial institutions	9,347,370	9,787,109
Domestic business enterprises		
• Small medium enterprises	10,301	10,904
• Others	3,291,999	4,705,742
	12,649,670	14,503,755
Domestic financial institutions *	930,292	455,504
Foreign entities *	(859)	(3,010)
	13,579,103	14,956,249

* The credit balances are exposure after netting off with the identified cover deals.

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

(c) By interest rate sensitivity:

	2023 September RM'000	2023 March RM'000
Variable rates	13,579,103	14,956,249

(d) By economic sector:

	2023 September RM'000	2023 March RM'000
Manufacturing	198,515	517,799
Electricity, gas and water	1,529,059	2,552,613
Construction	395,348	402,930
Wholesale, retail trade, restaurants and hotels	145,908	193,999
Transport, storage and communication	279,762	284,854
Finance, insurance, real estate and business services	11,028,629	11,001,419
Others	1,882	2,635
	<u>13,579,103</u>	<u>14,956,249</u>

(e) By geographical location:

	2023 September RM'000	2023 March RM'000
Malaysia	13,526,103	14,905,529
Other countries *	53,000	50,720
	<u>13,579,103</u>	<u>14,956,249</u>

* The credit balances are exposure after netting off with the identified cover deals.

(f) By notional amount of derivative financial assets and liabilities:

	2023 September			2023 March		
	Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<i>At fair value</i>						
Embedded loans with term loans nature:						
Foreign currency swaps	10,127,114	2,158	766,017	11,538,906	175,245	357,498
Interest rate swaps	2,237,445	8,975	5,925	2,564,432	14,854	7,029
	<u>12,364,559</u>	<u>11,133</u>	<u>771,942</u>	<u>14,103,338</u>	<u>190,099</u>	<u>364,527</u>
Embedded loans with revolving credits nature:						
Foreign currency swaps	34,300	6	73	68,500	347	-
Cover deals:						
Foreign currency swaps	8,345,366	843,466	10,218	9,062,025	411,684	45,931
Interest rate swaps	8,725,001	104,473	8,287	11,173,393	103,557	16,816
	<u>17,070,367</u>	<u>947,939</u>	<u>18,505</u>	<u>20,235,418</u>	<u>515,241</u>	<u>62,747</u>
	<u>29,469,226</u>	<u>959,078</u>	<u>790,520</u>	<u>34,407,256</u>	<u>705,687</u>	<u>427,274</u>
Set off		(790,520)	(790,520)		(427,274)	(427,274)
Net assets		<u>168,558</u>	<u>-</u>		<u>278,413</u>	<u>-</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

18. PURCHASED RECEIVABLES

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Purchased receivables	871,405	1,119,499
Impairment allowances on purchased receivables		
• Stage 1 - 12-month ECL	(269)	(433)
• Stage 2 - lifetime ECL not credit-impaired	(49)	(196)
	<u>871,087</u>	<u>1,118,870</u>

Purchased receivables relate to receivables acquired by the Bank under the account receivables purchasing and vendors financing product. These amounts owing from obligors have a tenure of within three months. Included in purchased receivables are non-recourse bills receivable amounting to RM759,184,000 (2023 March: RM1,020,827,000).

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

	Lifetime ECL			Total RM'000
	12-month ECL Stage 1 RM'000	Not credit- impaired Stage 2 RM'000	Credit-impaired Stage 3 RM'000	
At 1 April 2023	433	196	-	629
Transfer to 12-month ECL (Stage 1)	7	(45)	-	(38)
Transfer to lifetime ECL not credit-impaired (Stage 2)	(26)	23	-	(3)
New financial assets originated	225	26	-	251
Financial assets derecognised (other than write-off)	(312)	(151)	-	(463)
Net remeasurement due to changes in credit risk	(58)	-	-	(58)
At 30 September 2023	<u>269</u>	<u>49</u>	<u>-</u>	<u>318</u>
At 1 April 2022	85	338	-	423
New financial assets originated	385	196	-	581
Financial assets derecognised (other than write-off)	(43)	(338)	-	(381)
Net remeasurement due to changes in credit risk	6	-	-	6
At 31 March 2023	<u>433</u>	<u>196</u>	<u>-</u>	<u>629</u>

19. COLLATERAL DEPOSITS

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Cash collaterals placed	<u>5,383</u>	<u>814</u>

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

<i>At amortised cost</i>		
Cash collaterals received	<u>14,930,303</u>	<u>17,626,759</u>

The cash collaterals received are recognised at amortised cost. These are received in respect of derivative balances pursuant to agreements in accordance with ISDA and CSA entered into with respective counterparties and related companies, and Cash Collateral Scheme entered into with a branch of the holding company and related companies amounting to RM13,602,044,000 (2023 March: RM17,079,414,000). Included in CSA balance are Nil (2023 March: Nil) transacted with a related company. The remaining balances are placed with licensed banks.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
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20. DERIVATIVE FINANCIAL ASSETS / LIABILITIES

The table below shows the Bank's derivative financial instruments measured at their fair value together with their corresponding contract/notional amounts as at the reporting date. The notional amounts of these derivative financial instruments refer to the underlying contract values on which changes in the fair value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the financial period but are not indicative of either the market risk or credit risk inherent in the derivative contracts.

	2023 September			2023 March		
	Contract/ Notional Amount RM'000	Fair Value		Contract/ Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<i>At Fair Value</i>						
Trading Derivatives *						
Foreign exchange related contracts						
• Forwards	23,037,528	233,852	154,049	21,295,730	97,703	171,968
• Swaps	6,252,293	345,491	248,553	6,043,244	236,284	106,678
Interest rate related contracts						
• Swaps	13,391,107	69,233	240,272	15,310,064	63,124	189,173
Other derivatives						
• Currency options	339,123	1,357	574	348,951	963	1,148
	<u>43,020,051</u>	<u>649,933</u>	<u>643,448</u>	<u>42,997,989</u>	<u>398,074</u>	<u>468,967</u>

* Included in trading derivatives are derivative financial assets and derivative financial liabilities transacted with the holding company and related companies amounting to RM104,918,000 (2023 March: RM72,341,000) and RM343,481,000 (2023 March: RM229,036,000) respectively.

21. DEPOSITS FROM CUSTOMERS

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Demand deposits	5,013,011	4,651,265
Money market deposits	1,388,091	1,193,280
Savings deposits	48	45
Fixed deposits	6,718,401	6,121,123
	<u>13,119,551</u>	<u>11,965,713</u>

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

	2023 September RM'000	2023 March RM'000
Due within six months	6,604,475	5,985,272
More than six months to one year	111,776	133,701
More than one year to two years	2,150	2,150
	<u>6,718,401</u>	<u>6,121,123</u>

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

	2023 September RM'000	2023 March RM'000
Domestic non-bank financial institutions	83,774	114,650
Business enterprises	12,788,555	11,594,461
Individuals	1,262	1,253
Foreign entities/individuals	192,044	196,195
Others	53,916	59,154
	<u>13,119,551</u>	<u>11,965,713</u>

22. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Licensed banks	555,522	421,595

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23. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 September RM'000	2023 March RM'000
Money market instruments:		
Malaysian Government Securities	88,412	101,619

24. OTHER LIABILITIES

	2023 September RM'000	2023 March RM'000
Provision for retirement benefits	28,705	27,629
Impairment allowances on commitments and contingencies	(i)	
• Stage 1 - 12-month ECL	11,892	3,398
• Stage 2 - lifetime ECL not credit-impaired	2,126	5,570
Accrued interest payable	34,017	56,042
Bills payable	14,377	12,806
Other payables and accruals	106,626	67,213
	<u>197,743</u>	<u>172,658</u>

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

	Lifetime ECL			Total RM'000
	12-month ECL Stage 1 RM'000	Not credit- impaired Stage 2 RM'000	Credit-impaired Stage 3 RM'000	
At 1 April 2023	3,398	5,570	-	8,968
Transfer to 12-month ECL (Stage 1)	442	(817)	-	(375)
Transfer to lifetime ECL not credit-impaired (Stage 2)	(8)	48	-	40
New financial assets originated	4,042	747	-	4,789
Financial assets derecognised (other than write-off)	(365)	(604)	-	(969)
Net remeasurement due to changes in credit risk	4,383	(2,818)	-	1,565
At 30 September 2023	<u>11,892</u>	<u>2,126</u>	<u>-</u>	<u>14,018</u>
At 1 April 2022	617	1,735	-	2,352
Transfer to 12-month ECL (Stage 1)	-	(1)	-	(1)
New financial assets originated	3,287	5,563	-	8,850
Financial assets derecognised (other than write-off)	(538)	(1,720)	-	(2,258)
Net remeasurement due to changes in credit risk	32	(7)	-	25
At 31 March 2023	<u>3,398</u>	<u>5,570</u>	<u>-</u>	<u>8,968</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
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25. COMMITMENTS AND CONTINGENCIES

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

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2023 September				
Contingent Liabilities				
Direct credit substitutes	141,992		141,992	128,030
Transaction related contingent items	662,709		331,355	314,648
Short-term self liquidating trade-related contingencies	60,800		12,160	12,872
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	107,970		21,593	21,594
• exceeding one year	460		230	176
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	14,801,181		-	-
Securitisation exposures	15,000		3,000	2,250
	<u>15,790,112</u>		<u>510,330</u>	<u>479,570</u>
Embedded Loans				
Foreign exchange related contracts				
• one year or less	7,301,143	268,101	153,490	78,168
• over one year to five years	9,780,002	515,490	500,824	272,647
• over five years	1,425,635	62,038	47,362	27,784
Interest rate related contracts				
• one year or less	3,626,899	6,894	6,358	2,312
• over one year to five years	7,115,547	100,803	114,842	52,740
• over five years	220,000	5,752	8,132	4,066
	<u>29,469,226</u>	<u>959,078</u>	<u>831,008</u>	<u>437,717</u>
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	24,545,723	273,183	485,401	375,021
• over one year to five years	3,623,299	228,774	279,785	195,386
• over five years	1,120,799	77,386	186,355	145,531
Interest rate related contracts				
• one year or less	4,887,537	10,444	4,187	1,748
• over one year to five years	7,270,337	37,716	87,030	43,704
• over five years	1,233,233	21,073	66,166	36,343
Currency options *				
• one year or less	169,561	1,357	3,900	3,900
	<u>42,850,489</u>	<u>649,933</u>	<u>1,112,824</u>	<u>801,633</u>
	<u>88,109,827</u>	<u>1,609,011</u>	<u>2,454,162</u>	<u>1,718,920</u>

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

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25. COMMITMENTS AND CONTINGENCIES (CONTD)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
2023 March				
Contingent Liabilities				
Direct credit substitutes	104,290		104,271	91,701
Transaction related contingent items	652,459		326,019	311,179
Short-term self liquidating trade-related contingencies	91,937		18,362	18,413
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	110,166		21,833	21,833
• exceeding one year	700		350	263
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	11,999,443		(8,514)	(7,874)
Securitisation exposures	15,000		3,000	2,250
	<u>12,973,995</u>		<u>465,321</u>	<u>437,765</u>
Embedded Loans				
Foreign exchange related contracts				
• one year or less	7,437,406	227,470	286,358	116,937
• over one year to five years	11,603,245	290,929	881,984	466,805
• over five years	1,628,780	68,877	226,851	147,939
Interest rate related contracts				
• one year or less	5,484,262	4,637	7,388	2,939
• over one year to five years	7,905,563	104,525	205,880	86,703
• over five years	348,000	9,249	18,876	9,438
	<u>34,407,256</u>	<u>705,687</u>	<u>1,627,337</u>	<u>830,761</u>
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	22,156,272	109,396	345,510	263,464
• over one year to five years	4,057,495	181,547	366,026	252,716
• over five years	1,125,207	43,044	180,195	139,364
Interest rate related contracts				
• one year or less	7,322,417	11,867	9,668	3,883
• over one year to five years	6,776,940	37,973	132,698	65,132
• over five years	1,210,707	13,284	92,316	54,041
Currency options *				
• one year or less	174,476	963	3,580	3,580
	<u>42,823,514</u>	<u>398,074</u>	<u>1,129,993</u>	<u>782,180</u>
	<u>90,204,765</u>	<u>1,103,761</u>	<u>3,222,651</u>	<u>2,050,706</u>

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

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	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
26. INTEREST INCOME				
Loans, advances and financing measured at amortised cost	100,757	72,502	216,822	123,794
Loans, advances and financing designated at fair value	7,146	4,422	14,174	7,002
Money at call and deposit placements with financial institutions	60,211	34,138	118,385	57,459
Financial assets at FVTPL	10,180	2,660	11,188	4,273
Financial investments at FVOCI	7,384	8,046	13,536	12,580
	<u>185,678</u>	<u>121,768</u>	<u>374,105</u>	<u>205,108</u>
27. INTEREST EXPENSE				
Deposits and placements of banks and other financial institutions	61,709	40,530	164,775	56,919
Deposits from customers	33,745	10,630	45,725	19,325
	<u>95,454</u>	<u>51,160</u>	<u>210,500</u>	<u>76,244</u>
28. NET INCOME FROM EMBEDDED LOANS MEASURED AT FVTPL				
Interest income	202,440	108,228	402,226	170,091
Interest expense	(180,439)	(83,097)	(358,498)	(124,777)
Unrealised gain/(loss) in fair value of embedded loans	(8,952)	39,390	10,849	49,295
Realised (loss)/gain in fair value of embedded loans	10,433	9,797	(26,916)	14,412
	<u>23,482</u>	<u>74,318</u>	<u>27,661</u>	<u>109,021</u>
29. OTHER OPERATING INCOME				
Fee income				
Commission	386	427	922	970
Guarantee fees	899	997	1,777	1,860
Service charges and fees	585	611	1,186	1,168
Commitment fees	337	924	592	1,370
Other fee income	925	688	7,450	1,565
	<u>3,132</u>	<u>3,647</u>	<u>11,927</u>	<u>6,933</u>
Net investment income				
Gross dividends	37	37	148	295
Realised (loss)/gain in fair value of derivative financial instruments	2,880	32,577	(7,913)	36,749
Realised gain/(loss) in fair value of financial assets at FVTPL	1,174	(650)	2,589	(1,132)
Unrealised gain/(loss) in fair value of derivative financial instruments	(68,340)	91,951	142,251	153,441
Unrealised loss in fair value of financial assets at FVTPL	(3,116)	(4,474)	(2,822)	(4,811)
Unrealised (loss)/gain in fair value of loans designated at fair value	2,160	736	(6,016)	1,111
Foreign exchange gain/(loss)	141,483	(66,343)	146	(99,417)
Net discount/(premium) paid for options	135	(11)	128	(11)
	<u>76,413</u>	<u>53,823</u>	<u>128,511</u>	<u>86,225</u>
Other income				
Other operating income	8,481	5,162	11,129	7,136
	<u>88,026</u>	<u>62,632</u>	<u>151,567</u>	<u>100,294</u>

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	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
30. OTHER OPERATING EXPENSES				
Personnel expenses	(i) 18,915	18,165	46,456	44,834
Establishment related expenses	(ii) 9,092	8,841	18,144	18,024
Promotion and marketing related expenses	(iii) 264	255	809	683
Administrative and other expenses	(iv) 21,981	17,764	46,253	33,651
	<u>50,252</u>	<u>45,025</u>	<u>111,662</u>	<u>97,192</u>
(i) Personnel expenses				
Wages, salaries and bonuses	15,111	15,279	36,858	36,014
Defined benefit plan	829	852	1,658	1,704
Defined contribution plan	2,583	1,860	5,240	4,362
Other employee benefits	392	174	2,700	2,754
	<u>18,915</u>	<u>18,165</u>	<u>46,456</u>	<u>44,834</u>
(ii) Establishment related expenses				
Depreciation of property, plant and equipment	1,118	1,201	2,241	2,375
Amortisation of intangible assets	6,425	6,207	12,675	12,428
Depreciation of right-of-use assets	928	748	1,772	1,496
Repair and maintenance	41	61	80	106
Expenses relating to short-term leases and leases of low-value assets	493	525	1,058	1,280
Interest expenses on lease liabilities	28	25	54	50
Others	59	74	264	289
	<u>9,092</u>	<u>8,841</u>	<u>18,144</u>	<u>18,024</u>
(iii) Promotion and marketing related expenses				
Advertising and publicity	-	30	-	63
Others	264	225	809	620
	<u>264</u>	<u>255</u>	<u>809</u>	<u>683</u>
(iv) Administrative and other expenses				
Cash collateral fees on CSA	13,423	5,556	23,006	7,378
Communication expenses	233	221	432	390
Legal and professional fees	-	136	-	722
Others	8,325	11,851	22,815	25,161
	<u>21,981</u>	<u>17,764</u>	<u>46,253</u>	<u>33,651</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
31. ALLOWANCE FOR/(REVERSAL OF) IMPAIRMENT ON FINANCIAL INSTRUMENTS				
(a) Allowance for impairment on loans, advances and financing				
Stage 1 and 2 expected credit losses made during the year	6,649	2,266	21,248	15,087
Stage 1 and 2 expected credit losses written back	(1,156)	(286)	(14,023)	(13,777)
Stage 3 expected credit losses made during the year	6	4	26	9
Other movements	1	(1)	(163)	(517)
	<u>5,500</u>	<u>1,983</u>	<u>7,088</u>	<u>802</u>
(b) Reversal of impairment on purchased receivables				
Stage 1 and 2 expected credit losses made during the year	(89)	(126)	281	220
Stage 1 and 2 expected credit losses written back	(94)	11	(592)	(348)
	<u>(183)</u>	<u>(115)</u>	<u>(311)</u>	<u>(128)</u>
(c) Allowance for/(Reversal of) impairment on off-balance sheet exposures				
Stage 1 and 2 expected credit losses made during the year	(1,915)	554	9,661	1,055
Stage 1 and 2 expected credit losses written back	(2,263)	(587)	(4,611)	(1,781)
	<u>(4,178)</u>	<u>(33)</u>	<u>5,050</u>	<u>(726)</u>
(d) Reversal of impairment on financial investments at FVOCI				
Stage 1 and 2 expected credit losses made during the year	-	(17)	-	-
Stage 1 and 2 expected credit losses written back	-	(351)	-	(351)
	<u>-</u>	<u>(368)</u>	<u>-</u>	<u>(351)</u>
	<u>1,139</u>	<u>1,467</u>	<u>11,827</u>	<u>(403)</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

32. CAPITAL ADEQUACY

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

	2023 September	2023 March
	%	%
Common equity Tier 1 ("CET 1") capital ratio	28.149	33.925
Tier 1 capital ratio	28.149	33.925
Total capital ratio	<u>28.902</u>	<u>34.956</u>

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

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

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

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

	2023 September	2023 March
	RM'000	RM'000
<u>CET 1 and Tier 1 capital</u>		
• Paid-up ordinary share capital	200,000	200,000
• Retained profits	3,819,899	3,819,899
• Other reserves	82,692	136,301
	<u>4,102,591</u>	<u>4,156,200</u>
Less: Deferred tax assets	(5,636)	(5,636)
Intangible assets	(51,205)	(63,506)
55% of fair value reserve	(13,170)	(15,169)
Regulatory reserve	<u>(63,000)</u>	<u>(112,975)</u>
	3,969,580	3,958,914
<u>Tier 2 capital</u>		
• Stage 1 and 2 ECL and regulatory reserve	106,130	120,325
Total Capital	<u>4,075,710</u>	<u>4,079,239</u>

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

	2023 September	2023 March
	RM'000	RM'000
Credit risk	11,728,766	9,626,021
Market risk	1,252,779	1,090,688
Operational risk	<u>1,120,379</u>	<u>952,984</u>
	<u>14,101,924</u>	<u>11,669,693</u>

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

32. CAPITAL ADEQUACY (CONTD)

2023 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	9,063,468	9,063,468	486,152	38,892
Banks, Development Financial Institutions & MDBs	2,630,438	1,894,441	663,150	53,052
Corporates	20,774,035	8,866,819	8,646,810	691,745
Regulatory Retail	620	620	620	50
Residential Mortgages	10,713	10,713	4,435	355
Equity Exposures	28,094	28,094	28,094	2,248
Other Assets	605,706	605,706	178,335	14,267
Defaulted Exposures	2,250	2,250	2,250	180
Total On-Balance Sheet Exposures	<u>33,115,324</u>	<u>20,472,111</u>	<u>10,009,846</u>	<u>800,789</u>
Off-Balance Sheet Exposures :				
Credit-related exposures	507,330	507,330	477,320	38,186
Securitisation exposures	3,000	3,000	2,250	180
Derivatives financial instruments	1,943,832	1,943,832	1,239,350	99,148
Total Off-Balance Sheet Exposures	<u>2,454,162</u>	<u>2,454,162</u>	<u>1,718,920</u>	<u>137,514</u>
Total On and Off-Balance Sheet Exposures	<u>35,569,486</u>	<u>22,926,273</u>	<u>11,728,766</u>	<u>938,303</u>
	Long Position RM'000	Short Position RM'000		
(ii) Market Risk	74,680,459	(73,306,490)	1,106,741	88,539
Interest Rate Risk	146,037	-	146,038	11,683
Foreign Exchange Risk				
	<u>74,826,496</u>	<u>(73,306,490)</u>	<u>1,252,779</u>	<u>100,222</u>
(iii) Operational Risk			<u>1,120,379</u>	<u>89,630</u>
Total RWA and Capital Requirements	<u>35,569,486</u>	<u>22,926,273</u>	<u>14,101,924</u>	<u>1,128,155</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

32. CAPITAL ADEQUACY (CONTD)

2023 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	8,484,838	8,484,838	409,023	32,722
Banks, Development Financial Institutions & MDBs	2,439,085	1,454,140	634,493	50,759
Corporates	23,127,209	6,675,003	6,393,242	511,459
Regulatory Retail	757	757	757	61
Residential Mortgages	11,691	11,691	5,073	406
Equity Exposures	28,094	28,094	28,094	2,248
Other Assets	345,290	345,290	102,735	8,219
Defaulted Exposures	1,899	1,899	1,899	152
Total On-Balance Sheet Exposures	<u>34,438,863</u>	<u>17,001,712</u>	<u>7,575,316</u>	<u>606,026</u>
Off-Balance Sheet Exposures :				
Credit-related exposures	462,321	462,321	435,515	34,841
Securitisation exposures	3,000	3,000	2,250	180
Derivatives financial instruments	2,757,330	2,757,330	1,612,940	129,035
Total Off-Balance Sheet Exposures	<u>3,222,651</u>	<u>3,222,651</u>	<u>2,050,705</u>	<u>164,056</u>
Total On and Off-Balance Sheet Exposures	<u>37,661,514</u>	<u>20,224,363</u>	<u>9,626,021</u>	<u>770,082</u>
	Long Position RM'000	Short Position RM'000		
(ii) Market Risk				
Interest Rate Risk	77,718,145	(77,559,045)	1,039,825	83,186
Foreign Exchange Risk	3,028	(50,868)	50,863	4,069
	<u>77,721,173</u>	<u>(77,609,913)</u>	<u>1,090,688</u>	<u>87,255</u>
(iii) Operational Risk				
			<u>952,984</u>	<u>76,239</u>
Total RWA and Capital Requirements	<u>37,661,514</u>	<u>20,224,363</u>	<u>11,669,693</u>	<u>933,576</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

33. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2023 September RM'000	2023 March RM'000
Outstanding credit exposures with connected parties	428,935	417,140
Total credit exposures	36,302,335	38,208,639
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	1.2%	1.1%
- as a proportion of total capital	10.5%	10.2%

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

34. THE OPERATIONS OF ISLAMIC BANKING WINDOW

The financial statements as at 30 September 2023 and for the period ended on the date are summarised as follows:

UNAUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2023

	2023 September RM'000	2023 March RM'000
ASSETS		
Cash and short-term funds	(a) 110,000	116,000
Deposits and placements with financial institutions	(b) 711	1,188
Other assets	18	9
TOTAL ASSETS	110,729	117,197
LIABILITIES AND ISLAMIC BANKING FUNDS		
Deposits from customers	(c) 12,223	14,355
Other liabilities	(d) 8,937	24,090
TOTAL LIABILITIES	21,160	38,445
CAPITAL FUNDS	25,000	25,000
RESERVE	64,569	53,752
ISLAMIC BANKING FUNDS	89,569	78,752
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS	110,729	117,197

Islamic financing based on Commodity Murabahah (Tawarruq) of RM4,944,563,000 (2023 March: RM5,986,749,000) and Ijarah of RM114,542,000 (2023 March: RM118,194,000) were financed under an internal Wakalah scheme and is reported at the entity level.

Tawarruq structure for the Bank's Islamic financing product consists of three (3) sales and purchases transactions. The first involves the purchase of commodity by the Bank from Commodity Trader 1, on cash and spot basis. Secondly, the Bank will sell the commodity using Murabahah contract, to the customer on deferred basis. Subsequently, the customer will sell the commodity to Commodity Trader 2, on cash and spot basis. Finally, the customer will get cash to finance the customer's needs.

**UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
Income derived from investment of Islamic Banking capital fun	(e) 989	688	1,880	1,218
Expenses derived from financing	(f) (1)	-	(2)	(1)
Other operating income	(g) 4,142	2,996	9,102	6,697
Total net income	5,130	3,684	10,980	7,914
Other operating expenses	(h) (79)	(64)	(163)	(136)
Profit for the year	5,051	3,620	10,817	7,778

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

34. THE OPERATIONS OF ISLAMIC BANKING WINDOW (CONTD)

**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

	Capital Funds RM'000	Regulatory Reserve RM'000	Retained Profits RM'000	Total RM'000
At 1 April 2023	25,000	118	53,634	78,752
Profit for the year	-	-	10,817	10,817
At 30 September 2023	<u>25,000</u>	<u>118</u>	<u>64,451</u>	<u>89,569</u>
At 1 April 2022	25,000	118	30,080	55,198
Profit for the year	-	-	7,778	7,778
At 30 September 2022	<u>25,000</u>	<u>118</u>	<u>37,858</u>	<u>62,976</u>

**UNAUDITED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 SEPTEMBER 2023**

	2023 September RM'000	2022 September RM'000
Cash flows from operating activities		
Profit before tax	10,817	7,778
Deposits and placements with financial institutions	477	(1,149)
Other assets	(9)	(3)
	<u>11,285</u>	<u>6,626</u>
(Decrease)/Increase in operating liabilities:		
Deposits from customers	(2,132)	5,682
Other liabilities	(15,153)	3,692
Net cash generated from operating activities	<u>(6,000)</u>	<u>16,000</u>
Net (decrease)/increase in cash and cash equivalents	(6,000)	16,000
Cash and cash equivalents at beginning of the year	116,000	103,000
Cash and cash equivalents at end of the year	<u>110,000</u>	<u>119,000</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

34. THE OPERATIONS OF ISLAMIC BANKING WINDOW (CONTD)

Shariah Committee

The Shariah Committee was established under BNM's "Shariah Governance Policy Document" ("the SGP") to advise the Board of Directors on Shariah matters in its Islamic Banking business operations and to provide technical assistance in ensuring the Islamic Banking products and services offered by the Bank and the relevant documentation are in compliance with Shariah principles.

As of March 2023, the committee comprises: Assoc. Prof. Dr. Abdul Karim bin Ali, Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi, Prof. Dato' Dr. Mohd Azmi bin Omar and Assoc. Prof. Dr. Mohamad Zaharuddin bin Zakaria.

Basis of Preparation

The financial statements of the Islamic Banking business have been prepared on the basis consistent with that of the Bank as disclosed in Note 1 to the audited financial statements of the Bank for financial year ended 31 March 2023.

(a) Cash and short-term funds

	2023 September RM'000	2023 March RM'000
Cash and balances with banks and other financial institutions	110,000	116,000

(b) Deposits and placements with financial institutions

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Licensed bank		
• Malaysia	711	1,188

(c) Deposits from customers

(i) By type of deposits:

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Current accounts - Qard	12,050	14,185
Fixed deposits - Tawarruq	173	170
	<u>12,223</u>	<u>14,355</u>

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

	2023 September RM'000	2023 March RM'000
Due within six months	-	170
Six months to one year	173	-
	<u>173</u>	<u>170</u>

(iii) By type of customer:

	2023 September RM'000	2023 March RM'000
Domestic business enterprises	12,034	13,871
Foreign entities	16	314
Domestic other entities	173	170
	<u>12,223</u>	<u>14,355</u>

Qard is a contract of lending a fungible asset to a borrower who is bound to return an equivalent replacement. No profit expense from deposits shall be paid from the transactions.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

34. THE OPERATIONS OF ISLAMIC BANKING WINDOW (CONTD)

(d) Other liabilities

	2023 September RM'000	2023 March RM'000
Accruals and provisions for operational expenses	8,937	24,090

(e) Income derived from investment of Islamic Banking Capital Funds

	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
Money at call and placements with financial institutions	989	688	1,880	1,218

(f) Expenses derived from financing

	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
Deposits from customers	1	-	2	1

(g) Other operating income

	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
Other fee income	4,142	2,996	9,102	6,697

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

34. THE OPERATIONS OF ISLAMIC BANKING WINDOW (CONTD)

(h) Other operating expenses

	2nd Quarter Ended		Six Months Ended	
	2023 September RM'000	2022 September RM'000	2023 September RM'000	2022 September RM'000
Personnel expenses	99	47	152	90
Other expenses	(20)	17	11	46
	<u>79</u>	<u>64</u>	<u>163</u>	<u>136</u>

(i) 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:

	2023 September	2023 March
Common equity Tier 1 ("CET 1") capital ratio	243.509	294.730
Tier 1 capital ratio	243.509	294.730
Total capital ratio	<u>243.509</u>	<u>294.730</u>

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

	2023 September RM'000	2023 March RM'000
<u>CET 1 and Tier 1 capital</u>		
● Capital funds	25,000	25,000
● Retained profits	53,634	53,634
● Other reserves	118	118
	<u>78,752</u>	<u>78,752</u>
Less: Regulatory reserve	(118)	(118)
Total capital	<u>78,634</u>	<u>78,634</u>

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

	2023 September RM'000	2023 March RM'000
Operational risk	<u>32,292</u>	<u>26,680</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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

34. THE OPERATIONS OF ISLAMIC BANKING WINDOW (CONTD)

(i) Capital adequacy (Contd)

The components of risk-weighted assets of the Bank's Islamic Banking business are as follows:

	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
2023 September				
Exposure Class				
(i) Credit Risk				
On-Balance Sheet Exposures:				
Other Assets	110,728	110,728	-	-
Total On-Balance Sheet Exposures	<u>110,728</u>	<u>110,728</u>	<u>-</u>	<u>-</u>
(ii) Operational Risk				
			32,292	2,583
Total RWA and Capital Requirements	<u>110,728</u>	<u>110,728</u>	<u>32,292</u>	<u>2,583</u>
2023 March				
Exposure Class				
(i) Credit Risk				
Other Assets	117,197	117,197	-	-
Total On-Balance Sheet Exposures	<u>117,197</u>	<u>117,197</u>	<u>-</u>	<u>-</u>
(ii) Operational Risk				
			26,680	2,134
Total RWA and Capital Requirements	<u>117,197</u>	<u>117,197</u>	<u>26,680</u>	<u>2,134</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2023 (CONTD)**

35. THE OPERATIONS OF INTERNATIONAL CURRENCY BUSINESS UNIT

The Bank has obtained approval from BNM to set up an International Currency Business Unit ("ICBU") to promote Islamic Banking business. The ICBU is permitted to conduct a wide range of Islamic banking business in international currencies other than Malaysian Ringgit and the currency of Israel as per the Guidelines on the Establishment of International Currency Business Unit issued by BNM.

The following breakdown shows the Bank's financing and advances and deposits from customers which are conducted through ICBU.

(a) Financing and advances

(i) By type:

	2023 September RM'000	2023 March RM'000
<i>At amortised cost</i>		
Term financing		
• Syndicated Islamic financing	583,648	576,195
• Islamic term financing loan	38,367	45,065
Revolving credits	1,766,263	3,322,413
Gross financing and advances at amortised cost	<u>2,388,278</u>	<u>3,943,673</u>
Impairment allowances financing and advances		
• Stage 1 - 12-month ECL	(1,822)	(989)
Net financing and advances at amortised cost	<u>2,386,456</u>	<u>3,942,684</u>
<i>At fair value</i>		
Syndicated Islamic financing	333,953	339,391
Net financing and advances	<u>2,720,409</u>	<u>4,282,075</u>
Gross financing and advances		
<i>At amortised cost</i>	2,388,278	3,943,673
<i>At fair value</i>	333,953	339,391
	<u>2,722,231</u>	<u>4,283,064</u>
(ii) By contract:		
Murabahah Financing-i	2,202,247	3,734,132
Ijarah Financing-i	147,664	164,476
Istina Financing-i	38,367	45,065
Wakalah Financing-i	333,953	339,391
	<u>2,722,231</u>	<u>4,283,064</u>

MUFG BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

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

- (a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume.
- (b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions, to develop and employ more rigorous risk management framework and techniques. This includes specific oversight by the Board of Directors and Management on internal controls and corporate governance practices, to ensure that banking institutions have an appropriate level of internal capital above its regulatory capital to commensurate with their risk profile and business plan at all times.
- (c) Pillar 3 aims to harness the power of market discipline through enhanced disclosure, to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

The Bank adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of Pillar 1 under BNM's CAF. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk. The capital required for operational risk under the Basic Indicator Approach is computed based on earnings at risk on the Bank's gross income for a fixed number of quarterly periods.

The Bank's Pillar 3 Disclosure is governed by BNM's Guidelines on Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) and Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3) which set out the minimum disclosure standards. The approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed.

The 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:

	2023 September		2023 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	11,728,766	938,302	9,626,020	770,082
Market Risk	1,252,779	100,222	1,090,688	87,255
Operational Risk	1,120,379	89,631	952,984	76,239
	14,101,924	1,128,155	11,669,692	933,576

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 assesses the Bank's capital requirements under stress events including plausible, exceptional but plausible scenario and worst case scenario, to gauge the ability of the Bank's capital to withstand and absorb external shocks. The results of the stress test are to facilitate the formulation of pre-emptive remedial actions if the stress test reveals that the Bank's capital will be adversely affected under such events. The results of the stress test together with remedial actions, if any, are tabled to the Risk Management Committee ("RMC") and the Board for deliberations.

(a) Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	2023 September	2023 March
	%	%
Common equity Tier 1 ("CET 1") capital ratio	28.149	33.925
Tier 1 capital ratio	28.149	33.925
Total capital ratio	<u>28.902</u>	<u>34.956</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 including capital conservation buffer for the following capital ratios are:

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

Please refer to Note 34(k) for Islamic Banking operation capital adequacy.

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

	2023 September	2023 March
	RM'000	RM'000
<u>CET 1 and Tier 1 capital</u>		
• Paid-up share capital	200,000	200,000
• Retained profits	3,819,899	3,819,899
• Other reserves	82,692	136,301
	<u>4,102,591</u>	<u>4,156,200</u>
Less: Deferred tax assets	(5,636)	(5,636)
Intangible assets	(51,205)	(63,506)
55% of fair value reserve	(13,170)	(15,169)
Regulatory reserve	<u>(63,000)</u>	<u>(112,975)</u>
	3,969,580	3,958,914
<u>Tier 2 capital</u>		
• Stage 1 and 2 ECL and regulatory reserve	<u>106,130</u>	<u>120,325</u>
Total capital	<u>4,075,710</u>	<u>4,079,239</u>

2. CAPITAL MANAGEMENT (CONTD)

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

2023 September

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	9,063,468	9,063,468	486,152	38,892
Banks, Development Financial Institutions & MDBs	2,630,438	1,894,441	663,150	53,052
Corporates	20,774,035	8,866,819	8,646,810	691,745
Regulatory Retail	620	620	620	50
Residential Mortgages	10,713	10,713	4,435	355
Equity Exposures	28,094	28,094	28,094	2,248
Other Assets	605,706	605,706	178,335	14,267
Defaulted Exposures	2,250	2,250	2,250	180
Total On-Balance Sheet Exposures	33,115,324	20,472,111	10,009,846	800,789
Off-Balance Sheet Exposures:				
Credit-Related Exposures	507,330	507,330	477,320	38,186
Securitisation Exposures	3,000	3,000	2,250	180
Derivatives Financial Instruments	1,943,832	1,943,832	1,239,350	99,148
Total Off-Balance Sheet Exposures	2,454,162	2,454,162	1,718,920	137,514
Total On and Off-Balance Sheet Exposures	35,569,486	22,926,273	11,728,766	938,303
(ii) Market Risk				
	Long Position RM'000	Short Position RM'000		
Interest Rate Risk	74,680,459	(73,306,490)	1,106,741	88,539
Foreign Currency Risk	146,037	-	146,038	11,683
	74,826,496	(73,306,490)	1,252,779	100,222
(iii) Operational Risk			1,120,379	89,630
Total RWA and Capital Requirements	35,569,486	22,926,273	14,101,924	1,128,155

2. CAPITAL MANAGEMENT (CONTD)

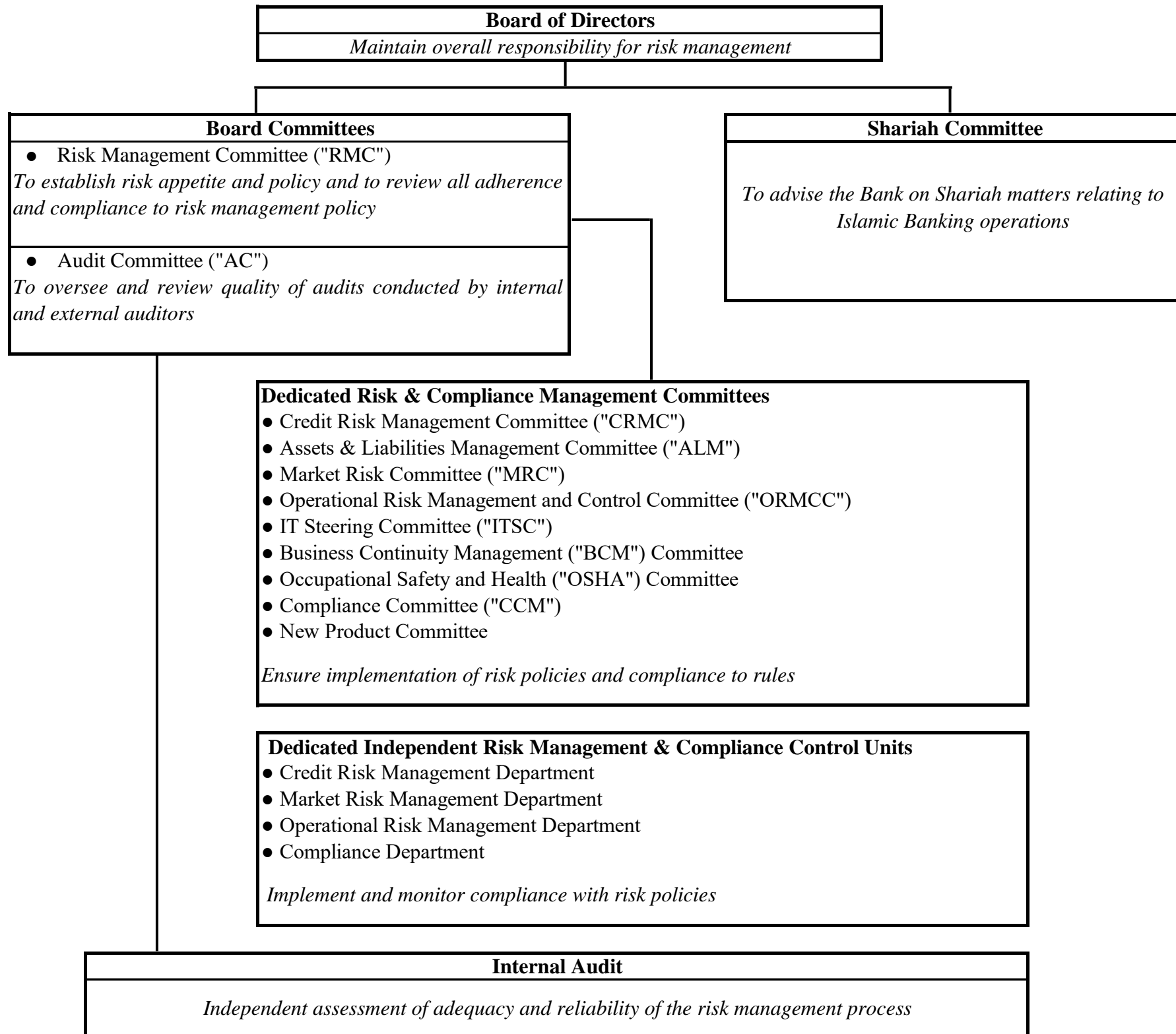
(c) The components of risk-weighted assets of the Bank are as follows: (Contd)

2023 March

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	8,484,838	8,484,838	409,023	32,722
Banks, Development Financial Institutions & MDBs	2,439,085	1,454,140	634,493	50,759
Corporates	23,127,209	6,675,003	6,393,242	511,459
Regulatory Retail	757	757	757	61
Residential Mortgages	11,691	11,691	5,073	406
Equity Exposures	28,094	28,094	28,094	2,248
Other Assets	345,290	345,290	102,735	8,219
Defaulted Exposures	1,899	1,899	1,899	152
Total On-Balance Sheet Exposures	<u>34,438,863</u>	<u>17,001,712</u>	<u>7,575,316</u>	<u>606,026</u>
Off-Balance Sheet Exposures:				
Credit-Related Exposures	462,321	462,321	435,515	34,841
Securitisation Exposures	3,000	3,000	2,250	180
Derivatives Financial Instruments	2,757,330	2,757,330	1,612,940	129,035
Total Off-Balance Sheet Exposures	<u>3,222,651</u>	<u>3,222,651</u>	<u>2,050,705</u>	<u>164,056</u>
Total On and Off-Balance Sheet Exposures	<u>37,661,514</u>	<u>20,224,363</u>	<u>9,626,021</u>	<u>770,082</u>
(ii) Market Risk				
	Long Position RM'000	Short Position RM'000		
Interest Rate Risk	77,718,145	(77,559,045)	1,039,825	83,186
Foreign Currency Risk	3,028	(50,868)	50,863	4,069
	<u>77,721,173</u>	<u>(77,609,913)</u>	<u>1,090,688</u>	<u>87,255</u>
(iii) Operational Risk			<u>952,984</u>	<u>76,239</u>
Total RWA and Capital Requirements	<u>37,661,514</u>	<u>20,224,363</u>	<u>11,669,693</u>	<u>933,576</u>

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, operation risk, information security risk and unique risk for Islamic financial business in particular Shariah non-compliance risk. Other key functions of RMC include reviewing risk management policies and limits, reviewing reports on risk exposures and risk portfolio composition and ensuring that infrastructure, resources and systems are in place for risk management activities.

The AC is supported by IAD to provide an independent assessment of the adequacy and reliability of the risk management processes and its compliance with risk policies and regulatory requirements.

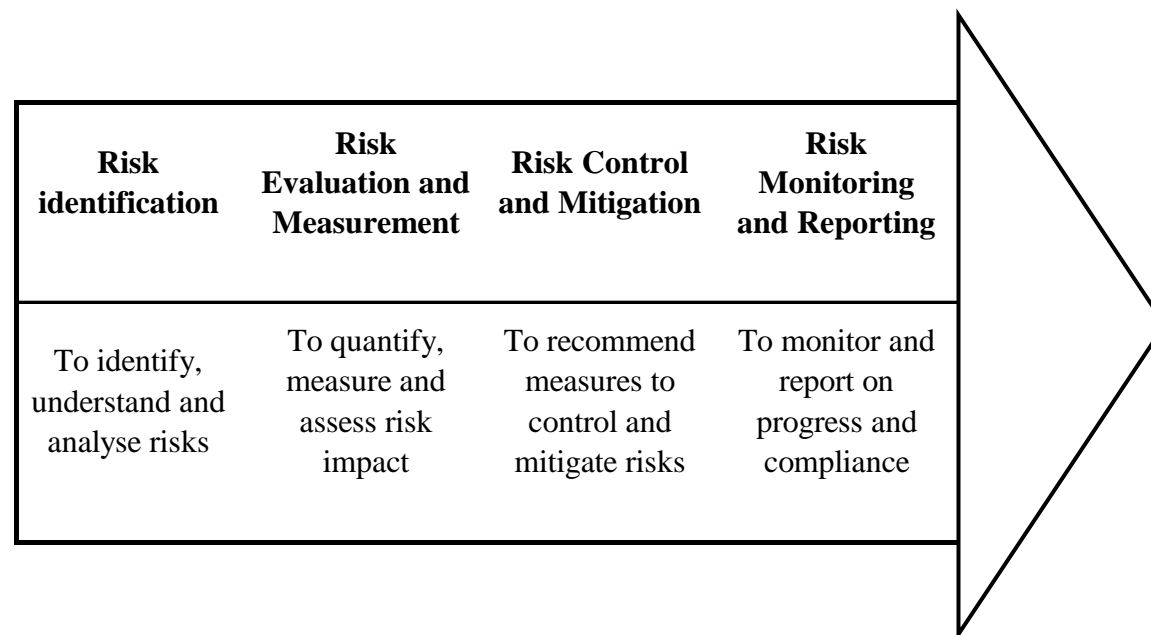
The Shariah Committee ("SC") advises the Bank on Shariah matters relating to the Islamic banking operations. The Committee ensures that the operations of Islamic banking, its products, processes and legal documentation are in line with Shariah principles.

The CRMC, the ALM, the MRC, and the ORMCC assist the RMC in managing credit, balance sheet & liquidity, market and operational risks respectively, whereas compliance risk is monitored and managed through Compliance Committee Meeting ("CCM"). These committees are responsible for overseeing the development and implementation of risk management and compliance policies to facilitate the managing and monitoring of risk exposures and portfolio composition. It is also to ensure that adequate infrastructure, resources and systems are put in place to support the risk management and compliance process.

The designated independent risk management control units provide crucial support to the RMC and are responsible for ensuring risk policies are implemented and complied with. They are also responsible for the identification, evaluation, measurement, controlling, monitoring and reporting of risk.

The Bank has established a structured approach to risk management which balances risks against returns, as well as integrated risk management processes across key risk areas. The risk management activities encompass four broad processes namely risk identification, risk evaluation and measurement, risk control and mitigation, risk monitoring and reporting which lead to a balanced risk-return. It is the Bank's policy that all risk management policies are subject to frequent reviews to ensure that they remain relevant and effective in managing the associated risks arising from changes in both operating and regulatory environments.

The integrated risk management process follows four broad processes:



3. RISK MANAGEMENT FRAMEWORK (CONTD)

Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank has put in place process for assessing its capital adequacy under the BNM's Risk-Weighted Capital Adequacy Framework (Basel II) Internal Capital Adequacy Assessment Process (Pillar 2) in relation to its risk profile and strategy for maintaining adequate capital levels relative to its risk profile. The Bank's ICAAP framework includes procedures and measures designed to ensure the following:

- Appropriate identification and measurement of material risks
- Appropriate level of internal capital relative to the Bank's risk profile
- Sufficient policy and procedures to ensure on-going capital adequacy
- Development and implementation of suitable risk management methodologies, systems and processes

The Principle of Proportionality is adopted whereby 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 covering risks under Pillar 1 & 2 and other risks with documentation of the Bank's risk profile 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 material risk assessment is measured by risk frequency and monetary impact and it is reviewed annually to reflect the changes to its business plan, operating environment or other factors, guided by the methodologies, processes, empirical data and assumptions.

The risk inventory assessment and review process ensures that all risks are identified and evaluated for their relevance, materiality, mitigation, management and capitalisation considerations that formed an integral part of internal capital trigger and target setting process.

The Bank's internal capital trigger and target are set to ensure that the Bank's capital level is resilient under stressed economic conditions, commensurate with the risk profile of the Bank and remains above regulatory requirements.

The Bank's capital adequacy ratio is being monitored through Risk Appetite Statement ("RAS") dashboard and is reported to the RMC and the Board on a quarterly basis.

Stress Testing/Reverse Stress Testing

Stress testing framework has been integrated into the Bank's risk management structure and is used as a risk management tool for evaluation of the potential impact on the Bank's capital adequacy and performance under stress conditions. Reverse stress testing ("RST") process is also part of the Bank's stress testing framework with the objective to identify a range of adverse scenarios and trigger points that could potentially threaten the viability of the Bank's business model, including solvency concern and liquidity crunch. The assessment covers the likelihood of such events that could materialise over a time horizon that enables the Bank to identify its potential vulnerabilities and fault lines in its business model.

The stress testing framework is approved by the Board. The Management is actively involved in the process of designing the stress test program, ensuring the assumptions are relevant and consistent with the Bank's risk profile and is conducted properly and any exceptions noted have been dealt with appropriately.

The results of the stress test are compared against internal capital trigger and target, as part of the sound capital management process under ICAAP, which are reported to RMC and the Board on a half-yearly basis. The stress test results are deliberated to consider the implications on the Bank's business profile and to consider corrective measures where necessary.

4. CREDIT RISK

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. The Bank's exposure to credit risk is primarily from its lending and financing to large corporations and small and medium-sized companies ("SMEs"). Trading and investing the surplus funds of the Bank, such as trading or holding of debt securities, settlement of transactions, also exposed the Bank to credit risk and counterparty credit risk.

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit processing officers are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the risk management control units, the Credit Risk Management Department ("CRMD") has functional responsibility for credit risk management which includes formulating and reviewing credit risk related policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the other risks and ensuring the respective risk policies are implemented and complied with. The department is also involved in post-implementation validation of borrower rating model which include the assessment of accuracy and discriminatory power of rating model.

Risk Management Approach

The Bank manages its credit risk by using its internal credit rating system. The purpose of the credit rating system is to objectively evaluate the credit worthiness/credit risk (i.e. the probability of future credit losses over a period of time) of the borrowers which it extends credit. A borrower is not only screened at the time of initial extension of credits but also monitored continuously during the entire term until the full repayment. Efforts are made towards the early detection of latent problems by assessing the credit risk of borrowers on an on-going basis. Credit examination by the holding company is one of the processes used to verify the suitability of a credit rating and the soundness of a portfolio from a third party's perspective to avoid risk concentration within specific industries, specific purposes or secured by the same type of collateral.

Credit risk management reports are regularly presented to both the CRMC and the RMC, containing information on trends across major portfolios, including credit exposure, quality of credit portfolios, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single counterparty. Such information allows Management to identify adverse credit trends, take corrective actions and formulate business strategies.

Distribution of Credit Exposures

The following tables present the credit exposures of financial assets before the effect of credit risk mitigation, broken down by the relevant category and class of financial assets against the relevant economic sectors, geographical location 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:

2023 September	Cash and Short-Term Funds RM'000	Reverse Repurchase Agreements RM'000	Deposits and Placement with Financial Institutions RM'000	Financial Assets at FVTPL RM'000	Financial Investments at FVOCI RM'000	Loans, Advances and Financing # RM'000	Embedded Loans Measured at FVTPL RM'000	Purchased Receivables # RM'000	Collateral Deposits Placed RM'000	Derivative Financial Assets RM'000	Statutory Deposits with BNM RM'000	Other Financial Assets RM'000	On-Balance Sheet Total RM'000	Commitments and Contingencies * RM'000
Agricultural, hunting, forestry and fishing	-	-	-	-	-	210,452	-	-	-	833	-	-	211,285	86,880
Mining and quarrying	-	-	-	-	-	383,964	-	-	-	9,060	-	-	393,024	60,800
Manufacturing	-	-	-	-	-	1,126,745	198,515	112,222	-	107,448	-	-	1,544,930	4,838,727
Electricity, gas and water	-	-	-	-	-	290,767	1,529,059	-	-	1,354	-	-	1,821,180	1,317,870
Construction	-	-	-	-	-	608,092	395,348	-	-	128	-	-	1,003,568	859,006
Wholesale, retail trade, restaurants and hotels	-	-	-	-	-	698,001	145,908	-	-	29,109	-	-	873,018	3,216,942
Transport, storage and communication	-	-	-	-	-	1,183,227	279,762	-	-	2,618	-	-	1,465,607	768,140
Finance, insurance, real estate and business services	1,694,693	-	125,983	-	28,094	2,391,030	11,028,629	759,183	5,383	499,353	-	-	16,532,348	4,639,615
Government and government agencies	4,457,000	127,698	2,483,930	1,282,405	1,069,093	-	-	-	-	-	961	-	9,421,087	-
Households	-	-	-	-	-	13,929	-	-	-	-	-	-	13,929	460
Others	-	-	-	-	2	566,283	1,882	-	-	30	-	-	568,197	1,672
	6,151,693	127,698	2,609,913	1,282,405	1,097,189	7,472,490	13,579,103	871,405	5,383	649,933	961	-	33,848,173	15,790,112
Other assets not subject to credit risk	-	-	-	-	-	-	-	-	-	-	-	98,169	98,169	-
	6,151,693	127,698	2,609,913	1,282,405	1,097,189	7,472,490	13,579,103	871,405	5,383	649,933	961	98,169	33,946,342	15,790,112

Stated at gross.

* Commitments and contingencies excluding derivative financial assets and embedded loans measured at FVTPL.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(a) The following tables present the credit exposures of financial assets of the Bank analysed by economic sectors: (Contd)

2023 March	Cash and Short-Term Funds RM'000	Reverse Repurchase Agreements RM'000	Deposits and Placement with Financial Institutions RM'000	Financial Assets at FVTPL RM'000	Financial Investments at FVOCI RM'000	Loans, Advances and Financing # RM'000	Embedded Loans Measured at FVTPL RM'000	Purchased Receivables # RM'000	Collateral Deposits Placed RM'000	Derivative Financial Assets RM'000	Other Financial Assets RM'000	Statutory Deposits with BNM RM'000	On-Balance Sheet Total RM'000	Commitments and Contingencies * RM'000
Agricultural, hunting, forestry and fishing	-	-	-	-	-	200,300	-	-	-	100	-	-	200,400	94,150
Mining and quarrying	-	-	-	-	-	389,542	-	-	-	9,808	-	-	399,350	4,364,742
Manufacturing	-	-	-	-	-	1,173,583	517,799	98,672	-	29,686	-	-	1,819,740	1,175,870
Electricity, gas and water	-	-	-	-	-	236,946	2,552,613	-	-	2,978	-	-	2,792,537	57,388
Construction	-	-	-	-	-	485,315	402,930	-	-	80	-	-	888,325	789,083
Wholesale, retail trade, restaurants and hotels	-	-	-	-	-	546,685	193,999	-	-	17,107	-	-	757,791	2,823,760
Transport, storage and communication	-	-	-	-	-	1,142,031	284,855	-	-	29,887	-	-	1,456,773	823,600
Finance, insurance, real estate and business services	1,317,652	-	99,583	-	28,094	3,982,664	11,001,418	1,020,827	-	308,428	-	-	17,758,666	2,676,431
Government and government agencies	5,715,600	130,439	1,743,752	48,825	841,113	-	-	-	814	-	2,319	-	8,482,862	-
Households	-	-	-	-	-	14,670	-	-	-	-	-	-	14,670	701
Others	-	-	-	-	1	412,238	2,635	-	-	-	-	-	414,874	168,270
	7,033,252	130,439	1,843,335	48,825	869,208	8,583,974	14,956,249	1,119,499	814	398,074	2,319	-	34,985,988	12,973,995
Other assets not subject to credit risk	-	-	-	-	-	-	-	-	-	-	-	13,570	13,570	-
	7,033,252	130,439	1,843,335	48,825	869,208	8,583,974	14,956,249	1,119,499	814	398,074	2,319	13,570	34,999,558	12,973,995

Stated at gross.

* Commitments and contingencies excluding derivative financial assets and embedded loans measured at FVTPL.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(b) The following tables present the credit exposures of financial assets analysed by geographical location based on where the credit risk resides:

	2023 September		2023 March	
	Malaysia RM'000	Other Countries RM'000	Malaysia RM'000	Other Countries RM'000
Cash and short-term funds	5,217,100	934,593	6,705,776	327,476
Reverse repurchase agreements	127,698	-	130,439	-
Deposits and placement with financial institutions	2,484,061	125,852	1,743,846	99,489
Financial assets at FVTPL	1,282,405	-	48,825	-
Financial investments at FVOCI	845,078	252,111	536,573	332,635
Loans, advances and financing	6,050,286	1,422,204	7,163,277	1,420,697
Embedded loans measured at FVTPL *	13,526,103	53,000	14,905,529	50,720
Purchased receivables	133,050	738,355	138,697	980,802
Collateral deposits placed	5,383	-	814	-
Derivative financial assets	568,639	81,294	318,597	79,477
Statutory deposits with Bank Negara Malaysia	961	-	2,319	-
Other assets	98,169	-	13,570	-
On-Balance Sheet Exposures	30,338,933	3,607,409	31,708,262	3,291,296
Off-Balance Sheet Exposures	2,185,018	269,144	2,950,652	271,999
	32,523,951	3,876,553	34,658,914	3,563,295

* The credit balances are exposure after netting off with the identified cover deals.

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 60% (2023 March: 62%) of the Bank's exposures to customers are short-term, having contractual maturity of one year or less:

2023 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	No Specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	4,867,100	350,000	-	-	-	934,593	6,151,693
Reverse repurchase agreements	127,698	-	-	-	-	-	127,698
Deposits and placement with financial institutions	2,553,227	-	-	-	-	56,686	2,609,913
Financial assets at FVTPL	-	-	331,731	796,137	154,537	-	1,282,405
Financial investments at FVOCI	-	-	362,163	706,932	-	28,094	1,097,189
Loans, advances and financing	2,344,614	1,615,916	861,744	1,954,511	695,705	-	7,472,490
Embedded loans measured at FVTPL	1,864,924	618,827	3,224,041	6,840,910	1,030,401	-	13,579,103
Purchased receivables	331,029	494,950	33,437	11,989	-	-	871,405
Collateral deposits placed	5,383	-	-	-	-	-	5,383
Derivative financial assets	89,177	85,349	110,459	266,490	98,458	-	649,933
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	961	961
Other assets	-	-	-	-	-	98,169	98,169
	12,183,152	3,165,042	4,923,575	10,576,969	1,979,101	1,118,503	33,946,342

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future receivables since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire or unconditionally cancelled by the Bank without them being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(c) The following tables present the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets. Approximately 60% (2023 March: 62%) of the Bank's exposures to customers are short-term, having contractual maturity of one year or less: (Contd)

2023 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	No Specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	6,555,776	150,000	-	-	-	327,476	7,033,252
Reverse repurchase agreements	-	-	130,439	-	-	-	130,439
Deposits and placement with financial institutions	1,811,564	-	-	-	-	31,771	1,843,335
Financial assets at FVTPL	-	-	-	-	48,825	-	48,825
Financial investments at FVOCI	-	66,345	-	774,769	-	28,094	869,208
Loans, advances and financing	4,835,749	328,248	779,006	1,982,777	658,194	-	8,583,974
Embedded loans measured at FVTPL	1,588,418	397,907	3,805,370	7,961,624	1,202,930	-	14,956,249
Purchased receivables	329,973	564,863	200,934	23,729	-	-	1,119,499
Collateral deposits placed	814	-	-	-	-	-	814
Derivative financial assets	45,287	37,376	39,563	219,519	56,329	-	398,074
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2,319	2,319
Other assets	-	-	-	-	-	13,570	13,570
	15,167,581	1,544,739	4,955,312	10,962,418	1,966,278	403,230	34,999,558

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future receivables since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire or unconditionally cancelled by the Bank without them being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

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

(i) Off-Balance Sheet Exposures

Off-balance sheet exposures of the Bank are mainly from the following:

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans even though they are contingent in nature;
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate;
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities; and
- Principal/notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out in the above disclosure.

(ii) Counterparty Credit Risk on Derivative Financial Instruments

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

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

(iii) Risk Management Approach

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

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

(iv) Credit Rating Downgrade

In the event of a one-notch downgrade of rating for the Bank, based on the terms of the existing CSA of ISDA, the estimated additional collateral to be posted was RM1,406,000 for 30 September 2023 (2023 March: RM1,766,000).

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

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

(iv) Credit Rating Downgrade (Contd)

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

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
2023 September				
Contingent Liabilities				
Direct credit substitutes	141,992		141,992	128,030
Transaction related contingent items	662,709		331,355	314,648
Short-term self liquidating trade-related contingencies	60,800		12,160	12,872
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	107,970		21,593	21,594
• exceeding one year	460		230	176
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	14,801,181		-	-
Securitisation exposures	15,000		3,000	2,250
	<u>15,790,112</u>		<u>510,330</u>	<u>479,570</u>
Embedded Loans				
Foreign exchange related contracts				
• one year or less	7,301,143	268,101	153,490	78,168
• over one year to five years	9,780,002	515,490	500,824	272,647
• over five years	1,425,635	62,038	47,362	27,784
Interest rate related contracts				
• one year or less	3,626,899	6,894	6,358	2,312
• over one year to five years	7,115,547	100,803	114,842	52,740
• over five years	220,000	5,752	8,132	4,066
	<u>29,469,226</u>	<u>959,078</u>	<u>831,008</u>	<u>437,717</u>
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	24,545,723	273,183	485,401	375,021
• over one year to five years	3,623,299	228,774	279,785	195,386
• over five years	1,120,799	77,386	186,355	145,531
Interest rate related contracts				
• one year or less	4,887,537	10,444	4,187	1,748
• over one year to five years	7,270,337	37,716	87,030	43,704
• over five years	1,233,233	21,073	66,166	36,343
Currency options *				
• one year or less	169,561	1,357	3,900	3,900
	<u>42,850,489</u>	<u>649,933</u>	<u>1,112,824</u>	<u>801,633</u>
	<u>88,109,827</u>	<u>1,609,011</u>	<u>2,454,162</u>	<u>1,718,920</u>

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

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

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

(iv) Credit Rating Downgrade (Contd)

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

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
2023 March				
Contingent Liabilities				
Direct credit substitutes	104,290		104,271	91,701
Transaction related contingent items	652,459		326,019	311,179
Short-term self liquidating trade-related contingencies	91,937		18,362	18,413
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
• not exceeding one year	110,166		21,833	21,833
• exceeding one year	700		350	263
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	11,999,443		(8,514)	(7,874)
Securitisation exposures	15,000		3,000	2,250
	<u>12,973,995</u>		<u>465,321</u>	<u>437,765</u>
Embedded Loans				
Foreign exchange related contracts				
• one year or less	7,437,406	227,470	286,358	116,937
• over one year to five years	11,603,245	290,929	881,984	466,805
• over five years	1,628,780	68,877	226,851	147,939
Interest rate related contracts				
• one year or less	5,484,262	4,637	7,388	2,939
• over one year to five years	7,905,563	104,525	205,880	86,703
• over five years	348,000	9,249	18,876	9,438
	<u>34,407,256</u>	<u>705,687</u>	<u>1,627,337</u>	<u>830,761</u>
Derivative Financial Instruments				
Foreign exchange related contracts				
• one year or less	22,156,272	109,396	345,510	263,464
• over one year to five years	4,057,495	181,547	366,026	252,716
• over five years	1,125,207	43,044	180,195	139,364
Interest rate related contracts				
• one year or less	7,322,417	11,867	9,668	3,883
• over one year to five years	6,776,940	37,973	132,698	65,132
• over five years	1,210,707	13,284	92,316	54,041
Currency options *				
• one year or less	174,476	963	3,580	3,580
	<u>42,823,514</u>	<u>398,074</u>	<u>1,129,993</u>	<u>782,180</u>
	<u>90,204,765</u>	<u>1,103,761</u>	<u>3,222,651</u>	<u>2,050,706</u>

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

4. CREDIT RISK (CONTD)

Distribution of Credit Exposures (Contd)

(e) Securitisation Exposures

The Bank acts as principal adviser, lead arranger, lead manager, facility agent and/or liquidity provider for third party securitisation with originators. Bankruptcy remote special purpose vehicles ("SPV"), Merdeka Kapital Bhd ("MKB") was established to enter into an agreement with multi-originators to purchase or acquire portfolios of Receivables from them and in turn the SPVs will fund its purchase by issuing series of Asset-backed Medium-Term Notes ("MTNs") backed by such portfolio of Receivables. Horizon Funding Corporation (a bankruptcy remote SPV incorporated in Cayman Islands), acts as a funding vehicle to subscribe to the issuance under the Asset-Backed MTNs Programme.

MKB (Conventional Securitization SPV) has its own unrated Asset-backed MTN Programme. The Bank only provides liquidity facility to MKB and is recognised as off-balance sheet in the banking book. The Bank will also act as a derivative counterparty for the SPVs.

Risk Management Approach

The Bank provides liquidity facility to MKB to cover short-term cash flows disruptions for each of the securitisation exposures. The credit and liquidity risks of the Bank is mitigated by the respective waterfall payment obligations of MKB. 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:

	2023 September RM'000	2023 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
2023 September				
Off-balance sheet				
• Auto loans	15,000	3,000	2,250	180
2023 March				
Off-balance sheet				
• Auto loans	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 the customer's standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

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

- (a) for corporate loans - secured by corporate guarantees and charges over properties or assets being financed.
- (b) for retail mortgages - charges over residential properties.
- (c) for derivatives - additional margin for exposures above the agreed threshold.

There is no material concentration of CRM held. Presently, the CRM that includes bank guarantees and shares are governed by various monitoring limits to ensure such concentration risk is properly managed.

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and counterparty credit risk of the guarantor. Policies and procedures are in place to govern the protection of the Bank's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

The valuation of CRM seeks to monitor and ensure that they will continue to provide the credit protection. Policy on the periodic valuation updates of CRM is in place to ensure this. The value of properties taken as collateral is generally updated from time to time during the review of the customers' facilities to reflect the current market value. The quality, liquidity and collateral type will determine the appropriate haircuts or discounts applied on the market value of the collateral.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. For mortgage loans, the collateral in the form of residential property, is required to be insured at all times against the peril of fire and other associated risks. In addition, customers are generally insured against major risks, such as death and permanent disability.

Currently, the Bank does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Bank's credit exposures. In addition, the Bank enters into master netting arrangements with its derivative counterparties to reduce the credit risk where in the event of default, all amounts with the counterparty are settled on a net basis. Separately, the Bank has started obtaining third party cash collateral in its credit granting process.

4. CREDIT RISK (CONTD)

Credit Risk Mitigation (Contd)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of corporate guarantees, properties, cash, securities from listed exchange or other marketable securities. The Bank does not have any credit exposure which is reduced through the application of other eligible collateral.

Exposure Class	Total Exposures before CRM RM'000	Total Exposures covered by Guarantees RM'000	Total Exposures covered by Financial Collaterals RM'000	Total Exposures covered by Other Eligible Collaterals RM'000
2023 September				
Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	9,063,468	-	-	-
Banks, Development Financial Institutions & MDBs	2,630,438	735,997	-	-
Corporates	20,774,035	900,444	11,006,772	-
Regulatory Retail	620	-	-	-
Residential Mortgages	10,713	-	-	-
Equity Exposures	28,094	-	-	-
Other Assets	605,706	-	-	-
Defaulted Exposures	2,250	-	-	-
Total On-Balance Sheet Exposures	33,115,324	1,636,441	11,006,772	-
Off-Balance Sheet Exposures:				
Credit-related exposures	507,330	-	-	-
Securitisation exposures	3,000	-	-	-
Derivatives financial instruments	1,943,832	-	-	-
Total Off-Balance Sheet Exposures	2,454,162	-	-	-
Total Credit Exposures	35,569,486	1,636,441	11,006,772	-
2023 March				
Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	8,484,838	-	-	-
Banks, Development Financial Institutions & MDBs	2,439,085	984,945	-	-
Corporates	23,127,209	591,421	15,860,785	-
Regulatory Retail	757	-	-	-
Residential Mortgages	11,691	-	-	-
Equity Exposures	28,094	-	-	-
Other Assets	345,290	-	-	-
Defaulted Exposures	1,899	-	-	-
Total On-Balance Sheet Exposures	34,438,863	1,576,366	15,860,785	-
Off-Balance Sheet Exposures:				
Credit-related exposures	462,321	-	-	-
Securitisation exposures	3,000	-	-	-
Derivatives financial instruments	2,757,330	-	-	-
Total Off-Balance Sheet Exposures	3,222,651	-	-	-
Total Credit Exposures	37,661,514	1,576,366	15,860,785	-

4. CREDIT RISK (CONTD)

Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Bank makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or External Credit Assessment Institutions ("ECAI") ratings used by the Bank and are recognised by BNM in the CAF:

- (a) Standard & Poor's Rating Services ("S&P")
- (b) Moody's Investors Services ("Moody's")
- (c) Fitch Ratings ("Fitch")
- (d) RAM Rating Services Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Banking institutions
- (b) Corporates

Unrated and Rated Counterparties

The majority of the Bank's credit and counterparties exposures are unrated. Otherwise, in general, the rating specific to the credit exposure is used, i.e. the issuer rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue nor issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the CAF. Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach:

Corporates

Rating Category	S&P	Moody's	Fitch	RAM	MARC	Risk weights
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB1 to BB3	BBB+ to BB-	100%
4	B+ to D	B1 to C	B+ to D	B1 to D	B+ to D	150%
5	Unrated	Unrated	Unrated	Unrated	Unrated	100%

Banking Institutions

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

Sovereigns and Central Banks

Exposures to BNM denominated and funded in Ringgit Malaysia is assigned a preferential risk weight of 0% as stipulated in the CAF.

4. CREDIT RISK (CONTD)

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

2023 September

Credit Exposure	----- Ratings of Sovereign and Central Banks by Approved ECAs -----						Total
	1	2	3	4	5	Unrated	
<u>On and Off Balance Sheet Exposures</u> Sovereign/Central Banks	9,063,468	-	-	-	-	-	9,063,468

Credit Exposure	----- Ratings of Banking Institutions by Approved ECAs -----						Total
	1	2	3	4	5	Unrated	
<u>On and Off Balance Sheet Exposures</u> Banks, Development Financial Institutions & MDBs	2,479,548	1,332,970	-	23,186	7,621	-	3,843,325

Credit Exposure	<----- Ratings of Corporate by Approved ECAs ----->						Total
	1	2	3	4	Unrated		
<u>On and Off Balance Sheet Exposures</u> Public Sector Entities	-	-	-	-	47,566	47,566	
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	49,983	49,983	
Corporates	968,287	2,275	-	-	20,943,969	21,914,531	
Regulatory Retail	-	-	-	-	620	620	
Residential Mortgages	-	-	-	-	13,181	13,181	
Other Assets	-	-	-	-	605,718	605,718	
Securitisation Exposure	-	-	-	-	3,000	3,000	
Equity Exposure	-	-	-	-	28,094	28,094	
	968,287	2,275	-	-	21,692,131	22,662,693	

4. CREDIT RISK (CONTD)

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

2023 March

Credit Exposure

On and Off Balance Sheet Exposures
Sovereign/Central Banks

----- Ratings of Sovereign and Central Banks by Approved ECAIs -----						
1	2	3	4	5	Unrated	Total
8,484,838	-	-	-	-	-	8,484,838

Credit Exposure

On and Off Balance Sheet Exposures
Banks, Development Financial Institutions & MDBs

----- Ratings of Banking Institutions by Approved ECAIs -----						
1	2	3	4	5	Unrated	Total
2,366,146	1,448,056	-	35,882	26,711	-	3,876,795

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 ----->					
1	2	3	4	Unrated	Total
-	-	-	-	24,174	24,174
-	-	-	-	161,065	161,065
1,055,140	2,275	-	-	23,666,146	24,723,561
-	-	-	-	757	757
-	-	-	-	13,940	13,940
-	-	-	-	345,290	345,290
-	-	-	-	3,000	3,000
-	-	-	-	28,094	28,094
1,055,140	2,275	-	-	24,242,466	25,299,881

4. CREDIT RISK (CONTD)

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

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank:

2023 September	<----- Exposures after Netting and Credit Risk Mitigation ----->											Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Securitisation Exposures RM'000	Equity Exposures RM'000	Other Assets RM'000			
Risk Weights													
0%	6,632,708	-	-	-	400,098	-	-	-	-	220,520	7,253,326	-	
20%	2,430,760	-	2,117,810	-	67,843	-	-	-	-	258,565	4,874,978	1,227,432	
35%	-	-	-	-	-	-	7,818	-	-	-	7,818	2,736	
50%	-	-	964,906	-	2,275	-	2,054	-	-	-	969,235	668,650	
75%	-	-	-	-	-	-	900	3,000	-	-	3,900	2,925	
100%	-	47,566	23,186	49,983	9,537,099	620	2,410	-	28,094	126,633	9,815,591	9,815,591	
150%	-	-	1,425	-	-	-	-	-	-	-	1,425	11,432	
Total Exposures	9,063,468	47,566	3,107,327	49,983	10,007,315	620	13,182	3,000	28,094	605,718	22,926,273	11,728,766	
Risk-Weighted Assets by Exposures	486,152	47,566	1,197,013	49,983	9,731,894	620	6,848	2,250	28,094	178,346	11,728,766		
Average Risk Weight	5%	100%	39%	100%	97%	100%	52%	75%	100%	29%	51%		
Deduction from Total Capital			-					-	-		-		

4. CREDIT RISK (CONTD)

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

The following tables present the credit exposures by risk weights and after credit risk mitigation of the Bank: (Contd)

2023 March	<----- Exposures after Netting and Credit Risk Mitigation ----->											Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
	Sovereigns / Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Securitisation Exposures RM'000	Equity Exposures RM'000	Other Assets RM'000			
Risk Weights													
0%	6,439,721	-	-	-	400,045	-	-	-	-	236,736	7,076,502	-	-
20%	2,045,117	-	1,685,640	-	463,719	-	-	-	-	7,274	4,201,750	1,094,735	-
35%	-	-	-	-	-	-	8,208	-	-	-	8,208	2,873	-
50%	-	-	1,170,227	-	2,275	-	2,286	-	-	-	1,174,788	726,308	-
75%	-	-	-	-	-	-	908	3,000	-	-	3,908	2,931	-
100%	-	24,174	35,882	161,066	7,405,315	757	2,538	-	28,094	101,280	7,759,106	7,759,107	-
150%	-	-	101	-	-	-	-	-	-	-	101	40,067	-
Total Exposures	8,484,838	24,174	2,891,850	161,066	8,271,354	757	13,940	3,000	28,094	345,290	20,224,363	9,626,021	
Risk-Weighted Assets by Exposures	409,023	24,174	1,273,206	161,066	7,617,481	757	7,235	2,250	28,094	102,735	9,626,021		
Average Risk Weight	5%	100%	44%	100%	92%	100%	52%	75%	100%	30%	48%		
Deduction from Total Capital			-					-	-		-		

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans, Advances and Financing

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

	2023 September				2023 March			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Neither past due nor credit-impaired								
Normal grades	5,324,097	1,538,626	-	6,862,723	6,485,450	1,506,391	-	7,991,841
Close watch	-	273,340	-	273,340	-	249,966	-	249,966
Past due but not credit-impaired								
Normal grades	-	1,617	-	1,617	1	1,253	-	1,254
Close watch	-	-	-	-	-	-	-	-
Credit-impaired								
Past due	-	-	849	849	-	-	1,511	1,511
Not past due	-	-	8	8	-	-	10	10
	<u>5,324,097</u>	<u>1,813,583</u>	<u>857</u>	<u>7,138,537</u>	<u>6,485,451</u>	<u>1,757,610</u>	<u>1,521</u>	<u>8,244,582</u>

	2023 September RM'000	2023 March RM'000
Gross credit-impaired loans as a percentage of gross loans, advances and financing	0.01%	0.01%

(a) Past due but not credit-impaired

Past due but not credit-impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due and includes loans which are due one or more days after the contractual due date but less than 3 months. The past due but not impaired loans, advances and financing of the Bank as at 30 September 2023 was 0.02% (2023 March: 0.02%).

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

	2023 September RM'000	2023 March RM'000
Household	1,617	1,254

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

	2023 September		2023 March	
	Malaysia RM'000	Other Countries RM'000	Malaysia RM'000	Other Countries RM'000
Past due but not credit-impaired	1,617	-	1,254	-

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans, Advances and Financing (Contd)

(b) Credit-impaired Loans, Advances and Financing

The Bank assesses, at each reporting period, whether there is any objective evidence that an individually significant loan is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

All loans, advances and financing that have been individually evaluated but not considered to be individually impaired are grouped on the basis of similar credit risk characteristics for collective impairment assessment, taking into account the historical loss experience of such loans. The Model Risk Adjustment ("MRA") may be applied due to lack of loss data, when making provision by benchmarking for relevant probability of default against the holding company or peer results, if applicable.

Credit-impaired loans, advances and financing are loans whereby payments of principal or interest or both are past due for three (3) months or more, or loans which are past due for less than three (3) months which exhibit indications of credit weaknesses, or impaired loans which have been restructured/rescheduled, but where repayments based on the revised terms have yet to fulfil the observation period required under the Bank's impairment policy.

The movements in impaired loans, advances and financing are set out in Note 16(i), the movements in impairment allowances are set out in Note 16(j) and the amount of impaired loans, advances and financing broken down by economic sector and geographical location are set out in Note 16(g) and Note 16(h) to the financial statement.

The amount of expected credit losses by economic purpose is as follows:

	2023 September		2023 March	
	Stage 1 and 2 Expected Credit Loss RM'000	Stage 3 Expected Credit Loss RM'000	Stage 1 and 2 Expected Credit Loss RM'000	Stage 3 Expected Credit Loss RM'000
Agricultural, hunting, forestry and fishing	623	-	830	-
Mining and quarrying	223	-	201	-
Manufacturing	18,699	-	12,486	-
Electricity, gas and water	305	-	50	-
Construction	1,284	-	1,301	-
Wholesale, retail trade, restaurants and hotels	1,309	-	1,113	-
Transport, storage and communication	1,049	-	927	-
Finance, insurance, real estate and business services	3,808	-	3,916	-
Households	369	298	296	272
Others	1,125	-	449	-
	<u>28,794</u>	<u>298</u>	<u>21,569</u>	<u>272</u>

The charges for allowance for stage 3 expected credit losses during the year is as follows:

	Stage 3 Lifetime ECL Credit-Impaired 2023 March RM'000	Allowance for the Year RM'000	Stage 3 Lifetime ECL Credit-Impaired 2023 September RM'000
Household	<u>272</u>	<u>26</u>	<u>298</u>

4. CREDIT RISK (CONTD)

Credit Quality of Gross Loans, Advances and Financing (Contd)

(c) The amount of allowance for expected credit losses by geographical location and loans written off by economic sector are as per table below:

Impairment allowances by geographical location:

	2023 September RM'000	2023 March RM'000
Malaysia		
● Stage 1 - 12-month ECL	9,109	8,071
● Stage 2 - lifetime ECL not credit-impaired	18,837	12,632
● Stage 3 - lifetime ECL credit-impaired	298	272
	<u>28,244</u>	<u>20,975</u>
Other countries		
● Stage 1 - 12-month ECL	<u>848</u>	<u>866</u>

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
2023 September				
Interest rate risk - general interest rate risk	74,680,459	(73,306,490)	1,106,741	88,539
Foreign exchange risk	146,037	-	146,038	11,683
	<u>74,826,496</u>	<u>(73,306,490)</u>	<u>1,252,779</u>	<u>100,222</u>
2023 March				
Interest rate risk - general interest rate risk	77,718,145	(77,559,045)	1,039,825	83,186
Foreign exchange risk	3,028	(50,868)	50,863	4,069
	<u>77,721,173</u>	<u>(77,609,913)</u>	<u>1,090,688</u>	<u>87,255</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 the 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 (CONTD)

Risk Management Approach (Contd)

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

The following tables 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 30 September 2023, the Bank had an overall positive interest rate gap of RM8,403,323,000 (2023 March: RM8,553,183,000), 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:

	2023 September	2023 March
	Increase/(Decrease) RM'000	RM'000
Impact on earnings from 200 bps parallel shift		
MYR	99,134	149,797
USD	(34,724)	(57,392)
SGD	(299)	(286)
Others	(5,426)	(4,493)
Total	<u>58,686</u>	<u>87,626</u>
Impact on economic value from 200 bps parallel shift		
	RM'000	RM'000
MYR	29,404	28,163
USD	27,259	15,381
SGD	946	820
Others	3,469	528
Total	<u>61,077</u>	<u>44,892</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)

Risk Management Approach (Contd)

(a) 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 ----->					Non-Interest Sensitive	Trading Book	Total	Effective Interest Rate %
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years				
2023 September	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Financial assets									
Cash and short-term funds	4,867,100	350,000	-	-	-	934,593	-	6,151,693	1.66
Reverse repurchase agreements	127,698	-	-	-	-	-	-	127,698	2.97
Deposits and placements with financial institutions	2,553,227	-	-	-	-	56,686	-	2,609,913	3.39
Financial assets at FVTPL	-	-	331,731	796,137	154,537	-	-	1,282,405	1.01
Financial investments at FVOCI	-	-	362,163	706,932	-	28,094	-	1,097,189	3.11
Loans, advances and financing									
- Non-impaired	2,344,346	1,615,916	861,744	1,954,390	709,851	(14,614)	-	7,471,633	5.55
- Impaired *	26	-	-	64	469	-	-	559	
- 12-month ECL and lifetime ECL not credit-impaired	-	-	-	-	-	(28,794)	-	(28,794)	
Embedded loans measured at FVTPL	1,864,924	618,827	3,224,041	6,840,910	1,030,401	-	-	13,579,103	6.03
Purchased receivables	331,029	494,950	33,437	11,989	-	(318)	-	871,087	4.04
Collateral deposits placed	5,383	-	-	-	-	-	-	5,383	5.33
Derivative financial assets	-	-	-	-	-	-	649,933	649,933	
Statutory deposits with Bank									
Negara Malaysia	-	-	-	-	-	961	-	961	
Other assets	-	-	-	-	-	98,169	-	98,169	
	12,093,733	3,079,693	4,813,116	10,310,422	1,895,258	1,074,777	649,933	33,916,932	
Non-financial assets									
Property, plant and equipment	-	-	-	-	-	17,370	-	17,370	
Intangible assets	-	-	-	-	-	51,205	-	51,205	
Right-of-use assets	-	-	-	-	-	2,438	-	2,438	
Prepayments	-	-	-	-	-	853	-	853	
Deferred tax assets	-	-	-	-	-	5,636	-	5,636	
	-	-	-	-	-	77,502	-	77,502	
Total assets	12,093,733	3,079,693	4,813,116	10,310,422	1,895,258	1,152,279	649,933	33,994,434	

* This is arrived after deducting the ECL from the outstanding gross impaired loans, advances and financing.

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(a) Interest Rate Risk (Contd)

2023 September	<----- Non-Trading Book ----->						Trading Book RM'000	Total RM'000	Effective Interest Rate %
	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000			
Liabilities									
Deposits from customers	4,892,965	2,283,919	927,507	2,150	-	5,013,010	-	13,119,551	3.95
Deposits and placements of banks and other financial institutions	154,344	358,850	32,155	-	-	10,173	-	555,522	3.35
Financial liabilities at FVTPL	-	-	40,280	48,132	-	-	-	88,412	
Collateral deposits received	6,165,176	484,058	3,987,391	3,147,938	1,145,740	-	-	14,930,303	5.19
Derivative financial liabilities	-	-	-	-	-	-	643,448	643,448	
Other liabilities	-	-	-	-	-	197,743	-	197,743	
Obligation on securities sold on repurchase agreements	-	-	124,779	-	-	-	-	124,779	
	<u>11,212,485</u>	<u>3,126,827</u>	<u>5,112,112</u>	<u>3,198,220</u>	<u>1,145,740</u>	<u>5,220,926</u>	<u>643,448</u>	<u>29,659,758</u>	
On-balance sheet interest sensitivity gap	881,248	(47,134)	(298,996)	7,112,202	749,518	(4,068,647)	6,485	4,334,676	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	638,891	638,891	
Total interest sensitivity gap	<u>881,248</u>	<u>(47,134)</u>	<u>(298,996)</u>	<u>7,112,202</u>	<u>749,518</u>	<u>(4,068,647)</u>	<u>645,376</u>	<u>4,973,567</u>	

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(a) Interest Rate Risk (Contd)

2023 March	<----- Non-Trading Book ----->					Non-Interest Sensitive RM'000	Trading Book RM'000	Total RM'000	Effective Interest Rate %
	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000				
Financial assets									
Cash and short-term funds	6,555,776	150,000	-	-	-	327,476	-	7,033,252	2.42
Reverse repurchase agreements	-	-	130,439	-	-	-	-	130,439	2.51
Deposits and placements with financial institutions	1,811,564	-	-	-	-	31,771	-	1,843,335	0.04
Financial assets at FVTPL	-	-	-	-	48,825	-	-	48,825	0.97
Financial investments at FVOCI	-	66,345	-	774,769	-	28,094	-	869,208	2.52
Loans, advances and financing									
- Non-impaired	4,835,506	328,248	779,006	1,982,725	666,176	(8,508)	-	8,583,153	5.15
- Impaired *	10	-	-	13	525	-	-	548	
- 12-month ECL and lifetime ECL not credit-impaired	-	-	-	-	-	(21,568)	-	(21,568)	
Embedded loans measured at FVTPL	1,588,418	397,907	3,805,370	7,961,624	1,202,930	-	-	14,956,249	5.42
Purchased receivables	329,973	564,863	200,934	23,729	-	(629)	-	1,118,870	4.25
Collateral deposits placed	814	-	-	-	-	-	-	814	2.75
Derivative financial assets	-	-	-	-	-	-	398,074	398,074	
Statutory deposits with Bank									
Negara Malaysia	-	-	-	-	-	2,319	-	2,319	
Other assets	-	-	-	-	-	13,570	-	13,570	
	15,122,061	1,507,363	4,915,749	10,742,860	1,918,456	372,525	398,074	34,977,088	
Non-financial assets									
Property, plant and equipment	-	-	-	-	-	19,611	-	19,611	
Intangible assets	-	-	-	-	-	63,506	-	63,506	
Right-of-use assets	-	-	-	-	-	657	-	657	
Prepayments	-	-	-	-	-	2,332	-	2,332	
Deferred tax assets	-	-	-	-	-	5,636	-	5,636	
	-	-	-	-	-	91,742	-	91,742	
Total assets	15,122,061	1,507,363	4,915,749	10,742,860	1,918,456	464,267	398,074	35,068,830	

* This is arrived after deducting the ECL from the outstanding gross impaired loans, advances and financing.

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(a) Interest Rate Risk (Contd)

2023 March	<----- Non-Trading Book ----->						Trading Book RM'000	Total RM'000	Effective Interest Rate %
	Up to 1 Month RM'000	1 to 3 Months RM'000	3 to 12 Months RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Non-Interest Sensitive RM'000			
Liabilities									
Deposits from customers	4,625,504	2,359,996	326,798	2,150	-	4,651,265	-	11,965,713	3.58
Deposits and placements of banks and other financial institutions	175,761	125,307	113,740	-	-	6,787	-	421,595	3.53
Financial liabilities at FVTPL	-	-	101,619	-	-	-	-	101,619	
Collateral deposits received	6,274,928	332,630	2,226,642	7,501,174	1,291,385	-	-	17,626,759	4.61
Derivative financial liabilities	-	-	-	-	-	-	468,967	468,967	
Other liabilities	-	-	-	-	-	172,658	-	172,658	
Obligation on securities sold on repurchase agreements	-	-	124,779	-	-	-	-	124,779	
	<u>11,076,193</u>	<u>2,817,933</u>	<u>2,893,578</u>	<u>7,503,324</u>	<u>1,291,385</u>	<u>4,830,710</u>	<u>468,967</u>	<u>30,882,090</u>	
On-balance sheet interest sensitivity gap	4,045,868	(1,310,570)	2,022,171	3,239,536	627,071	(4,366,443)	(70,893)	4,186,740	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	159,100	159,100	
Total interest sensitivity gap	<u>4,045,868</u>	<u>(1,310,570)</u>	<u>2,022,171</u>	<u>3,239,536</u>	<u>627,071</u>	<u>(4,366,443)</u>	<u>88,207</u>	<u>4,345,840</u>	

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 2023, the NOP of the Bank stood at RM146,036,531.76 (long position) (2023 March: RM47,840,159 (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 2023, potential maximum loss computed for Scenario 1 to be RM425,792,000 (2023 March: RM398,967,000), Scenario 2 to be RM434,920,000 (2023 March: RM409,823,000) and Scenario 3 to be RM477,548,000 (2023 March: RM467,433,000).

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.

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

(b) Foreign Exchange Risk

2023 September	Denominated in						
	USD RM'000	JPY RM'000	EUR RM'000	SGD RM'000	AUD RM'000	CNY RM'000	Others RM'000
Assets							
Cash and short-term funds	372,486	289,045	55,817	56,789	46,421	70,627	43,408
Deposits and placements with financial institutions	1,640,800	912,427	-	-	-	-	-
Financial investments at FVOCI	-	252,111	-	-	-	-	-
Loans, advances and financing	4,231,997	42,608	-	-	-	-	-
Embedded loans measured at FVTPL	11,270,494	-	-	-	-	-	-
Purchased receivables	305,513	-	-	-	-	290,160	-
Collateral deposits placed	5,383	-	-	-	-	-	-
	17,826,673	1,496,191	55,817	56,789	46,421	360,787	43,408
Liabilities							
Deposits from customers	5,792,432	448,214	15,346	47,390	969	47,547	3,686
Deposits and placements of banks and other financial institutions	-	-	-	-	-	545,349	-
Collateral deposits received	957,477	-	-	-	-	-	-
Other liabilities	80,611	9,825	-	3,500	2	2,815	1,845
	6,830,520	458,039	15,346	50,890	971	595,711	5,531
Net financial (liabilities)/ assets exposure	10,996,153	1,038,152	40,471	5,899	45,450	(234,924)	37,877

2023 March	Denominated in						
	USD RM'000	JPY RM'000	EUR RM'000	SGD RM'000	AUD RM'000	CNY RM'000	Others RM'000
Assets							
Cash and short-term funds	16,606	122,551	2,741	46,718	58,749	50,863	29,248
Deposits and placements with financial institutions	883,000	928,564	-	-	-	-	-
Financial investments at FVOCI	-	332,635	-	-	-	-	-
Loans, advances and financing	5,685,659	42,177	-	-	-	-	-
Embedded loans measured at FVTPL	12,324,679	-	-	-	-	-	-
Purchased receivables	679,218	-	-	-	-	364,021	-
	19,589,162	1,425,927	2,741	46,718	58,749	414,884	29,248
Liabilities							
Deposits from customers	5,521,962	391,903	43,425	42,454	1,592	128,939	2,062
Deposits and placements of banks and other financial institutions	132,450	-	-	-	-	282,358	-
Collateral deposits received	16,448,426	1,070,104	-	-	-	-	-
Other liabilities	53,848	5,061	-	78	-	2,243	7,715
	22,156,686	1,467,068	43,425	42,532	1,592	413,540	9,777
Net financial (liabilities)/ assets exposure	(2,567,524)	(41,141)	(40,684)	4,186	57,157	1,344	19,471

(c) Equity Risk

Equity risk refers to the adverse impact of change in equity prices on equity positions held by the Bank.

The Bank currently hold equity investments amounting to RM28,094,000 (2023 March: RM28,094,000) which are privately held for social economic purpose and is unquoted and stated at fair value through other comprehensive income and adjusted for impairment loss, if any.

5. MARKET RISK (CONTD)

Risk Management Approach (Contd)

Islamic Banking Business

There are no significant market risk exposures as at 30 September 2023 (2023 March: 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") and Net Stable Funding Ratio ("NSFR") requirements issued by BNM. NSFR compliance became effective from 1 July 2020. 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 2023, the information is available under table in Note 14 and 15 to the interim financial report.

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 money market deposits to meet short-term obligations and to maintain its presence in the local money market space. The Bank has also obtained a Liquidity Support Letter from its Parent Bank and has given full support of fund related to any liquidity matter at any time.

The primary tools for monitoring liquidity is the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets as buffer assets, early warning indicators from the use of market-wide information to identify possible liquidity problems. It also measures funding liquidity risk by assessing the potential liquidity cost arising from the maximum likely cash outflow over the horizon period at a specified confidence level, covering the Bank's deposit denominated in major currencies. Liquidity positions are reported to the ALM on a monthly basis and in major currencies i.e. in Ringgit Malaysia and in United States Dollars.

Contingency funding plans are in place to identify early warning signals of a potential liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. To complement the contingency funding plans, a liquidity drill is conducted annually to validate the Bank's ability to raise funds/liquidity from the market. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Bank to determine the cash flow mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible source of funding to meet the shortfalls during a liquidity crisis.

The Bank hold sufficient high-quality liquid assets ("HQLA") to withstand an acute liquidity stress scenario over a 30-day horizon for Liquidity Coverage Ratio ("LCR"). The Bank is maintaining stable source of funds to support assets and off-balance sheet activities for Net Stable Funding Ratio ("NSFR"). LCR and NSFR are 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 2023, the Bank complies with the minimum LCR and NSFR as stipulated by BNM.

Islamic Banking Business

There are no significant liquidity risk exposures as at 30 September 2023 (2023 March: 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 and pandemic threats.

Periodic audit review from internal, holding company as well as external audit are conducted to ensure adequacy and effectiveness of the operational risk management process.

Regulatory Capital Requirements

The following presents the minimum regulatory capital requirement on operational risk for the Bank, computed using the Basic Indicator Approach:

	2023 September		2023 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	1,120,379	89,630	952,984	76,239

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"), Global Control Self Assessment ("GCSA"), Loss Event Data ("LED") and Key Risk Indicators ("KRI")};
- The framework covers both Conventional and Shariah risks.

The framework adopted 3-lines of defense ("3LOD") model to manage operational risk with clear roles and responsibilities reflected for each line of defense. In 2023, we continue to strengthen the effectiveness of our 3LOD to better manage the risk. First line of defense identifies and manages the conducive control environment associated with their business function, while second line of defense represented by Risk & Compliance departments sets policy & control standards and manages enforcement, undertakes assessment & monitoring activities to manage risks. Third line of defense represented by Audit provides independent challenge to the risk management posture and process to provide assurance of effectiveness to the Board.

7. OPERATIONAL RISK (CONTD)

Risk and Control Assessments

Risk and control assessment is a periodic set of activities and programs to manage the different types of operational risk. Among others (but not limited to) are Risk & Control Self Assessment (RCSA), Global Control Self Assessment (GCSA), Periodic Review of Outsourcing Parties, Self Inspection Program, Product Review, System Risk Evaluation, Cyber Maturity Assessment, etc. These activities are carried out in collaboration with first line of defence as the risk owner to manage operational risk within acceptable level.

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.

During the Covid-19 pandemic period, we successfully implemented business continuity responses and continued to offer essential services and maintained service level agreements to serve our customers with minimal disruption. No major impact arised from pandemic infection or third party dependencies in the past one year. The Crisis Management Team ("CMT") chaired by CEO monitors and manages responses to any incident escalated from the business functions to ensure continuity of our business.

Reporting

Reporting forms an essential part of operational risk management. The Bank's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner. Operational risk areas for key operation, business and control units are reported through monthly operational risk management reports, which provide analysis and action plans for each significant business operation. The operational risk areas include premises control and safety, losses due to fraud and control lapses, systems availability, disaster recovery and business continuity simulations, information security, product/service review, self-inspection, operations volume, staff attrition, Shariah non-compliance, outsourcing activities and managing legal action taken against the Bank. The operational risk management reports are tabled to the Operational Risk Management and Control Committee Meeting ("ORMCC") on monthly basis and escalated to the Risk Management Committee Meeting ("RMC") on quarterly basis.

Islamic Banking Business

	2023 September		2023 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	32,292	2,583	26,680	2,134

8. PROFIT SHARING INVESTMENT ACCOUNTS AMD 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 2023.