United Overseas Bank (Malaysia) Bhd
Annual Report 2018

"/"
Joanne Pang Rui Yun

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All figures in this Annual Report are in Malaysian Ringgit unless otherwise specified.

“/”

by Joanne Pang
Mixed media on cotton
140 x 150 cm

Ms Pang’s painting, “/”, is the design inspiration for this year’s Annual Report. The artist is a lecturer at LASALLE College of the Arts in Singapore and her painting received the Gold award in the Established Artist Category in the 2018 UOB Painting of the Year (Singapore) Competition.

The painting title is also meant to be read as “either… or” and represents a strike in motion. It reflects the artist’s movements between action and inaction during the painting process as well as captures the concept of time passing and stopping. Through technique and medium, her painting strokes express the impact of force, dynamism and transformation.

The essence of the painting captures UOB’s approach to banking where due consideration is given before timely decisions are made for optimal impact.

UOB’s support of art is a natural extension of our commitment to our stakeholders in the communities in which we operate. The UOB Painting of the Year competition, in its 37^{th} year in 2018, is the Bank’s flagship art programme held across four Southeast Asian countries.

United Overseas Bank (Malaysia) Bhd
and its subsidiaries

31 December 2018

Overview

About United Overseas Bank (Malaysia) Bhd

United Overseas Bank (Malaysia) Bhd (UOB (Malaysia)) was incorporated in 1993 but has had a presence in Malaysia since 1951. It is a subsidiary of United Overseas Bank Limited, Singapore (UOB (Singapore)), a leading bank in Asia with a global network of more than 500 branches and offices in 19 countries and territories in Asia Pacific, Europe and North America.

UOB (Malaysia) is rated among the top banks in Malaysia with a long-term AAA rating from the Rating Agency of Malaysia, RAM Rating Services Berhad. Guided by our rich heritage and values, we have built lasting relationships with our customers and continue to ensure we act in their best interest by delivering solutions that meet their financial goals and suit their lifestyles and preferences. Today, UOB (Malaysia) has 45 branches across the country offering both conventional and Islamic banking services and has the largest branch network of any foreign bank operating in Malaysia.

UOB (Malaysia) offers an extensive range of commercial and personal financial services through its branches and subsidiaries such as commercial lending, investment banking, treasury services, trade services, cash management, custody services, home loans, credit cards, wealth management, and bancassurance products.

We believe in being a responsible financial services provider and we are committed to making a difference in the lives of our stakeholders and in the communities in which we operate. Just as we are dedicated to helping our customers manage their finances wisely and to grow their businesses, UOB (Malaysia) is steadfast in our support of social development, particularly in the areas of art, children and education.

For further information, please visit www.UOB.com.my

Our Awards and Accolades in 2018

The Asset

Triple A Treasury, Trade, Supply Chain & Risk Management Awards 2018
- Best Working Capital Solution, Malaysia

Islamic Finance Awards 2018
- Best Structured Finance Sukuk

The Asset Triple A Country Awards 2018
- Best M&A Deal, Malaysia
- Best Local Currency Bond Deal, Malaysia

Asian Banking and Finance

Asian Banking and Finance Wholesale Banking Awards 2018
- Malaysia International Cash Management Bank of the Year

Treasury Today Asia

Adam Smith Awards Asia 2018
- Best Supply Chain Finance Solution

Chairman's Statement

2018 Financial Performance

Amid moderating economic growth conditions, United Overseas Bank (Malaysia) Bhd (UOB (Malaysia)) recorded a strong set of results for the financial year 2018. Net profit after tax increased by 8.0 per cent to RM1,235.5 million (2017: RM1,144.4 million).

Total operating income increased by 3.6 per cent to RM3,000.2 million (2017: RM2,896.4 million), contributed by higher net interest and non-interest income. Net interest income grew 2.3 per cent to RM2,069.8 million (2017: RM2,022.5 million), driven by higher interest income from loans and debt instruments at fair value through other comprehensive income (FVOCI) / available-for-sale securities (AFS). However, this was partially offset by higher interest expense from net placements of financial institutions and higher customer deposits. The increase in non-interest income by 4.6 per cent to RM889.6 million (2017: RM850.2 million) was supported by higher fee income and foreign exchange gain. However, this was partially offset by lower trading and investment income. Net income from our Islamic Banking business increased by 72.2 per cent to RM40.8 million (2017: RM23.7 million).

Total operating expenses increased by 8.1 per cent to RM1,165.8 million (2017: RM1,078.7 million) as we continued to invest in our talent and technology infrastructure to support our business growth.

Total allowance for expected credit losses (ECL)/impairments decreased by 28.2 per cent or RM81.4 million, mainly due to lower ECL on loans, advances and financing. However, this was offset by higher ECL on commitments and contingencies. Our asset quality remained strong with net non-performing loans ratio at 1.5 per cent.

Gross loans, advances and financing rose 5.3 per cent to RM83.3 billion (2017: RM79.1 billion) and non-bank deposits increased by 6.4 per cent to RM88.7 billion (2017: RM83.4 billion).

2019 Outlook

Slower growth across major economies is expected to result in muted global growth in the year ahead. We expect US economic growth to moderate with the continued unwinding of monetary and fiscal stimulus programmes. However, the pace of growth in the US should remain healthy driven by strong domestic demand amid improved labour market conditions. Meanwhile, economic growth across the European Union is expected to be impacted by slower exports, lower private consumption levels and weaker industrial production. Japan's economic growth is also expected to slow down in the year ahead, although it will be cushioned by fiscal support and loose monetary policy.

We remain optimistic about ASEAN's growth prospects, anchored by intra-regional trade flows and rising consumer affluence. However, we expect growth across emerging Asian economies to expand at a slower rate in 2019 due to concerns over China's moderating growth, international trade disputes, pressure from rising US interest rates and volatile capital flows.

In line with our expectations for a more moderate global growth in 2019, we expect Malaysia's Gross Domestic Product to expand in 2019. Domestic growth is likely to be supported by strong demand from private consumption and a steady inflow of foreign investments and exports. The new administration's efforts to build a more transparent government, the economy's underlying strengths, steady economic growth, low unemployment and a surplus current account will help support the domestic economy in the year ahead.

Malaysia is also likely to benefit from regional and multilateral trade initiatives that will boost development of trade and investment in the country and across ASEAN. These strategies will help enhance the country's resilience against risk from rising global trade protectionism.

While Malaysia and its neighbours across ASEAN are expected to continue on their respective growth trajectories, they do so amid lingering geopolitical tensions and uncertainties brought on by global protectionist trade policies. In steering through times such as these, we stay committed to our founding principles as we persevere and focus on meeting our strategic goals.

Against the backdrop of a more challenging economic environment, UOB (Malaysia) will continue to develop and strengthen our capabilities to meet our customers' needs while remaining prudent and disciplined in pursuing sustainable growth. We will continue to harness technology and to tap the strengths of the Group's regional franchise and expertise. By doing this, we offer distinctive products and solutions designed to meet our customers' business and lifestyle needs, both through conventional and Islamic Banking.

In all that we do, we will be guided by our time-tested values of honour, enterprise, unity and commitment, while maintaining a strong sense of accountability to our stakeholders. The Board of Directors remains optimistic that UOB (Malaysia) is well positioned to capture emerging business opportunities and to achieve strong performance as the economy builds momentum.

Acknowledgement

With the leadership of our experienced management team and with the support of our dedicated colleagues across the Bank, we will continue to grow our business while maintaining financial stability and strength for the long term.

1 January 2019 marks the retirement of Mr Ong Yew Huat, who joined the Board of Directors in 2013 before being appointed Chairman in the same year. We thank him for his leadership and guidance over the years and his efforts in promoting the best interests of UOB (Malaysia).

We are pleased to welcome two new members to the Board of Directors, Mr Ching Yew Chye and Datuk Phang Ah Tong. We look forward to their support and contribution as we continue to create value for our stakeholders.

Dr Wee Cho Yaw will retire as Director and Chairman Emeritus and Adviser on 12 April 2019. On behalf of the Board of Directors, I would like to acknowledge Dr Wee Cho Yaw's leadership and commitment over the many decades and contributions to the growth of UOB (Malaysia). I also thank him for inviting me to serve on the Board and wish him a happy retirement.

Finally, on behalf of the Board of Directors, I would like to convey my sincere appreciation to the CEO, the Management and our people for their commitment, drive and contribution throughout the year. Before concluding, I would also like to thank our valued customers for all the support and trust they continue to place in UOB (Malaysia).

Dato' Jeffrey Ng Tiong Lip
Chairman

13 March 2019

Board of Directors and its Committees

As at 13 March 2019

BOARD

- Dr Wee Cho Yaw (Chairman Emeritus and Adviser)
  Non-independent and non-executive
- Dato' Jeffrey Ng Tiong Lip (Chairman)
  Independent
- Wee Ee Cheong (Deputy Chairman)
  Executive
- Fatimah Binti Merican
  Independent
- Ching Yew Chye
  (Appointed on 1 June 2018)
  Independent
- Datuk Phang Ah Tong
  (Appointed on 2 January 2019)
  Independent
- Wong Kim Choong
  Executive and Chief Executive Officer

NOMINATING COMMITTEE

- Fatimah Binti Merican (Chairperson)
- Dr Wee Cho Yaw
- Wee Ee Cheong
- Ching Yew Chye
- Datuk Phang Ah Tong

REMUNERATION COMMITTEE

- Fatimah Binti Merican (Chairperson)
- Dr Wee Cho Yaw
- Ching Yew Chye

RISK MANAGEMENT COMMITTEE

- Ching Yew Chye (Chairman)
- Fatimah Binti Merican
- Datuk Phang Ah Tong

AUDIT COMMITTEE

- Datuk Phang Ah Tong (Chairman)
- Dato' Jeffrey Ng Tiong Lip
- Fatimah Binti Merican
- Ching Yew Chye

Board of Directors

As at 13 March 2019

Wee Cho Yaw

Chairman Emeritus and Adviser
Non-independent and non-executive

Dr Wee was appointed to the Board on 23 March 1994 and last re-appointed as Director on 13 April 2016. He was conferred the title of Chairman Emeritus and Adviser in 2013 after stepping down as Chairman. He will not be seeking re-appointment as director and Chairman Emeritus and Adviser when his term expires on 12 April 2019.

A non-independent and non-executive director, Dr Wee is a member of the Remuneration and Nominating Committees.

A banker with more than 60 years' experience, Dr Wee is a veteran in the banking, insurance, real estate and hospitality industries. He is the former Chairman and CEO of United Overseas Bank Limited Singapore and is currently its Chairman Emeritus and Honorary Adviser. He is also the Chairman of United Overseas Bank (Thai) Public Company, President Commissioner of PT Bank UOB Indonesia and Supervisor of United Overseas Bank (China). His other board chairmanships include United Overseas Insurance, Haw Par Corporation, UOL Group, Pan Pacific Hotels Group, United Industrial Corporation, Marina Centre Holdings, Wee Foundation and Chung Cheng High School. He is the Honorary President of the Singapore Chinese Chamber of Commerce & Industry, Singapore Federation of Chinese Clan Associations and Singapore Hokkien Huay Kuan.

Dr Wee received Chinese high school education. He was conferred Honorary Degrees of Doctor of Letters by the National University of Singapore (2008) and Nanyang Technological University (2014). Since 2004, he has been the Pro-Chancellor of the Nanyang Technological University.

He has received many accolades for his business achievements and support of education, community welfare and the business community. Among the awards conferred on him are the Distinguished Service Order, Singapore National Day Award (2011), ASEAN Business Advisory Council Legacy Award for Singapore (2017), Asian Banker Lifetime Achievement Award (2009), Credit Suisse-Ernst & Young Lifetime Achievement Award (2006), and Businessman of the Year, Singapore Business Awards (2001 and 1990).

Dato' Jeffrey Ng Tiong Lip

Board Chairman
Independent

Dato' Jeffrey Ng was appointed to the Board on 16 June 2014 as an Independent Non-Executive Director and thereafter Chairman of the Audit Committee. He was appointed as the Board Chairman on 2 January 2019. He is also a member of the Audit Committee.

He holds a Bachelor of Economics from Monash University, Melbourne. Currently, he is a member of the Malaysian Institute of Accountants, as well as member of the Malaysian Association of Certified Public Accountants, Fellow member of The Institute of Chartered Accountants, Australia & New Zealand and Fellow member of the Malaysian Institute of Directors. In 2003, he was accorded 'Entrepreneur of the Year' by Malaysia Australia Business Council and awarded REHDA Personality 2015 for his contribution to the real estate industry in 2015.

Dato' Jeffrey Ng is currently the Chief Executive Officer and Executive Director of Sunway REIT Management Sdn Bhd (manager of Sunway REIT which is listed on Bursa Malaysia). He is also Chairman of the Real Estate Housing Developers Association (REHDA) Institute, Chairman of the Malaysian REIT Managers Association (MRMA), Chairman of Sunway Lagoon Club Berhad, a Director of SunREIT Capital Berhad, SunREIT Unrated Bond Berhad, SunREIT Perpetual Bond Berhad, Urban Hallmark Properties Sdn Bhd and Swissglade Sdn Bhd. He is also a member of the Board of Studies – Master of Real Estate Development, University Tunku Abdul Rahman.

Prior to joining Sunway REIT Management Sdn Bhd, he was the Executive Director of Sunway City Berhad (now known as Sunway Berhad). He was the former Managing Director of AP Land Berhad.

Dato' Jeffrey Ng has also held various positions in non-governmental associations, among which he is the Patron & Past President of REHDA Malaysia and past Chairman of REHDA Wilayah Persekutuan (KL) Branch. He was also a past panel member of the Appeal Board under the Federal Territory (Planning Act 1982) appointed by the Ministry of Federal Territories and Urban Wellbeing.

Wee Ee Cheong

Deputy Chairman
Executive

Mr Wee was appointed to the Board on 23 March 1994 and last re-appointed as Director on 19 December 2017. Mr Wee is a member of the Nominating Committee.

A career banker with 40 years' experience in the UOB Group, Mr Wee joined United Overseas Bank Limited of Singapore (UOB Singapore) in 1979 and has been a director of UOB Singapore since 1990. He is currently the Deputy Chairman and Chief Executive Officer of UOB Singapore.

He also holds directorships in United Overseas Insurance and United Overseas Bank (Thai) Public Company. He is Chairman of United Overseas Bank (China) and Deputy President Commissioner of PT Bank UOB Indonesia.

Active in industry development, Mr Wee is a council member of The Association of Banks in Singapore, The Institute of Banking & Finance and the Indonesia-Singapore Business Council. He is a member of the Board of Governors of the Singapore-China Foundation, Visa APCEMEA Senior Client Council and an honorary council member of the Singapore Chinese Chamber of Commerce & Industry. He was previously deputy chairman of the Housing & Development Board and a director of the Port of Singapore Authority, UOL Group, Pan Pacific Hotels Group and United International Securities.

In 2013, he was awarded the Singapore Public Service Star by the Singapore Government for his contributions to the financial industry.

A keen art enthusiast, Mr Wee is the Patron of the Nanyang Academy of Fine Arts. He is also a director of the Wee Foundation.

Mr Wee holds a Bachelor of Science (Business Administration) and a Master of Arts (Applied Economics) from American University, Washington, DC.

Wong Kim Choong

Executive and Chief Executive Officer

Mr Wong was appointed as Director and CEO of UOB (Malaysia) on 1 October 2012. Currently, he is the Chairman of UOB Asset Management (Malaysia) Berhad. He is also a director of United Investments Pte Ltd and Asia Alpha Fund. He was elected Fellow Chartered Banker by Asian Institute of Chartered Bankers in 2015. He holds a Bachelor of Commerce from the University of Toronto, Canada.

Mr Wong has 35 years of banking experience. He started his career with United Overseas Bank Limited of Singapore (UOB Singapore) in 1983, where he served for over 14 years. During his tenure with UOB Singapore, Mr Wong held various management and senior positions in Consumer Banking, Corporate Banking and Commercial Banking. He was transferred to UOB (Malaysia) in 1997 where he was appointed as Head of Corporate and Commercial Banking and subsequently as Deputy CEO in 2003. In 2004, he was appointed as Director and Country CEO of United Overseas Bank (Thai) Public Company Limited, a position he held until his appointment as Director and CEO of UOB (Malaysia) in October 2012.

Fatimah Binti Merican
Independent

Puan Fatimah was appointed to the Board on 3 November 2014 as an Independent Non-Executive Director. She is the Chairperson of the Nominating and Remuneration Committees. She is also a member of the Audit and Risk Management Committees. She was elected as the Chairperson of the meeting at the Risk Management Committee meetings held on 13 March 2018, 18 April 2018 and 24 July 2018.

Puan Fatimah was appointed Independent Director of IJM Plantations Berhad since 1 November 2017 and Paramount Corporation Berhad since 2 July 2018.

She holds a Higher National Diploma in Computer Studies from University of Westminster (formerly known as Polytechnic of Central London). She is a Certified NLP Coach from The American Board of Neuro-Linguistic Programming. Puan Fatimah continues as a mentor in the TalentCorp / ICAEW Women in Leadership Malaysia programme, as well as a group coach in the same programme. She chaired the Human Capital Council, Malaysian International Chamber of Commerce and Industry from 2012 to 2014.

With over 35 years in a Fortune 500 company, she has vast experience in management and information technology, having worked locally, regionally and globally. She started her career in Esso Malaysia Berhad from 1977, and thereafter worked for ExxonMobil group of companies (after the merger between Exxon and Mobil) in managing global teams to support all of ExxonMobil's downstream and chemical IT applications. From 2008 to 2014, she was responsible for finance related activities of ExxonMobil's subsidiaries in Malaysia.

During her working career, she was the Vice President and Director of ExxonMobil Exploration and Production Malaysia Inc. She was also member of Management Committee. She was also the Alternate Chairperson for the Audit and Controls Committee, Chairperson of Board of Trustees for ExxonMobil Education and Scholarship Fund and a sponsor for Malaysian Women's Interest Network and the ExxonMobil Employee Volunteers Programme in Malaysia.

Puan Fatimah was also the former Executive Director of Esso Malaysia Berhad, a company listed on the Bursa Malaysia. In addition to being a member of the Board, she was also the Alternate Chairperson for the Nominating and Remuneration Committees.

Ching Yew Chye
Independent

Mr Ching was appointed to the Board on 1 June 2018 as an Independent Non-Executive Director. He is the Chairman of the Risk Management Committee and a member of the Audit, Remuneration and Nominating Committees.

Currently, he is an Independent Non-Executive Chairman of AIA Bhd since May 2017 and AIA General (AIAG) Berhad since July 2018. He was appointed to the Board of AIA Bhd as Independent Non-Executive Director in November 2015. He is a member of the Nominating, Remuneration, Risk Management and Audit Committees in AIA Bhd as well as AIAG Berhad. Mr Ching is also an Independent Non-Executive Director of Petronas Chemicals Group Berhad (PCG), Genting Plantations Berhad (GENP) and YTL Starhill Global REIT Management Limited. In PCG, he is a member of the Nominating & Remuneration Committee and a member of Audit Committee. He is also a member of Audit and Risk Management Committee in GENP and a member of the Audit Committee in YTL Starhill Global REIT Management Limited.

Mr Ching holds a Bachelor of Science (Honours) degree from the University of London, UK. In 1982, he joined Accenture, a global management consulting, technology services and outsourcing company listed on the New York Stock Exchange. From 1997 until his retirement in 2007, he assumed various regional senior management roles in Accenture, including Managing Partner of the Financial Services Industry Group in Asia, Geographic Council Chairman for Asia, Managing Partner for the South Asia Region and Managing Partner for the Government Industry practice in China. He retired from Accenture as Senior Partner in May 2007 after a successful career spanning of more than 24 years of service.

Datuk Phang Ah Tong

Independent

Datuk Phang Ah Tong was appointed to the Board on 2 January 2019 as an Independent Non-Executive Director. He is the Chairman of the Audit Committee and a member of the Risk Management and Nominating Committees.

Currently, he is the Chairman of Malaysia Automotive, Robotics and Internet of Things Institute (MARii), an agency under the Ministry of International Trade and Industry. He is also an Independent Non-Executive Chairman of JF Technology Berhad and an Independent Non-Executive Director of Apex Healthcare Berhad, Inari Amertron Berhad, Jerasia Capital Berhad and UMS Holdings Limited.

Datuk Phang holds a Bachelor Degree in Economics (Honours) from the University of Malaya and has attended several notable Senior Management Programmes, namely Harvard Business School and 'Institut European d'Administration des Affaires' (INSEAD). He has had a distinguished career in the civil service of Malaysia, spanning 36 years in promoting foreign and domestic investments and assisted in developing the manufacturing and services sectors in Malaysia under the Malaysian Investment Development Authority (MIDA), where his last held position was the Deputy Chief Executive Officer, before his retirement in 2017.

He has also served in various capacities including being the Assistant Trade Commissioner for MIDA London and Director of MIDA New York. During his tenure in MIDA, he played an active role in shaping the economic landscape of Malaysia through his involvements in the First Industrial Master Plan (1986-1995), the 10^{th} and 11^{th} Malaysian Plan for the manufacturing sector and the Economic Transformation Programme (ETP).

Corporate Information

SENIOR MANAGEMENT

Wong Kim Choong
Chief Executive Officer

Hendra Gunawan
Deputy Chief Executive Officer

Beh Soo Heng, Michael
Managing Director
Country Head, Global Markets

Lim Kheng Swee, Ronnie
Managing Director
Country Head, Personal Financial Services

Ajeep Rassidi Bin Othman
Executive Director
Country Head, Credit - Middle Market

Beh Wee Khee
Executive Director
Country Head, Commercial Banking II

Boon Choon Teik, Terence
Executive Director
Country Head, Debt Capital Markets

Chang Yeong Gung
Executive Director
Country Head, Finance & Corporate Services
Chief Financial Officer

Chew Yee Lim, Lucas
Executive Director
Country Head, Transaction Banking

Chong Kim Khong, William
Executive Director
Country Head, Risk Management

Chui Keng Leng, Raymond
Executive Director
Country Head, Business Banking

Kan Wing Yin
Executive Director
Country Head, Commercial Banking I

Lai Tak Ming
Executive Director
Country Head, Human Resources

Lim Ching Hui
Executive Director
Country Head, Technology & Operations

Lim Jit Yang
Executive Director
Country Head, Corporate Banking II

Loke Chee Keen, Daniel
Executive Director
Country Head, Compliance

Loong See Meng, Steven
Executive Director
Country Head, Corporate Banking I

Lum Chee Onn
Executive Director
Advisor, Technology & Operations

Mohd Fhauzi Bin Muridan
Executive Director
Acting Head of Islamic Banking
Country Head, Bumiputera Business Banking

Ng Ling Tee, Steven
Executive Director
Country Head, Specialised Financing

Ong Kit Ping (Ms)
Executive Director
Country Head, Legal & Secretariat

Por Peng Seong, Alex
Executive Director
Advisor, Risk Management

Tam Chee Meng
Executive Director
Country Head, Credit - Corporate

Tan Mei Lin, Linda (Ms)
Executive Director
Country Head, Special Assets Management

Tan Tzu Hua, Lenz
Executive Director
Country Head, Credit - Retail

Wong See Hong, Bill
Executive Director
Country Head, Internal Audit

Yap Kok Tee
Executive Director
Country Head, Channels and Digitalisation

SECRETARY
Ong Kit Ping

AUDITORS
Ernst & Young
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur

SHARE CAPITAL
Share capital: RM792,555,000

REGISTERED OFFICE
Level 11, Menara UOB
Jalan Raja Laut
50350 Kuala Lumpur

HEAD OFFICE
Menara UOB, Jalan Raja Laut
P.O.Box 11212
50738 Kuala Lumpur
Telephone: 03-2692 7722
Facsimile: 03-2691 0281
SWIFT: UOVBMYKL
Email: UOBCustomerService@UOB.com.my
Website: www.UOB.com.my

Branch Network

Federal Territory / Negeri Sembilan
Central Area I
Bangunan UOB, Medan Pasar
10-12, Medan Pasar
50050 Kuala Lumpur
Tel: 03-2772 8000
Fax: 03-2031 9387 / 03-2070 8058
Area Manager: Phuah Ah Keng

Federal Territory
Kuala Lumpur Main Branch
Level 2, Menara UOB
Jalan Raja Laut
50350 Kuala Lumpur
Tel: 03-2692 4511
Fax: 03-2691 3110
Manager: Jonathan How Boon Seong

Jalan Imbi Branch
197-199, Jalan Imbi
55100 Kuala Lumpur
Tel: 03-2143 5722
Fax: 03-2148 9725
Manager: Phoon Leong Yew

Jalan Pudu Branch
408-410, Jalan Pudu
55100 Kuala Lumpur
Tel: 03-9222 9022
Fax: 03-9221 6667
Manager: Samantha Wong Thien Sen

Bangsar Branch
Bangunan Bangsaria
45E, Jalan Maarof
Bangsar Baru
59100 Kuala Lumpur
Tel: 03-2283 9888
Fax: 03-2283 9898
Manager: Susan Ee Sook Sun

Medan Pasar Branch
Bangunan UOB, Medan Pasar
10-12, Medan Pasar
50050 Kuala Lumpur
Tel: 03-2772 8000
Fax: 03-2031 9387 / 03-2070 8058
Manager: Mona Tan Swee Ling

Negeri Sembilan
Seremban Branch
24-26, Jalan Dato Lee Fong Yee
70000 Seremban
Tel: 06-762 5651 / 06-762 5652
Fax: 06-763 5303
Manager: Wendy Yap Nyet Foong

Federal Territory / Selangor
Central Area II
2108, Jalan Meru
41050 Klang
Tel: 03-3361 2198
Fax: 03-3342 1135
Area Manager: Kelly Wong Siew Ling

Federal Territory
Kepong Branch
82, Ground Floor
Jalan 3/62D, Medan Putra Business Centre
Sri Menjalara, Off Jalan Damansara
52200 Kuala Lumpur
Tel: 03-6286 6888
Fax: 03-6275 3668
Manager: Janny Yew Beng Guay

Selangor
Ijok Branch
57, Jalan PPAJ 3/1
Pusat Perdagangan Alam Jaya
42300 Bandar Puncak Alam
Tel: 03-6038 8287
Fax: 03-6038 8289
Manager: Yeoh Kean Hiong

Klang Branch
2108, Jalan Meru
41050 Klang
Tel: 03-3361 2000
Fax: 03-3342 1135
Manager: Oh Seng Hu

Kota Damansara Branch
48, Jalan PJU 5/8
Dataran Sunway
Kota Damansara
47810 Petaling Jaya
Tel: 03-6140 9881
Fax: 03-6140 9771
Manager: Violet Koh Geok Lan

Shah Alam Branch
2A, Ground Floor, Wisma SunwayMas
Jalan Tengku Ampuan Zabedah 3/9C
Section 9, 40100 Shah Alam
Tel: 03-5891 6213
Fax: 03-5891 6052
Manager: Yeoh Kean Hiong

USJ Taipan Branch
No 7, Jalan USJ 10/1
USJ Taipan Triangle
47620 UEP Subang Jaya
Tel: 03-5565 2000
Fax: 03-5631 8703
Manager: Georgina Tia Lee Ping

Selangor

Central Area III
1, Jalan SS21/58 , Ground Floor
Uptown 1, Damansara Uptown
47400 Petaling Jaya
Tel: 03-7724 3939
Fax: 03-7727 9325
Area Manager: Tan Guan Leong

Ampang Branch
495, Jalan Lima
Taman Ampang Utama
Jalan Ampang
68000 Ampang, Selangor
Tel: 03-4264 0288
Fax: 03-4257 8322
Manager: Andy Loo Say Chye

Cheras Branch
35, Jalan Desa Cahaya 11
Taman Desa Bukit Cahaya
56100 Cheras, Selangor
Tel: 03-9106 2788
Fax: 03-9105 3281
Manager: Vanessa Yew Shok Leng

Damansara Uptown Branch
1, Jalan SS21/58
Ground Floor, Uptown 1, Damansara Uptown
47400 Petaling Jaya
Tel: 03-7724 3888
Fax: 03-7727 5566
Manager: Wong Yin Pheng

Jalan Othman Branch
39-45, Jalan Othman
46000 Petaling Jaya
Tel: 03-7788 3333
Fax: 03-7783 8131
Manager: Donald Hew Chun Kie

Jalan Tengah Branch
2-6, Jalan Tengah
46200 Petaling Jaya
Tel: 03-7956 9057 / 03-7958 2282
Fax: 03-7955 9110
Manager: Joe Ng Weng Bu

Puchong Branch
6, Jalan Kenari 5
Bandar Puchong Jaya
47100 Puchong
Tel: 03-8076 8989
Fax: 03-8076 8181
Manager: Kennedy Choo Wei Hong

Pahang / Terengganu / Kelantan

East Coast Area
2, Jalan Besar
25000 Kuantan
Tel: 09-516 1844
Fax: 09-513 8266
Area Manager: Liew Chai Kar

Pahang

Kuantan Branch
2, Jalan Besar
25000 Kuantan
Tel: 09-514 4155 / 09-516 1844 / 09-516 4755
Fax: 09-513 8266
Manager: Lim Chu Luan

Bentong Branch
61-62, Jalan Loke Yew
28700 Bentong
Tel: 09-222 1600 / 09-222 1778
Fax: 09-222 5882
Manager: Kennix Phang Jin Shee

Raub Branch
14 & 16, Jalan Tun Razak
27600 Raub
Tel: 09-355 1187 / 09-355 3766
Fax: 09-355 5955
Manager: Leong Yew Fook

Terengganu

Kuala Terengganu Branch
51, Jalan Sultan Ismail
20200 Kuala Terengganu
Tel: 09-622 1644 / 09-622 7912
Fax: 09-623 4644
Manager: Chong Hui See

Kelantan

Kota Bharu Branch
No 724, Jalan Sultanah Zainab
15000 Kota Bharu
Tel: 09-748 2699 / 09-748 3066
Fax: 09-748 4307
Manager: Shaharom Bin Kahar

Perak / Pulau Pinang / Kedah

North Area Centre
1st Floor, 64E-H, Lebuh Bishop
10200 Pulau Pinang
Tel: 04-258 8188
Fax: 04-262 9119 / 04-258 8166
Area Manager: Chang Tow Heng

Perak

Ipoh Branch
2, Jalan Dato' Seri Ahmad Said
30450 Ipoh
Tel: 05-254 0008 / 05-254 0200
Fax: 05-254 9092
Manager: Caryl Shim Weng Han

Pulau Pinang

Bukit Mertajam Branch
1, Jalan Tembikai
Taman Mutiara
14000 Bukit Mertajam
Tel: 04-548 8288
Fax: 04-530 3818
Manager: Tan Yang Cheng

Butterworth Branch
4071 & 4072, Jalan Bagan Luar
12000 Butterworth
Tel: 04-314 8000
Fax: 04-323 6953
Manager: Yeong Ai Vee

Jalan Kelawei Branch
9, Jalan Kelawei
10250 Pulau Pinang
Tel: 04-222 8799
Fax: 04-226 2382
Manager: Lee Ai Pin

Lebuh Bishop Branch
64E-H Lebuh Bishop
10200 Pulau Pinang
Tel: 04-258 8000
Fax: 04-261 0868
Manager: Julie Lee Gim See

Kedah

Alor Setar Branch
55, Jalan Gangsa
Kawasan Perusahaan Mergong 2
05150 Alor Setar
Tel: 04-732 1366
Fax: 04-733 0621
Manager: Choo Kin Chuan

Sungai Petani Branch
177 & 178, Jalan Kelab Cinta Sayang
Taman Ria Jaya
08000 Sungai Petani
Tel: 04-442 8828
Fax: 04-442 9828
Manager: Celina Khor She Ying

Melaka / Johor

South Area Centre
Bangunan UOB
8, Jalan Ponderosa 2/1
Taman Ponderosa
81100 Johor Bahru
Tel: 07-360 6800
Fax: 07-355 3761
Area Manager: Goh Boon Siang

Melaka

Plaza Mahkota Branch
1, Jalan PM5
Plaza Mahkota
75000 Melaka
Tel: 06-283 8840 / 06-283 8841
Fax: 06-283 8868
Manager: Chan Chee Peng

Malim Branch
1, Jalan PPM 8, Plaza Pandan
Malim Business Park
Jalan Balai Panjang
75250 Melaka
Tel: 06-336 4336
Fax: 06-336 4337
Manager: Maria Tan Swee Tin

Johor

Muar Branch
10, Jalan Pesta 1/1
Kg. Kenangan Tun Dr. Ismail (1)
Jalan Bakri
84000 Muar
Tel: 06-955 5881
Fax: 06-953 1181
Manager: Jeffrey Liewn Chee Kean

Batu Pahat Branch
Ground Floor, Wisma Sing Long
9, Jalan Zabedah
83000 Batu Pahat
Tel: 07-432 8999
Fax: 07-433 8122
Manager: Ben Liew Kar Voon

City Square Branch
Lot 1-23, Johor Bahru City Square
106 - 108, Jalan Wong Ah Fook
80000 Johor Bahru
Tel: 07-219 6300
Fax: 07-224 3706
Manager: Janice Cheah Han Ling

Kluang Branch
14-16 Jalan Datok Kapt Ahmad
86000 Kluang
Tel: 07-772 1967 / 07-772 5968
Fax: 07-772 1977
Manager: Yeow Kheng Leh

Kulai Branch
31-1 & 31-2 Jalan Raya
Kulai Besar
81000 Kulai
Tel: 07-663 1232 / 07-663 1342
Fax: 07-663 5287
Manager: Tracia Kek Choon Yian

Taman Ponderosa Branch
Bangunan UOB
Ground Floor, No. 8, Jalan Ponderosa 2/1
Taman Ponderosa
81100 Johor Bahru
Tel: 07-360 6800
Fax: 07-355 3761
Manager: Ricky Teo Choh Meng

Sabah / Sarawak

East Malaysia Area
Bangunan UOB
70, Jalan Gaya
88000 Kota Kinabalu
Tel: 088-526 000
Fax: 088-222 438
Area Manager: Chua Chai Hua

Sabah

Kota Kinabalu Branch
Bangunan UOB
70 Jalan Gaya
88000 Kota Kinabalu
Tel: 088-526 000
Fax: 088-314 888
Manager: Robson Soo Kan Hung

Sandakan Branch
2nd Avenue
90000 Sandakan
Tel: 089-212 028 / 089-217 833
Fax: 089-225 577
Manager: Kelvin Lin Ket Yin

Tuaran Branch
9 & 10, Jalan Datuk Dusing
89208 Tuaran
Tel: 088-788 567
Fax: 088-788 979
Manager: Robson Soo Kan Hung

Sarawak

Sibu Branch
8, Lorong 7A Jalan Pahlawan
Jaya Li Hua Commercial Centre
96000 Sibu
Tel: 084-216 089
Fax: 084-217 089
Manager: Ronny Yii See Chieng

Miri Branch
108 & 110, Jalan Bendahara
98000 Miri
Tel: 085-433 322
Fax: 085-422 221
Manager: Lee Kui Ping

Kuching Branch
CT160, Ground Floor
Block C, iCom Square
Jalan Pending
93450 Kuching
Tel: 082-527 777
Fax: 082-527 752
Manager: Emily Rolanda Yong

Bintulu Branch
207 & 208, Parkcity Commerce Square
(Phase III), Jalan Tun Ahmad Zaidi
97000 Bintulu
Tel: 086-312 232
Fax: 086-338 381
Manager: George Lai Ted Min

United Overseas Bank (Malaysia) Bhd
and its subsidiaries

31 December 2018

Governance

Corporate Governance

Board of Directors' Composition, Function and Conduct

The UOB (Malaysia) Board is committed to upholding good corporate governance which is integral to the Bank's growth and success. The Board works with Management to ensure that good corporate governance principles are observed at all levels of the Bank. The Bank's corporate governance practices are guided by the principles and best practices as set out in Bank Negara Malaysia (BNM)'s Guidelines on Corporate Governance and the Malaysian Code on Corporate Governance.

Board Duties

The Board is responsible for providing strategic direction, entrepreneurial leadership and guidance, ensuring true and fair financial statements, monitoring financial performance, determining capital/debt structure, reviewing risk management framework and processes as well as approving annual budgets and matters reserved to the Board by law and regulators' requirements.

The Board receives updates through regular management reports. These allow the Board to oversee the Bank's performance, operations and governance initiatives.

Board Delegation

The Board recognises the need to be more nimble in discharge of its responsibilities, hence the Board has delegated certain duties to four Board Committees, namely the Nominating Committee (NC), Remuneration Committee (RC), Risk Management Committee (RMC) and Audit Committee (AC).

Each of the Board Committee has written terms of reference which set out the committee's composition, roles and responsibilities, operating processes including decision-making by the committee and reporting back to the Board. These are reviewed annually for continued relevance. After each Board Committee meeting, the chairman/chairperson of the respective Board Committees reports to the Board on significant issues and concerns discussed, and where applicable, recommendations made during the meetings.

Common membership in the Board Committees facilitates the sharing of information between relevant Board Committees and enables better coordination of the work among the Board Committees.

Board and Board Committee Meetings

Board and Board Committee meetings are scheduled well before the start of a calendar year. Additional meetings are held during the year when warranted by circumstances. Directors are informed of meeting dates well in advance and received comprehensive information related to the agenda items ahead of a meeting. Papers for a meeting are uploaded onto a secure portal which directors can access via tablet devices provided by the Bank.

Managing Potential Conflicts of Interests

Each director is required to act honestly, in good faith and with due care and diligence when exercising his/her powers. All directors have to notify the Bank in a timely manner of any change in interests or other appointments. Where a director has an interest in a matter being discussed, he/she is required to recuse himself/herself from the discussion and abstain from voting on the matter.

Board Attendance

Directors' attendance at Board and Board Committee meetings in 2018 is set out in the table below.

	Number of meetings attended in 2018				
	Board of Directors	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Dr Wee Cho Yaw	1	N/A	N/A	–	–
Mr Ong Yew Huat *(Retired on 1 January 2019)*	6^	3	3	1	3
Mr Wee Ee Cheong	5	N/A	N/A	N/A	4
Dato' Jeffrey Ng Tiong Lip	5	5^	4	N/A	5
Puan Fatimah Binti Merican	6	5	5	2^	5^
Mr Ching Yew Chye *(Appointed on 1 June 2018)*	3	2	2^	1	2
Mr Wong Kim Choong	6	N/A	N/A	N/A	N/A
Number of meetings held in 2018	6	5	5	2	5

^ *Chairman/Chairperson of Committee.*

Board Independence, Composition and Diversity

The Board currently comprises seven members, the majority of whom are independent directors. Dato' Jeffrey Ng Tiong Lip, Puan Fatimah Binti Merican, Mr Ching Yew Chye and Datuk Phang Ah Tong are independent directors. Annually, the NC assists the Board to assess the overall composition and effectiveness of the Board and Board Committees as well as each director's independence according to the criteria in BNM's Guidelines on Corporate Governance. For the year under review, the NC concluded that the independent directors continue to demonstrate conduct and behavior that are essential indicators of independence and that each of them continues to fulfil the definition of independence.

The profiles of the directors can be found in the Board of Directors section of this report. Collectively, the directors have vast and varied experience in banking, finance, business and management, and the skills and expertise relevant to the business of the Bank. The Board leverages the range of deep skills, expertise, experience and insights of its members in the discharge of its duties.

Chief Executive Officer

Mr Wong Kim Choong, who is also the CEO of UOB (Malaysia), leads the management team and implements the Board's decisions. Assisted by senior management, the CEO bears executive responsibility for the Bank's day-to-day operations and business, including seeking business opportunities and ensuring the Bank's system of internal controls and risk management is relevant, adequate and effective.

Induction and Continuous Development

The directors also recognise the importance of training and development to keep abreast of prudential requirements and best practices. For the year under review, they attended various training programmes related to their duties as directors including governance and risk management practices, updates on accounting standards, digital development in Malaysia and the Bank, cyber security and anti-money laundering. Through the Bank's continuous development programmes, new and existing directors receive training on topics that are relevant to the business of the Bank thereby equipping directors with the relevant knowledge and skills to perform their role effectively. They also attended external programmes organised by FIDE Forum.

A new director receives an induction package upon appointment. The package includes among other materials, the articles of directorship which enumerate a director's general duties, obligations and responsibilities, the Board Charter, terms of reference of the Board Committees, and guidance on directors' duties and relevant company policies. The induction process consists of meetings with key senior management and briefings on key areas of the Bank's business, risk management and support functions. A new director who is also appointed to serve on Board Committees is briefed on specialised or technical topics relevant to the activities of those Board Committees.

Access to Information

Directors have unfettered access to information, the internal and external auditors and senior management for the purpose of carrying out their duties. Comprehensive information is provided to directors in advance of each meeting to enable their deliberation and decision-making at the meeting. The information provided includes financial, strategic, risk management and operational reports. Directors may approach Management should they require additional information. Senior executives are present at meetings to provide additional information or clarification on matters tabled. Where relevant, professional advisers may be invited to brief the Board or Board Committees.

Whether individually or as a group, directors may seek independent professional advice in the course of discharging their duties at the Bank's expense.

Role of Company Secretary

The Board is supported by the Secretariat team and has independent access to the company secretary, whose appointment and removal are subject to the Board's approval. The company secretary is responsible to ensure that Board procedures are adhered to, advises the Board on corporate governance matters, assists the Board to monitor the execution of its decisions and facilitates communication between the Board and senior management. The company secretary also organises the induction of new directors and the directors' continuous development programme, and provides updates on applicable laws and regulations.

Board Committees

The NC, RC, RMC and AC have been constituted in accordance with Bank Negara Malaysia's Guidelines on Corporate Governance. The roles and duties of each Board Committee are explained further in this section.

Nominating Committee

The main responsibilities of the NC include reviewing nominations for appointment and re-appointments as well as removal of directors, Shariah Committee members, CEO and key senior management officers and the company secretary. NC also reviews the size and overall composition of the Board and Board Committees annually and to ensure the Board and each Board Committee has an appropriate size and mix of competencies.

Each year, NC assesses the effectiveness of the Board and Board Committees, as well as contribution and performance of each director to the effectiveness of the Board. It assesses the independence of each director annually based on the criteria in Bank Negara Malaysia's Guidelines on Corporate Governance. In order to promote independent oversight by the Board, for the year under review the NC has renewed the policy that an independent director of the Bank shall hold office for a maximum of six years or such other term as the NC deems fit but not exceeding a total of nine years.

The NC also assesses the performance of Shariah Committee members, CEO, key senior management officers and the company secretary.

NC also ensures all directors receive an appropriate continuous development programme and oversees succession plans for the Board, CEO and key senior management officers.

Remuneration Committee

The RC provides a formal and transparent procedure for developing remuneration policy for directors, Shariah Committee members, CEO and key senior management officers and ensuring that compensation is competitive and consistent with UOB (Malaysia)'s culture, objectives and strategy.

The RC also supports the Board actively in overseeing the design and operation of the Bank's remuneration system, and recommends framework of remuneration for directors, Shariah Committee members, CEO and key senior management officers for the Board's approval. Each year, RC reviews and ensures the remuneration package is sufficient to attract and retain directors, Shariah Committee members, CEO and key senior management officers.

Risk Management Committee

The RMC assists the Board in overseeing the establishment and operation of a robust risk management system, policies, processes and procedures to identify, monitor, control and report risks. The RMC also oversees senior management's activities in managing credit, market, liquidity, operational, compliance, legal and other risks, and to ensure that the risk management process is in place and functioning. It also reviews the Bank's framework in managing money laundering and terrorism financing risks.

Each year, RMC reviews risk management strategies, policies and risk appetite before recommending them to the Board for approval. It also reviews bank-wide stress test scenarios, assumptions, parameters and results, reasonableness of proposed actions and contingency plans and senior management's attestation on the overall state of business continuity preparedness of the Bank. RMC also examines whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the RC.

Audit Committee

The AC assists the Board by providing oversight of the Bank's financial reporting and the effectiveness and adequacy of the Bank's internal control system. It also reviews and updates the Board on credit transactions and exposures with connected parties, all related party transactions, reviews the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures and interim financial reports in relation to the preparation of financial statements.

The AC meets the external auditor to review the annual financial statements, nature and scope of the external audit and audit plan, significant changes in accounting standards and audit issues. The AC meets the external auditor separately in the absence of Management at least annually. In addition, the AC reviews the adequacy of the scope, functions and resources of the internal audit function in performing its duties independently. Significant audit findings are highlighted to the AC through audit reports and at the AC meetings. The AC also meets with the internal and external auditors as often as they deem appropriate to be apprised of matters which are under review.

Each quarter, the AC meets to review the financial statements before recommending them to the Board for approval. In reviewing the financial statements, the AC assesses the accounting policies and practices applied and any judgement made that may have a significant impact on the financial statements. AC meetings may involve discussions of accounting standards and accounting practices and developments, especially those that have an impact on the business of the Bank and its reporting obligations.

Another important duty of the AC is the review of fraud and whistleblowing cases reported to the Bank. Annually, the AC reviews the policy governing the management of whistleblowing cases.

Financial Reporting

In presenting the annual accounts and quarterly announcements, the Board is committed to present a balanced, clear and understandable assessment of the financial position and prospect of the Bank. The Board is assisted by the Audit Committee to oversee the Bank's financial reporting by scrutinising the information to be disclosed to ensure accuracy, adequacy and completeness. The statement by Directors in respect of preparation of the annual audited financial statements of the Bank is set out on page 96.

Internal Controls

The Bank maintains an effective and well-established system of internal controls and risk management processes to ensure customers' interests and the Bank's assets are safeguarded. To meet this requirement, procedures and policies are in place to protect assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information.

The Bank's business units use various self-assessment tools to assess their compliance with internal controls, risk management processes and applicable regulations. The results of the self-assessments are regularly reviewed by Senior Management.

Internal Audit (IA) is responsible for evaluating and managing the adequacy and effectiveness of internal controls, and their level of compliance with applicable rules and regulations. The results of the evaluation are acknowledged by Senior Management and independently reported to the Audit Committee (AC). The AC regularly reviews actions taken on lapses and deficiencies identified in reports prepared by the IA and management's responses to these recommendations to ensure lapses are dealt with adequately and promptly.

Based on the internal controls and risk management processes established and maintained by the Bank, the work performed by IA, and the reviews performed by Senior Management and the relevant Board Committees, the Board - with the concurrence of the AC and the Risk Management Committee (RMC) - is of the opinion that the Bank's systems of risk management and internal controls, including financial, operational, compliance and information technology controls, was adequate and effective as at 31 December 2018.

The Board notes that no system of risk management and internal controls can provide absolute assurance against material error, loss or fraud. UOB (Malaysia's) system of risk management and internal controls provides reasonable but not absolute assurance that the Bank will not be affected by any adverse event which may be reasonably foreseen.

Internal Audit

The Bank has a well-established internal audit function which reports functionally to the Audit Committee (AC) and administratively to the Chief Executive Officer. The primary role of the Internal Audit is to provide independent assessment of the adequacy and effectiveness of the Bank's system of internal controls, risk management and governance processes. It operates within the framework defined in its Internal Audit Charter and adopts the Standards for Professional Practice of Internal Auditing set by the Institute of Internal Auditors and other relevant best practices, and is guided by The Internal Audit Function in Banks issued by the Basel Committee on Banking Supervision.

Internal Audit (IA) reviews and audits the Bank's businesses and operations; and the operations of its subsidiaries according to a risk-based audit plan. Audit projects are prioritised and scoped based on IA's assessment of the Bank's risks and controls over the various risk types. The internal audit plan is reviewed annually and tabled to the AC for approval.

The results of each audit are reported to the AC and Management; and their resolution action plans and progress are closely monitored. Significant findings, together with the status of rectification, are then discussed at the AC Meetings and the minutes are formally tabled to the Board of Directors. In addition, the Chief Internal Auditor also reports significant findings and other control concerns to the Deputy Chairman and Group Chief Executive Officer, as well as the Head of Group Audit monthly.

Remuneration Policy

UOB's Remuneration Policy sets out the principles and philosophies that guides the design, operation and management of our remuneration programmes. The objective is to ensure that we attract, motivate and retain a highly-skilled workforce, while encouraging value-based behaviours that support the business objectives and strengthen the long-term financial strength of the Bank and the Group. The policy covers the remuneration of directors and employees.

The Remuneration Committee (RC) conducts regular reviews of the remuneration policy to ensure that compensation practices and programmes are consistent with regulatory requirements and are responsive to market developments.

Our Approach to Remuneration

The Bank's total compensation comprises two main components:

- Fixed pay which includes base salary and fixed allowances that are pegged to the market value of the job.
- Total variable pay which rewards employees based on the performance of the Bank, business functions and an employee's individual performance. Total variable pay comprises of cash bonus and deferral.

We take a holistic view of various factors to determine and to ensure that an employee's total compensation is fair. This is done with the objectives to reward contributions, motivate and retain talents.

Performance-based variable pay is linked to the performance of the Bank, business functions and the employee's individual achievement of performance targets. The Bank's scorecard includes performance measures in three categories: financial outcomes, business drivers, and risk and reputation. Key business drivers include productivity, capital efficiency, liquidity and the quality of assets. Under risk and reputation, the Bank takes account of the Risk Appetite Statement output assessed by the Risk Management Committee. Any breach in Risk Appetite Statement may result in adjustment in the total variable pay for the year. The Bank's key performance indicators are cascaded to business functions accordingly and subsequently to individual employees.

Employees are assessed based on performance objectives, competency and behaviour that align with UOB Values. Variable pay of each employee is dependent and differentiated by the employee's performance at the end of every year.

Remuneration Governance

Control Functions

Employees in control functions, namely Risk Management, Audit, Credit and Compliance are compensated independently of the performance of the business lines or business units they oversee. Compensation for these employees is determined based on the overall performance of the Bank, the achievement of operational key performance indicators of the control functions and the performance of the individual employee.

In addition, the remunerations for the Chief Risk Officer and the Head of Internal Audit are approved by the Risk Management Committee and the Audit Committee respectively.

Variable Pay Deferrals

UOB's variable pay deferral policy applies to all senior rank employees and material risk takers (MRT). Material risk taker refers to employees with significant organisational responsibilities who have material impact on the Bank's performance and risk profile, and employees with high risk mandate. The variable pay deferral is essential to meeting the following objectives:

- align the long-term interests of senior employees with those of shareholders;
- align compensation payment schedules with the time horizon of risks and to encourage employees to focus on delivering sustainable long-term performance;
- retain key employees whose contributions are essential to the long-term growth and profitability of the Bank.

Under the variable pay policy, the total variable pay is subject to deferral ranging from 24% to 40%, with the proportion of deferral increasing with the amount of total variable pay granted. Variable pay deferrals in the Bank comprise of two elements; Executive Equity Plan (EEP) and cash deferral.

1. All senior employees and material risk takers of Managing Director and Executive Director grades receive the variable pay deferral in the form of restricted shares granted under the EEP scheme. The restricted shares will vest over two tranches of 30% and 70% at the end of second and third year respectively.
2. Material risk takers of other grades will receive the variable pay deferral in the form of deferred cash that vest equally over a period of three years, at a rate of 1/3 per year.

All deferrals are subject to the following guidelines:

- Forfeiture of unvested deferrals in the event of resignation or termination;
- Enforcement of malus of unvested deferrals in cases of material misconduct, material restatement of financial results and bank-wide losses;
- Clawback of paid deferrals in cases of material risks, financial misstatements, gross misconduct and malfeasance or fraud.

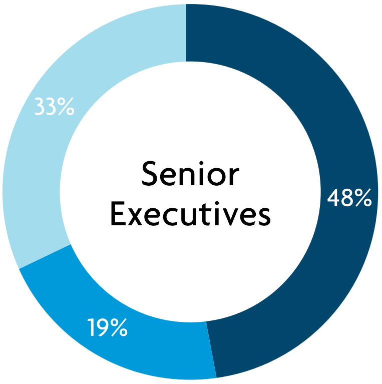
Summary of 2018 Remuneration Outcomes

1. Breakdown of total remuneration for CEO for FY2018

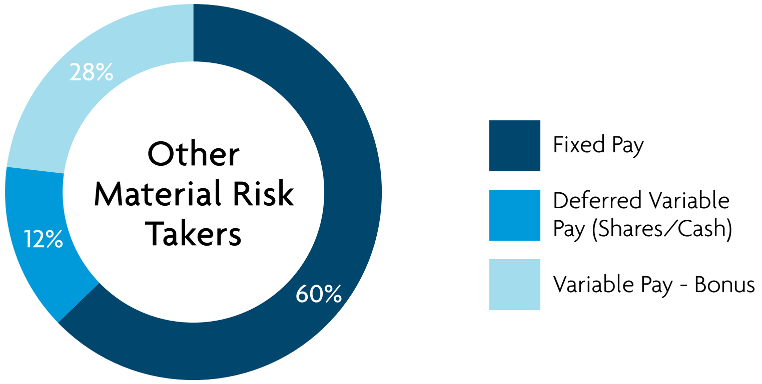
Name	Fixed Pay (RM'000)	Variable Pay – Unrestricted (RM'000)	Deferred Variable Pay – Bonus (RM'000)	Deferred Variable Pay – EEP (RM'000)
Wong Kim Choong	1,255	2,088	-	1,392

2. Breakdown of Remuneration Awarded to SEs and MRTs for FY2018

- Senior Executives (SEs) refers members of the Senior Management which includes Chief Executive Officer, Deputy Chief Executive Officer and Country Head of Executive Director grade and higher. There were 27 Senior Executives in 2018.
- In addition to all SEs who were classified as MRTs, there were 8 other MRTs in 2018. Material risk taker refers to employees with significant organisational responsibilities who have material impact on the Bank's performance and risk profile, and employees with high risk mandate.



Total remuneration for FY2018 is RM36.6mil



Total remuneration for FY2018 is RM5.2mil

3. Guaranteed Bonuses, Sign-on Awards and Severance Payments for FY2018

Category of Remuneration	SEs	MRTs
Number of guaranteed bonuses	-	-
Number of sign-on awards	2	1
Number of severance payments	-	-
Total amounts of above payments made for the financial year (RM'000)	360	393

4. Breakdown of Deferred Remuneration

Category	SEs	MRTs
Total amount of outstanding deferred remuneration		
Cash (RM'000)	-	-
Shares (RM'000)	20,047	1,097
Total amount of deferred remuneration paid in FY2018		
Cash (RM'000)	-	-
Shares (RM'000)	5,647	225
Outstanding deferred remuneration (performance adjustments):		
Of which exposed to ex-post adjustments	100%	100%
Reductions in current year due to ex-post adjustments (explicit[1])	-	-
Reductions in current year due to ex-post adjustments (implicit[2])	-	-
Outstanding retained remuneration (performance adjustments):		
Of which exposed to ex-post adjustments	-	-
Reductions in current year due to ex-post adjustments (explicit)	-	-
Reductions in current year due to ex-post adjustments (implicit)	-	-

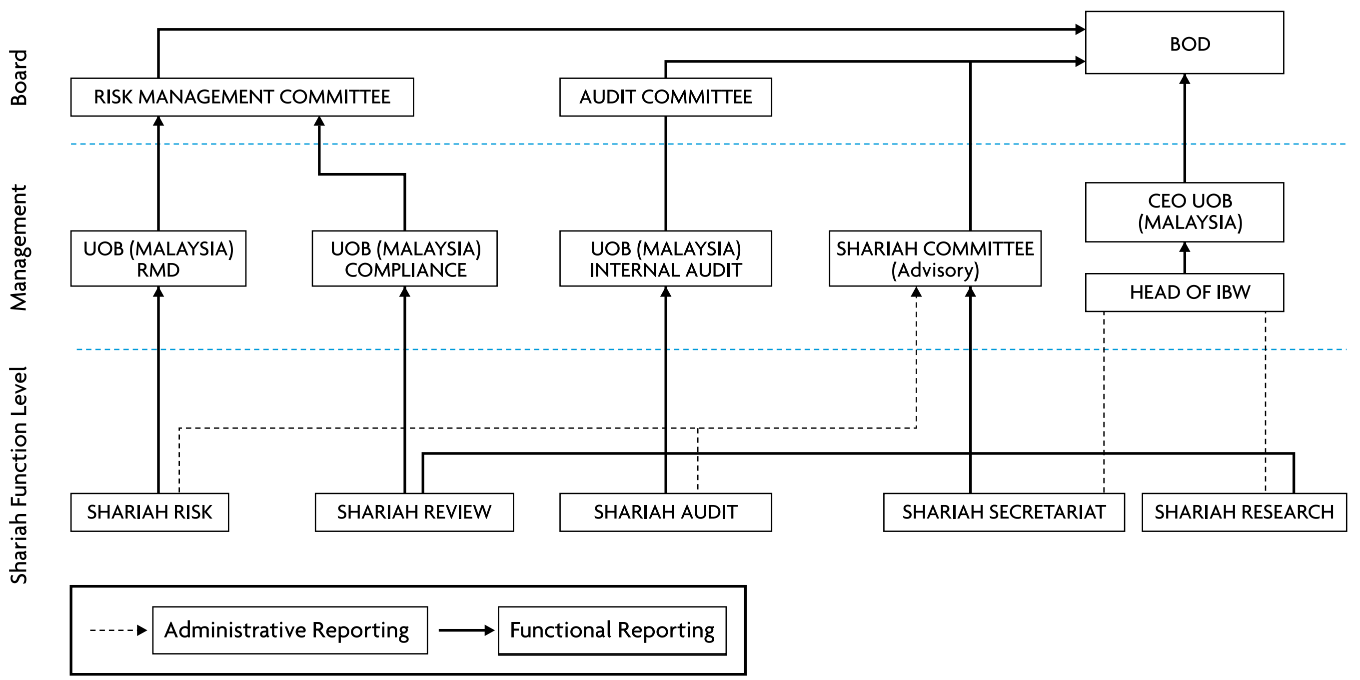
1 Examples of explicit ex-post adjustments include malus, clawbacks or similar reversals or downward revaluations of awards.
2 Examples of implicit ex-post adjustments include fluctuations in the value of the shares or performance units.

Statement on Shariah Governance

The Bank has developed its Shariah Governance Framework ("the Framework") with close adherence to Shariah Governance Framework ("SGF") of Bank Negara Malaysia ("BNM"). The Framework establishes the minimum governance standards governing the directors, management, Shariah functions and Shariah Committee. Within this framework all parties are bound to exercise their duty of care and diligence to ensure the Bank's Islamic Banking business, operation and affairs are in compliance to Shariah principles.

The Framework is anchored by the Bank Shariah Governance Structure as follows:

Shariah Governance Structure:



Statement on Shariah Governance

The Board of Directors is ultimately accountable and responsible on the overall Shariah governance structure and Shariah compliance of UOB (Malaysia). The Board must ensure that the Shariah governance structure adopted by UOB (Malaysia) commensurate with the size, complexity and nature of its business.

Shariah Committee ("SC") with qualified members to advise the Bank and to perform an oversight role on Shariah matters in relation to the Bank's Islamic Banking business and operations. While the directors bear the ultimate responsibility and accountability on the overall governance of the Bank, the SC shall be responsible and accountable for all its decisions, views and opinions related to Shariah.

To ensure that the Bank's operations are consistently conducted in accordance with the Shariah principles, the Bank has established the SC which comprises five members as follows:

1. Dr. Samsuri bin Sharif (Chairman)
2. Prof. Dr. Norhashimah binti Mohd Yasin
3. Dr. Marhanum binti Che Mohd Salleh
4. Assoc. Prof. Dr. Sharifah Faigah binti Syed Alwi
5. Dr. Ahmad Zakirullah bin Mohamed Shaarani

During the financial year, the SC met eight times. Attendance by the SC members was recorded as follows:

Sc Member	Attendance
Dr. Samsuri bin Sharif (Chairman)	8/8
Prof. Dr. Norhashimah binti Mohd Yasin	7/8
Dr. Marhanum binti Che Mohd Salleh	7/8
Assoc. Prof. Dr. Sharifah Faigah binti Syed Alwi	8/8
Dr. Ahmad Zakirullah bin Mohamed Shaarani	8/8

SC is supported on functional basis by Shariah Secretariat, Shariah Research, and Shariah Review and administratively supported by Shariah Risk and Shariah Audit. The main duties and responsibilities of Shariah Secretariat and Shariah Research are to provide secretarial function to the Bank's SC, conducting research on Shariah issues and providing day to day Shariah advice to the Bank's internal parties.

Meanwhile, Shariah Review is required to execute regular assessment on Shariah compliance relating to Islamic Banking Window ("IBW") activities and operation and to provide an independent examination and evaluation of the Bank's level of compliance to the Shariah principles as enunciated in the SC's decisions.

Shariah Risk on the other hand are bound to facilitate the process of identifying, measuring, controlling and monitoring Shariah non-compliance risks inherent in the Bank's related operations and activities in conjunction with the relevant business function coordinators. The structure requires Business and Support Unit to be responsible in identifying and managing the risk inherent in the products, services and activities which the unit is responsible for, with creation and enhancements of product structure and design as well as policies and operational process flow relating to products offered.

Finally Shariah Audit provides an independent assessment and objective assurance designed to add value and improve the degree of Shariah compliance in relation to the Bank's Islamic Banking operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance. The scope of Shariah Audit covers the bank's key Islamic Banking business activities and operation ranging from Shariah Governance process to financial statements.

On top of the above, the Management is responsible to provide adequate resources and capable manpower support to every function involved in the implementation of Shariah governance, in order to ensure end-to-end compliance to Shariah principles. The Management shall assume the duty of overseeing that the implementations of Shariah rulings issued by SC are managed by its various reporting lines and that the provisions in the Framework are complied with.

Pillar 3 Disclosure

This Pillar 3 Disclosure document is prepared in accordance with the requirements under Bank Negara Malaysia Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3) and Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3). The disclosures are to facilitate the understanding of United Overseas Bank (Malaysia) Bhd (UOBM)'s risk profile and assessment of the Bank's capital adequacy. This is to be read in conjunction with the Bank's financial statements.

Effective July 2016, UOBM started to offer Islamic financial services under its Islamic Banking Window.

Scope of Application

In accordance with the accounting standards for financial reporting, all subsidiaries of the Bank are fully consolidated from the date the Bank obtains control until the date such control ceases. The Bank's investment in an associate is accounted for using the equity method from the date the Bank obtains significant influence over the associate until the date such significant influence ceases. For the purpose of computing capital adequacy requirements at the Bank level, investment in subsidiaries and investment in an associate are deducted from regulatory capital in compliance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components).

The transfer of funds or regulatory capital within the UOBM Group, if any, is generally subject to regulatory approval.

Capital Adequacy

Our approach to capital management is to ensure that the UOBM Group maintains strong capital levels to support our businesses and growth, meet regulatory capital requirements at all times and maintain a good credit rating.

We achieve these objectives through the UOBM Group's Internal Capital Adequacy Assessment Process (ICAAP) whereby we actively monitor and manage the Group's capital position over a medium-term horizon, involving the following:

- setting capital targets for the Bank. As part of this, we take into account future regulatory changes and stakeholder expectations;
- forecasting capital demand for material risks based on the Bank's risk appetite. This is evaluated across all business segments and includes the UOBM Group's capital position before and after mitigation actions under adverse but plausible stressed conditions; and
- determining the availability and composition of different capital components.

Two committees oversee our capital planning and assessment process. The Risk Management Committee assists the Board with the management of risks arising from the business of the UOBM Group while the Risk and Capital Committee manages the UOBM Group's ICAAP, overall risk profile and capital requirements. The UOBM Group's capital position, capital management plan, contingency capital plan, as well as any capital management actions, are submitted to the senior management team and/or to the Board for approval.

The aggregate breakdown of Risk-Weighted Assets (RWA) by exposures in each category of the Bank for the financial year ended 31 December 2018 was as follows:

RM'000

Item	Exposure class	Exposures pre Credit Risk Mitigation (CRM)	Exposures post Credit Risk Mitigation (CRM)	RWA	Minimum capital requirement at 8%
1.0	<u>Credit risk</u>				
1.1	<u>Exempted exposures under the Standardised Approach (SA)</u>				
	<u>On-balance sheet exposures</u>				
	Sovereigns/central banks	13,036,857	13,036,857	-	-
	Insurance cos, securities firms and fund managers	210	210	210	17
	Corporates	344,909	342,573	342,193	27,375
	Other assets	1,016,986	1,016,986	768,446	61,476
	Equity exposure	112,489	112,489	112,489	8,999
	Defaulted exposures	2,452	2,452	3,677	294
	Total on-balance sheet exposures	**14,513,903**	**14,511,567**	**1,227,015**	**98,161**

Capital Adequacy (Continued)

The aggregate breakdown of Risk-Weighted Assets (RWA) by exposures in each category of the Bank for the financial year ended 31 December 2018 was as follows (Continued):

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	Minimum capital requirement at 8%
1.0	Credit risk (Continued)				
1.1	Exempted exposures under the Standardised Approach (SA) (Continued)				
	Off-balance sheet exposures				
	OTC derivatives	123,704	123,696	49,465	3,957
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	45,764	44,685	43,891	3,512
	Total off-balance sheet exposures	**169,468**	**168,381**	**93,356**	**7,469**
	Total on and off-balance sheet exposures (SA)	**14,683,371**	**14,679,948**	**1,320,371**	**105,630**
1.2	Exposures under the Foundation IRB approach (FIRB)				
	On-balance sheet exposures				
	Banks, DFIs and MDBs	12,935,681	9,562,226	1,445,910	115,673
	Insurance cos, securities firms and fund managers	40,641	17,116	4,971	398
	Corporates	31,347,682	27,525,146	27,365,003	2,189,200
	Equity (simple risk weight)	1,956	1,956	5,868	469
	Defaulted exposures	756,574	720,036	22	2
	Total on-balance sheet exposures	**45,082,534**	**37,826,480**	**28,821,774**	**2,305,742**
	Off-balance sheet exposures				
	OTC derivatives	1,403,256	1,401,297	700,020	56,002
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	9,637,776	8,508,963	9,044,874	723,590
	Defaulted exposures	29,977	29,535	-	-
	Total off-balance sheet exposures	**11,071,009**	**9,939,795**	**9,744,894**	**779,592**
	Total on and off-balance sheet exposures (FIRB)	**56,153,543**	**47,766,275**	**38,566,668**	**3,085,334**
1.3	Exposures under the Advance IRB approach (AIRB)				
	On-balance sheet exposures				
	Corporates	44,000	44,000	19,770	1,582
	Residential mortgages	33,471,450	33,471,450	3,510,475	280,838
	Qualifying revolving retail	2,704,561	2,704,561	1,078,006	86,240
	Other retail	15,809,085	15,809,085	2,788,202	223,056
	Defaulted exposures	729,115	729,115	798,512	63,881
	Total on-balance sheet exposures	**52,758,211**	**52,758,211**	**8,194,965**	**655,597**

Capital Adequacy (Continued)

The aggregate breakdown of Risk-Weighted Assets (RWA) by exposures in each category of the Bank for the financial year ended 31 December 2018 was as follows (Continued):

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	Minimum capital requirement at 8%
1.0	Credit risk (Continued)				
1.3	Exposures under the Advance IRB approach (AIRB) (Continued)				
	Off-balance sheet exposures				
	OTC derivatives	995	995	767	61
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	9,612,261	9,612,261	1,203,721	96,298
	Defaulted exposures	328	328	176	14
	Total off-balance sheet exposures	9,613,584	9,613,584	1,204,664	96,373
	Total on and off-balance sheet exposures (AIRB)	62,371,795	62,371,795	9,399,629	751,970
	Total exposures under IRB approach	118,525,338	110,138,070	47,966,297	3,837,304
	Total (exempted exposures and exposures under the IRB approach) after scaling factor	-	-	52,164,645	4,173,172
2.0	Large exposures risk requirement	-	-	-	-
3.0	Market risk	Long position	Short position		
	Interest rate risk	79,258,784	76,936,333	1,350,964	108,077
	Foreign currency risk	257,994	679,604	456,482	36,519
	Commodity risk	218,874	218,671	84,599	6,768
	Options risk	-	-	83,504	6,680
4.0	Operational risk (basic indicator approach)			5,448,326	435,866
5.0	Total RWA and capital requirements			59,588,519	4,767,081

Capital Adequacy (Continued)

The aggregate breakdown of RWA by exposures in each category of the Bank for the financial year ended 31 December 2017 was as follows:

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	Minimum capital requirement at 8%
1.0	Credit risk				
1.1	Exempted exposures under the Standardised Approach (SA)				
	On-balance sheet exposures				
	Sovereigns/central banks	15,112,480	15,112,480	-	-
	Insurance cos, securities firms and fund managers	22,226	-	-	-
	Corporates	836,392	834,169	833,901	66,712
	Other assets	692,707	692,707	570,294	45,624
	Defaulted exposures	10,742	10,742	16,112	1,289
	Total on-balance sheet exposures	**16,674,547**	**16,650,098**	**1,420,307**	**113,625**
	Off-balance sheet exposures				
	OTC derivatives	208,684	208,684	117,834	9,427
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	112,604	111,620	99,518	7,961
	Total off-balance sheet exposures	**321,288**	**320,304**	**217,352**	**17,388**
	Total on and off-balance sheet exposures (SA)	**16,995,835**	**16,970,402**	**1,637,659**	**131,013**
1.2	Exposures under the Foundation IRB approach (FIRB)				
	On-balance sheet exposures				
	Banks, DFIs and MDBs	7,440,557	6,625,751	938,570	75,086
	Corporates	27,527,264	23,441,427	24,408,403	1,952,672
	Equity (simple risk weight)	140,516	140,516	559,495	44,760
	Defaulted exposures	740,193	713,673	26	2
	Total on-balance sheet exposures	**35,848,530**	**30,921,367**	**25,906,494**	**2,072,520**
	Off-balance sheet exposures				
	OTC derivatives	1,482,456	1,478,991	716,117	57,289
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	9,464,533	8,482,571	8,127,308	650,185
	Defaulted exposures	21,649	20,948	-	-
	Total off-balance sheet exposures	**10,968,638**	**9,982,510**	**8,843,425**	**707,474**
	Total on and off-balance sheet exposures (FIRB)	**46,817,168**	**40,903,877**	**34,749,919**	**2,779,994**

Capital Adequacy (Continued)

The aggregate breakdown of RWA by exposures in each category of the Bank for the financial year ended 31 December 2017 was as follows (Continued):

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	Minimum capital requirement at 8%
1.0	Credit risk (Continued)				
1.3	Exposures under the Advance IRB approach (AIRB)				
	On-balance sheet exposures				
	Corporates	50,211	50,211	23,292	1,863
	Residential mortgages	31,760,428	31,760,428	3,228,804	258,304
	Qualifying revolving retail	2,517,372	2,517,372	971,548	77,724
	Other retail	15,796,069	15,796,069	2,774,482	221,958
	Defaulted exposures	656,623	656,623	740,547	59,244
	Total on-balance sheet exposures	**50,780,703**	**50,780,703**	**7,738,673**	**619,093**
	Off-balance sheet exposures				
	OTC derivatives	3,867	3,867	3,799	304
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	9,930,000	9,930,000	1,281,633	102,531
	Defaulted exposures	512	512	754	60
	Total off-balance sheet exposures	**9,934,379**	**9,934,379**	**1,286,186**	**102,895**
	Total on and off-balance sheet exposures (AIRB)	**60,715,082**	**60,715,082**	**9,024,859**	**721,988**
	Total exposures under IRB approach	**107,532,250**	**101,618,959**	**43,774,778**	**3,501,982**
	Total (exempted exposures and exposures under the IRB approach) after scaling factor	-	-	**48,038,923**	**3,843,114**
2.0	Large exposures risk requirement	-	-	-	-
3.0	Market risk	Long position	Short position		
	Interest rate risk	66,144,843	64,315,064	659,157	52,733
	Foreign currency risk	256,715	442,915	213,591	17,087
	Commodity risk	173,597	173,600	66,250	5,300
	Options risk	-	-	47,264	3,781
4.0	Operational risk (basic indicator approach)			**5,242,469**	**419,398**
5.0	Total RWA and capital requirements			**54,267,654**	**4,341,413**

Capital Adequacy (Continued)

The aggregate breakdown of RWA by exposures in each category of the Islamic Banking Window for the financial year ended 31 December 2018 was as follows:

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	RWA absorbed by PSIA	Total RWA after effects of PSIA	Minimum capital requirement at 8%
1.0	Credit risk						
1.1	Exempted exposures under the Standardised Approach (SA)						
	On-balance sheet exposures						
	Sovereigns/central banks	2,808,929	2,808,929	-	-	-	-
	Other assets	19,488	19,488	19,488	-	19,488	1,559
	Total on-balance sheet exposures	**2,828,417**	**2,828,417**	**19,488**	**-**	**19,488**	**1,559**
	Off-balance sheet exposures						
	OTC derivatives	1,552	1,552	311	-	311	25
	Total off-balance sheet exposures	**1,552**	**1,552**	**311**	**-**	**311**	**25**
	Total on and off-balance sheet exposures (SA)	**2,829,969**	**2,829,969**	**19,799**	**-**	**19,799**	**1,584**
1.2	Exposures under the Foundation IRB approach (FIRB)						
	On-balance sheet exposures						
	Banks, DFIs and MDBs	8,117	8,117	780	-	780	62
	Corporates	880,506	865,207	824,540	31,404	793,136	63,451
	Total on-balance sheet exposures	**888,623**	**873,324**	**825,320**	**31,404**	**793,916**	**63,513**
	Off-balance sheet exposures						
	OTC derivatives	193	193	111	-	111	9
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	51,176	46,615	50,880	-	50,880	4,070
	Total off-balance sheet exposures	**51,369**	**46,808**	**50,991**	**-**	**50,991**	**4,079**
	Total on and off-balance sheet exposures (FIRB)	**939,992**	**920,132**	**876,311**	**31,404**	**844,907**	**67,592**

Capital Adequacy (Continued)

The aggregate breakdown of RWA by exposures in each category of the Islamic Banking Window for the financial year ended 31 December 2018 was as follows (Continued):

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	RWA absorbed by PSIA	Total RWA after effects of PSIA	Minimum capital requirement at 8%
1.0	Credit risk (Continued)						
1.3	Exposures under the Advance IRB approach (AIRB)						
	On-balance sheet exposures						
	Corporate	-	918	555	-	555	44
	Residential mortgages	1,334,476	1,333,558	211,845		211,845	16,948
	Other retail	510,755	510,755	128,892	-	128,892	10,311
	Defaulted exposures	12,697	12,697	8,827	-	8,827	706
	Total on-balance sheet exposures	1,857,928	1,857,928	350,119	-	350,119	28,009
	Off-balance sheet exposures						
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	559,176	559,176	84,142	-	84,142	6,731
	Total off-balance sheet exposures	559,176	559,176	84,142	-	84,142	6,731
	Total on and off-balance sheet exposures (AIRB)	2,417,104	2,417,104	434,261	-	434,261	34,740
	Total exposures under IRB approach	3,357,096	3,337,236	1,310,572	31,404	1,279,168	102,332
	Total (exempted exposures and exposures under the IRB approach) after scaling factor	-	-	1,409,005	33,288	1,375,717	110,057
2.0	Large exposures risk requirement	-	-	-	-	-	-
3.0	Market risk	Long Position	Short Position				
	Interest rate risk	106,827	113,433	159	-	159	13
	Foreign currency risk	-	-	-	-	-	-
	Commodity risk	-	-	-	-	-	-
	Options risk	-	-	-	-	-	-
4.0	Operational risk (basic indicator approach)			43,348	-	43,348	3,468
5.0	Total RWA and capital requirements			1,452,513	33,288	1,419,224	113,538

Capital Adequacy (Continued)

The aggregate breakdown of RWA by exposures in each category of the Islamic Banking Window for the financial year ended 31 December 2017 was as follows:

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	RWA absorbed by PSIA	Total RWA after effects of PSIA	Minimum capital requirement at 8%
1.0	Credit risk						
1.1	Exempted exposures under the Standardised Approach (SA)						
	On-balance sheet exposures						
	Sovereigns/central banks	200,846	200,846	-	-	-	-
	Other assets	175	175	175	-	175	14
	Total on-balance sheet exposures	201,021	201,021	175	-	175	14
	Total on and off-balance sheet exposures (SA)	201,021	201,021	175	-	175	14
1.2	Exposures under the Foundation IRB approach (FIRB)						
	On-balance sheet exposures						
	Banks, DFIs and MDBs	13,757	13,757	1,275	-	1,275	102
	Corporates	214,485	213,470	221,430	-	221,430	17,714
	Total on-balance sheet exposures	228,242	227,227	222,705	-	222,705	17,816
	Off-balance sheet exposures						
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	72,132	71,553	116,232	-	116,232	9,299
	Total off-balance sheet exposures	72,132	71,553	116,232	-	116,232	9,299
	Total on and off-balance sheet exposures (FIRB)	300,374	298,780	338,937	-	338,937	27,115

Capital Adequacy (Continued)

The aggregate breakdown of RWA by exposures in each category of the Islamic Banking Window for the financial year ended 31 December 2017 was as follows (Continued):

RM'000

Item	Exposure class	Exposures pre CRM	Exposures post CRM	RWA	RWA absorbed by PSIA	Total RWA after effects of PSIA	Minimum capital requirement at 8%
1.0	Credit risk (Continued)						
1.3	Exposures under the Advance IRB approach (AIRB)						
	On-balance sheet exposures						
	Residential mortgages	354,450	354,450	77,771	-	77,771	6,222
	Other retail	282,590	282,590	70,760	-	70,760	5,661
	Defaulted exposures	703	703	4	-	4	-
	Total on-balance sheet exposures	637,743	637,743	148,535	-	148,535	11,883
	Off-balance sheet exposures						
	Off-balance sheet exposures other than OTC derivatives or credit derivatives	312,945	312,945	62,630	-	62,630	5,010
	Total off-balance sheet exposures	312,945	312,945	62,630	-	62,630	5,010
	Total on and off-balance sheet exposures (AIRB)	950,688	950,688	211,165	-	211,165	16,893
	Total exposures under IRB approach	1,251,062	1,249,468	550,102	-	550,102	44,008
	Total (exempted exposures and exposures under the IRB approach) after scaling factor	-	-	583,283	-	583,283	46,663
2.0	Large exposures risk requirement	-	-	-	-	-	-
3.0	Market risk	Long position	Short position				
	Interest rate risk	-	-	-	-	-	-
	Foreign currency risk	-	-	-	-	-	-
	Commodity risk	-	-	-	-	-	-
	Options risk	-	-	-	-	-	-
4.0	Operational risk (basic indicator approach)			26,768	-	26,768	2,141
5.0	Total RWA and capital requirements			610,051	-	610,051	48,804

Capital Structure

The Bank, on 30 August 2013 issued RM500 million subordinated bonds at 4.55%p.a., maturing on 30 August 2023. However, on 30 August 2018 the RM500 million had been fully redeemed.

On 8 May 2015, the Bank had also issued RM1 billion subordinated bonds at 4.65% p.a. maturing on 8 May 2025. In addition on 25 July 2018, the Bank issued another RM600 million subordinated bonds at 4.80% p.a maturing on 25 July 2028. Both subordinated bonds are for working capital, general funding and corporate funding purposes.

For the main features of the subordinated bonds, please refer to Note 21 in the financial statements.

The capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia (BNM)'s Capital Adequacy Framework (Capital Components) and Basel II - Risk-weighted Assets Framework.

The capital structure of the Group and the Bank was as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Common Equity Tier 1 (CET1)/Tier 1 Capital</u>				
Paid-up share capital	792,555	792,555	792,555	792,555
Retained profits	9,035,171	8,261,176	9,111,054	8,335,026
Other reserves	282,731	247,773	85,810	94,135
Regulatory adjustments applied in the calculation of CET1 Capital	(349,705)	(314,140)	(365,064)	(276,492)
Total CET1/Tier 1 Capital	9,760,752	8,987,364	9,624,355	8,945,224
<u>Tier 2 Capital</u>				
Tier 2 Capital instruments	1,600,000	1,500,000	1,600,000	1,500,000
Loan/financing loss provision				
- Surplus eligible provisions over expected losses	304,310	277,701	305,066	278,408
- Collective impairment provisions	26,553	29,883	16,505	20,470
Regulatory adjustments applied in the calculation of Tier 2 Capital	85,437	70,762	-	(26,712)
Total Tier 2 Capital	2,016,300	1,878,346	1,921,571	1,772,166
Total Capital	11,777,052	10,865,710	11,545,926	10,717,390

The capital adequacy ratios of the Group and the Bank were as follows:

	Group		Bank	
	2018	2017	2018	2017
CET1/Tier 1 ratio	16.200%	16.373%	16.151%	16.484%
Total Capital	19.547%	19.795%	19.376%	19.749%
CET1/Tier 1 Capital (net of proposed dividends)	15.379%	15.532%	15.321%	15.633%
Total Capital (net of proposed dividends)	18.725%	18.954%	18.546%	18.899%

Capital Structure (Continued)

The capital adequacy ratios of Islamic Banking Window are computed in accordance with the BNM's Capital Adequacy Framework for Islamic Banking (Capital Components) and Basel II - Risk-weighted Assets Framework for Islamic Banking.

The capital structure of the Islamic Banking Window was as follows:

	2018 RM'000	2017 RM'000
Common Equity Tier 1 (CET1)/Tier 1 Capital		
Capital fund	450,000	450,000
Accumulated losses	(4,478)	(518)
Other reserves	(6)	(81)
Regulatory adjustments applied in the calculation of CET1 Capital	(4,156)	(144)
Total CET1/Tier 1 Capital	441,360	449,257
Tier 2 Capital		
Financing loss provision		
- Surplus eligible provisions over expected losses	8,136	1,523
- Collective impairment provisions	247	2
Total Tier 2 Capital	8,383	1,525
Total Capital	449,743	450,782

The capital adequacy ratios of the Islamic Banking Window were as follows:

	2018	2017
Before the effects of PSIA		
CET1/Tier 1 ratio	30.386%	73.643%
Total Capital	30.977%	73.893%
After the effects of PSIA		
CET1/Tier 1 Capital	31.099%	73.643%
Total Capital	31.689%	73.893%

Risk Management

Risk Management Overview

Managing risk is an integral part of our business strategy. Our risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of our stakeholders, while remaining nimble to seize value-creating business opportunities in a fast changing environment. The Bank is committed to upholding high standards of corporate governance, sound risk management principles and business practices to achieve sustainable, long-term growth. The Bank continually strives towards best risk management practices to support our strategic objectives.

Our risk management strategy is targeted at ensuring proper risk governance so as to facilitate ongoing effective discovery, management and mitigation of risks arising from external factors and our business activities and to set aside adequate capital efficiently to address these risks. Risks are managed within levels established by the senior management committees and approved by the Board and its committees. The Bank has put in place a framework of policies, methodologies, tools and processes to identify, measure, monitor and manage material risks faced by the Bank.

The Bank's risk governance frameworks, policies and appetite provide the overarching principles and guidance for the Bank's risk management activities. Risk reports are regularly submitted to Management and the Board to keep them apprised of the Bank's risk profile.

Risk Management Governance and Framework

The Bank's responsibility for risk management starts with the Board overseeing a governance structure that is designed to ensure that the Bank's business activities are:

- conducted in a safe and sound manner and in line with the highest standards of professionalism;
- consistent with the Bank's overall business strategy and risk appetite; and
- subjected to adequate risk management and internal controls.

In this regard, the Board is primarily assisted by the Risk Management Committee (RMC).

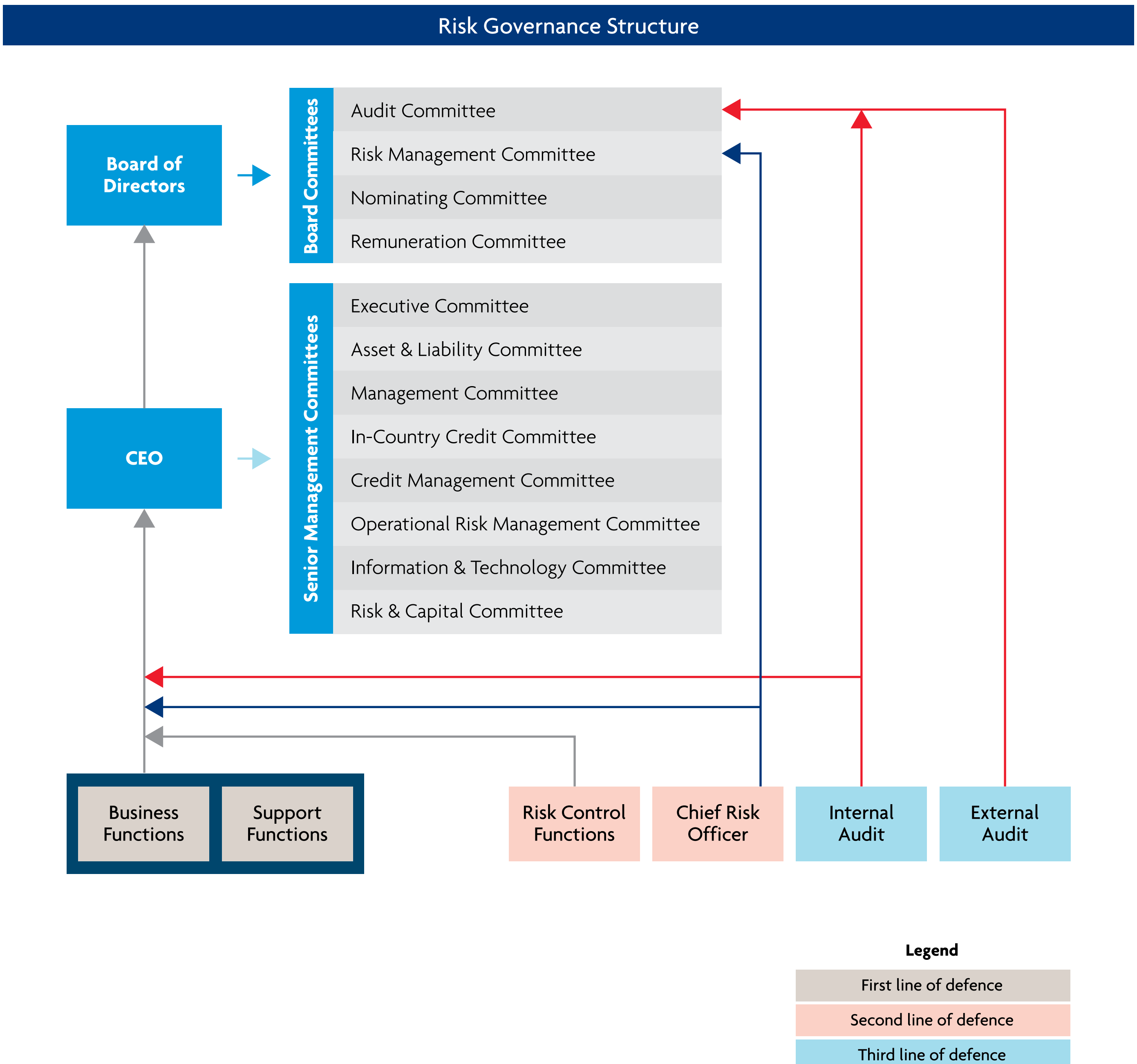
The Chief Executive Officer has established senior management committees to assist in making business decisions with due consideration to risks and returns. The main senior management committees involved in this are the Executive Committee (EXCO), Management Committee (MC), Asset and Liability Committee (ALCO), In-Country Credit Committee (ICCC), Credit Management Committee (CMC), Information & Technology Committee (ITC), Operational Risk Management Committee (ORMC) and Risk and Capital Committee (RCC). These committees also assist the RMC in specific risk areas.

The RMC reviews the overall risk appetite and level of risk capital to be maintained for the Bank. Senior management and the senior management committees are authorised to delegate risk appetite limits by location, business lines, and/or broad product lines.

Risk Management (Continued)

Risk Management Governance and Framework (Continued)

Risk management is also the responsibility of every employee in the Bank. Risk awareness and accountability are embedded in our culture through an established framework that ensures appropriate oversight and accountability for the effective management of risk throughout the Bank and across risk types. This is executed through an organisation control structure that provides three "Lines of Defence" as follows:



Risk Management (Continued)

Risk Management Governance and Framework (Continued)

First Line of Defense - The Risk Owner

The business and support functions have the primary responsibility for implementing and executing effective controls for the management of risks arising from their business activities. This include establishing adequate managerial and supervisory controls to ensure compliance with risk policies, appetite and limits as well as to highlight control breakdowns, inadequacy of processes and unexpected risk events.

Second Line of Defense - Risk Oversight

The risk and control oversight functions (Risk Management and Compliance) and the Chief Risk Officer (CRO) provide the Second Line of Defense.

The risk and control oversight functions support the Bank's strategy of balancing growth with stability by establishing risk frameworks, policies, appetite and limits within which the business functions must operate. The risk and control oversight functions are also responsible for the independent review and monitoring of the Bank's risk profile and highlighting any significant vulnerabilities and risk issues to the respective management committees.

The independence of risk and control oversight functions from business functions ensures the necessary checks and balances are in place.

Third Line of Defense - Independent Audit

The Bank's internal and external auditors conduct risk-based audits covering all aspects of the First and Second Lines of Defence to provide independent assurance to the CEO, Audit Committee and the Board, on the effectiveness of the risk management and control structure, policies, frameworks, systems and processes.

The Bank, adopts and adapts the parent bank's governance structure, frameworks and policies accordingly to comply with local regulatory requirements. This ensures the approach across the regional UOB franchise is consistent and sufficiently flexible to suit local operating environments.

Risk Appetite

The Bank has established a risk appetite framework to define the amount of risk that the Bank is able and willing to take in pursuit of its business objectives. The objective of establishing a risk appetite framework is not to limit risk-taking but to ensure that the Bank's risk profile remains within well-defined and tolerable boundaries. The framework was formulated based on the following key criteria:

- relevance to respective stakeholders, with appropriate levels of granularity;
- practical, consistent and easy to understand metrics for communication and implementation;
- alignment to key elements of the Bank's business strategy; and
- analytically substantiated and measurable metrics.

The risk appetite defines suitable thresholds and limits across key areas including but not limited to credit risk, country risk, market risk, liquidity risk, operational risk and reputation risk. Our risk-taking approach is focused on businesses which we understand and are well equipped to manage the risk involved. Through this approach, we aim to minimise earnings volatility and concentration risk and ensure that our high credit rating, strong capital and funding base remain intact. This allows us to be a steadfast partner of our customers through changing economic conditions and cycles.

The Bank's risk appetite framework and risk appetite are reviewed and approved annually by the Board. Senior management monitors and reports the risk profiles and compliance with the risk appetite to the Board.

Basel Framework

The Bank has adopted the Basel Framework and observes the Bank Negara Malaysia (BNM) Risk Weighted Capital Adequacy Framework (Basel II) for banks incorporated in Malaysia. The Bank continues to adopt a prudent and proactive approach in navigating the evolving regulatory landscape, with emphasis on sound risk management principles in delivering sustainable returns.

The Bank has adopted the Foundation Internal Ratings-Based (FIRB) Approach for its non-retail exposures and the Advanced Internal Ratings-Based (AIRB) Approach for its retail exposures. For market risk, the Bank has adopted the Standardised Approach (SA). For operational risk, the Bank has adopted the Basic Indicator Approach (BIA).

The Bank has adopted the ICAAP to assess on an ongoing basis the amount of capital necessary to support its activities. The ICAAP is reviewed periodically to ensure that the Bank remains well-capitalised after considering all material risks. Stress tests are conducted to determine capital adequacy under stressed conditions.

Credit Risk

Credit risk is the risk of loss arising from any failure by a borrower or counterparty to meet its financial obligations when such obligations fall due. Credit risk is the single largest risk that the Bank faces in its core business as a commercial bank, arising primarily from loans/financing and other lending-related commitments to retail, corporate and institutional borrowers. Treasury and capital market operations, and investments also expose the Bank to counterparty and issuer credit risks.

Integral to the management of credit risk is a framework that clearly defines policies and processes relating to the measurement and management of credit risk. The framework helps to foster a robust culture of identification, measurement and management of credit risk within the Bank. The Bank adopts an holistic approach towards assessing credit risk and ensures that managing credit risk is part of an integrated approach to enterprise risk management.

The Bank's portfolio is also being reviewed and stress-tested regularly, and the Bank continuously monitors the operating environment to identify emerging risks and to formulate mitigating actions.

Credit Risk Governance and Organisation

The CMC, ICCC and EXCO are the key oversight committees for credit risk and support the CEO and RMC in managing the Bank's overall credit risk exposures. The committees serve as the executive forum for discussions on all credit-related issues including the credit risk management framework, policies, processes, infrastructure, methodologies and systems. The CMC, ICCC and EXCO also review and assess the Bank's credit portfolios and credit risk profiles.

The Credit Risk Management under Risk Management develops bank-wide credit policies and guidelines, and focuses on facilitating business development within a prudent, consistent and efficient credit risk management framework. It is responsible for the reporting, analysis and management of all elements of credit risk to CMC, ICCC, RMC and Board.

Credit Risk Policies and Processes

The Bank has established credit policies and processes to manage credit risk in the following key areas:

i. **Credit Approval Process**
To maintain the independence and integrity of the credit approval process, the credit origination and approval functions are clearly segregated. Credit approval authority is delegated to officers based on their experience, seniority and track record. All credit approval officers are guided by credit policies and credit acceptance guidelines that are periodically reviewed to ensure their continued relevance to the Bank's business strategy and business environment. Credit approval is based on a risk-adjusted scale according to a borrower's credit rating.

ii. **Credit Concentration Risk**
Credit concentration risk may arise from a single large exposure or from multiple exposures that are closely correlated. This is managed by setting exposure limits on borrowers, obligor groups, portfolios, industries and countries, generally expressed as a percentage of the Bank's eligible capital base.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The Bank also manages its country risk exposures within an established framework that involves setting limits for each country. Such limits are based on the country's risk rating, economic potential measured by its gross domestic product and the Bank's business strategy. Regular assessments of emerging risks and in-depth reviews of industry trends are performed to provide a forward-looking view on developments that could impact the Bank's portfolio.

iii. **Credit Stress Test**
Credit stress testing is a core component of the Bank's credit portfolio management process. Various regulatory and internal stress tests are conducted periodically. The main purpose of credit stress testing is to provide a forward-looking assessment of the Bank's credit portfolio under adverse economic scenarios. Under stress scenarios such as a severe recession, significant losses from the credit portfolio may occur. Stress tests are used to assess if the Bank's capital can withstand such losses and their impact on profitability and balance sheet quality. Stress tests also help us to identify the vulnerability of various business units and would enable us to formulate appropriate mitigating actions.

The Bank's stress test scenarios consider potential and plausible macroeconomic and geopolitical events in varying degrees of likelihood and severity. These are developed through consultation with relevant business units and approved by senior management.

iv. **Credit Monitoring and Remedial Management**
The Bank regularly monitors credit exposures, portfolio performance and emerging risks that may impact its credit risk profile. The Board and senior management are updated on credit trends through internal risk reports, so that mitigating actions can be taken if necessary.

Credit Risk (Continued)

Credit Risk Policies and Processes (Continued)

v. Delinquency Monitoring

The Bank monitors closely the delinquency of borrowing accounts as it is a key indicator of credit quality. An account is considered as delinquent when payment is not received on due date. Any delinquent accounts, including a revolving credit facility (such as an overdraft) with limit excesses, is closely monitored and managed through a disciplined process by officers from business units and risk management function. Where appropriate, such accounts are also subject to more frequent credit reviews.

Classification and Loan/Financing Loss Impairment

The Bank classifies its credit portfolios according to the borrower's ability to repay the credit facility from their normal source of income.

All borrowing accounts are categorised into 'Pass', 'Special Mention' or 'Non-Performing' categories. Non-Performing accounts are further categorised as 'Substandard', 'Doubtful' or 'Loss' in accordance with the Bank's Policy. Any account which is delinquent (or in excess for a revolving credit facility such as an overdraft) for more than 90 days will be categorised automatically as 'Non-Performing'. In addition, any account that exhibits weaknesses which is likely to jeopardise repayment on existing terms may be categorised as 'Non-Performing'.

Upgrading and declassification of a Non-Performing account to 'Pass' or 'Special Mention' status must be supported by a credit assessment of the repayment capability, cash flows and financial position of the borrower. The Bank must also be satisfied that once the account is declassified, the account is unlikely to be classified again in the near future.

A rescheduled or restructured account shall be categorised as 'Non-Performing' when the account exhibits signs of increase in credit risk. The rescheduled or restructured account is to be placed on the appropriate classified grade based on the Bank's assessment of the financial condition of the borrower and the ability of the borrower to repay under the rescheduled or restructured terms. A rescheduled or restructured account must comply fully with the rescheduled or restructured terms before it can be declassified.

The Bank provides for impairment based on local regulatory requirements including Bank Negara Malaysia (BNM) guidelines and MFRS9 for local reporting purposes. Where necessary, additional impairment is provided for to comply with the Bank's impairment policy.

Special Asset Management

Special Asset Management (SAM) independently manages the restructuring, workout and recovery of the Bank's Non-Performing portfolios. The primary objectives are (i) to nurse the Non-Performing accounts back to financial health whenever possible for transfer back to the respective business units for management and (ii) to maximise recovery of the Non-Performing accounts that the Bank intends to exit.

Write-Off Policy

A classified account that is not secured by any realisable collateral will be written-off either when the prospect of a recovery is considered poor or when all feasible avenues of recovery have been exhausted.

Credit Risk (Continued)

(i) The credit exposures by sector of the Bank for the financial year ended 31 December 2018 were as follows:

	Sovereigns/ central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	1,641,612	37,102	-	-	-	1,678,714
Mining and quarrying	-	-	758,580	-	135,415	6,776	-	-	-	900,771
Manufacturing	-	-	63,164	-	6,779,592	1,372,982	-	-	-	8,215,738
Electricity, gas and water	-	-	-	-	302,560	10,016	-	-	-	312,576
Construction	-	-	-	-	11,940,897	506,712	-	-	-	12,447,609
Wholesale, retail trade, restaurants and hotels	-	-	8,276	-	11,631,697	4,101,071	-	-	-	15,741,044
Transport, storage and communication	-	-	-	-	2,403,748	179,587	-	-	-	2,583,335
Finance, insurance and business services	7,380	58,654	13,358,418	130,244	3,026,406	724,482	-	-	-	17,305,584
Real estate	-	-	-	-	4,264,349	668,207	-	-	-	4,932,556
Community, social and personal services	-	-	-	-	93,696	110,702	-	-	-	204,398
Households	-	-	-	-	5,935	17,942,676	36,633,985	-	-	54,582,596
Others	13,063,612		-	-	96,484	471	-	114,445	1,028,776	14,303,788
Grand total	13,070,992	58,654	14,188,438	130,244	42,322,391	25,660,784	36,633,985	114,445	1,028,776	133,208,709

(ii) The credit exposures by remaining contractual maturities of the Bank for the financial year ended 31 December 2018 were as follows:

	Sovereigns/ central Banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
‹ 3 months	3,290,858	30,472	12,038,829	63,778	11,560,508	810,168	15,887	-	125,263	27,935,763
3 - 6 months	56,531	11,396	853,765	9,957	2,642,987	197,071	9,895	-	-	3,781,602
6 - 12 months	476,927	16,786	160,053	23,409	2,770,679	7,341,955	1,606,411	-	-	12,396,220
1 - 3 years	4,026,435	-	729,488	31,821	12,368,152	2,591,426	116,353	114,445	903,513	20,881,633
3 - 5 years	2,668,818	-	388,509	1,279	7,426,579	556,756	258,361	-	-	11,300,302
› 5 years	2,551,423	-	17,794	-	5,553,486	14,163,408	34,627,078	-	-	56,913,189
Grand total	13,070,992	58,654	14,188,438	130,244	42,322,391	25,660,784	36,633,985	114,445	1,028,776	133,208,709

Credit Risk (Continued)

(i) The credit exposures by sector of the Bank for the financial year ended 31 December 2017 were as follows:

	Sovereigns/ central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	1,251,124	44,859	-	-	-	1,295,983
Mining and quarrying	-	-	1,030,615	-	235,940	6,724	-	-	-	1,273,279
Manufacturing	-	-	66,200	-	6,184,011	1,324,791	-	-	-	7,575,002
Electricity, gas and water	-	-	-	-	215,335	9,000	-	-	-	224,335
Construction	-	-	-	-	12,774,324	457,015	-	-	-	13,231,339
Wholesale, retail trade, restaurants and hotels	-	-	7,548	-	8,191,329	3,965,350	-	-	-	12,164,227
Transport, storage and communication	-	-	-	-	1,464,826	180,796	-	-	-	1,645,622
Finance, insurance and business services	502	-	3,915,558	118,315	2,716,549	746,097	-	-	-	7,497,021
Real estate	-	-	-	-	4,007,600	740,936	-	-	-	4,748,536
Community, social and personal services	-	-	-	-	57,335	131,535	-	-	-	188,870
Households	-	-	-	-	-	18,002,833	35,026,181	-	-	53,029,014
Others	15,157,299	43,065	3,874,156	-	1,734,399	53	-	140,516	705,369	21,654,857
Grand total	15,157,801	43,065	8,894,077	118,315	38,832,772	25,609,989	35,026,181	140,516	705,369	124,528,085

(ii) The credit exposures by remaining contractual maturities of the Bank for the financial year ended 31 December 2017 were as follows:

	Sovereigns/ central Banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
‹ 3 months	7,914,599	12,931	6,717,045	57,535	10,111,185	764,419	17,199	-	29,949	25,624,862
3 - 6 months	3,044	4,566	62,399	9,597	2,369,214	170,483	3,657	-	-	2,622,960
6 - 12 months	141,831	25,568	235,353	17,375	3,131,426	7,290,201	1,572,148	-	882	12,414,784
1 - 3 years	4,400,891	-	1,502,388	28,214	10,311,276	2,507,064	102,075	140,516	674,538	19,666,962
3 - 5 years	2,139,792	-	351,733	5,485	7,422,383	438,258	269,360	-	-	10,627,011
› 5 years	557,644	-	25,159	109	5,487,288	14,439,564	33,061,742	-	-	53,571,506
Grand total	15,157,801	43,065	8,894,077	118,315	38,832,772	25,609,989	35,026,181	140,516	705,369	124,528,085

Credit Risk (Continued)

(i) The credit exposures by sector of the Islamic Banking Window for the financial year ended 31 December 2018 were as follows:

	Sovereigns/ central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	125,046	479	-	-	-	125,525
Manufacturing	-	-	-	-	150,585	63,769	-	-	-	214,354
Electricity, gas and water	-	-	-	-	63,304	-	-	-	-	63,304
Construction	-	-	-	-	189,106	34,403	-	-	-	223,509
Wholesale, retail trade, restaurants and hotels	-	-	-	-	230,487	182,957	-	-	-	413,444
Transport, storage and communication	-	-	-	-	7,171	26,064	-	-	-	33,235
Finance, insurance and business services	7,380	1,552	8,117	-	58,164	53,072	-	-	-	128,285
Real estate	-	-	-	-	108,012	33,508	-	-	-	141,520
Community, social and personal services	-	-	-	-	-	5,594	-	-	-	5,594
Households	-	-	-	-	-	323,180	1,694,078	-	-	2,017,258
Others	2,801,549	-	-	-	-	-	-	-	19,488	2,821,037
Grand total	2,808,929	1,552	8,117	-	931,875	723,026	1,694,078	-	19,488	6,187,065

(ii) The credit exposures by remaining contractual maturities of the Islamic Banking Window for the financial year ended 31 December 2018 were as follows:

	Sovereigns/ central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
< 3 months	2,712,854	1,552	-	-	299,285	100	-	-	-	3,013,791
3 - 6 months	30,195	-	-	-	10,215	-	-	-	-	40,410
6 - 12 months	-	-	-	-	25,025	-	-	-	-	25,025
1 - 3 years	65,880	-	8,117	-	107,269	326	-	-	19,488	201,080
3 - 5 years	-	-	-	-	130,259	2,013	88	-	-	132,360
> 5 years	-	-	-	-	359,822	720,587	1,693,990	-	-	2,774,399
Grand total	2,808,929	1,552	8,117	-	931,875	723,026	1,694,078	-	19,488	6,187,065

Credit Risk (Continued)

(i) The credit exposures by sector of the Islamic Banking Window for the financial year ended 31 December 2017 were as follows:

	Sovereigns/ central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
Manufacturing	-	-	-	-	35,651	32,411	-	-	-	68,062
Electricity, gas and water	-	-	-	-	54,631	-	-	-	-	54,631
Construction	-	-	-	-	39,682	13,890	-	-	-	53,572
Wholesale, retail trade, restaurants and hotels	-	-	-	-	61,824	91,914	-	-	-	153,738
Transport, storage and communication	-	-	-	-	10,023	15,861	-	-	-	25,884
Finance, insurance and business services	503	-	13,757	-	38,530	27,421	-	-	-	80,211
Real estate	-	-	-	-	46,276	18,172	-	-	-	64,448
Community, social and personal services	-	-	-	-	-	3,664	-	-	-	3,664
Households	-	-	-	-	-	254,170	493,184	-	-	747,354
Others	200,343	-	-	-	-	-	-	-	175	200,518
Grand total	200,846	-	13,757	-	286,617	457,503	493,184	-	175	1,452,082

(ii) The credit exposures by remaining contractual maturities of the Islamic Banking Window for the financial year ended 31 December 2017 were as follows:

	Sovereigns/ central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance cos, securities firms and fund managers RM'000	Corporates (including specialised lending and SMEs) RM'000	Retail RM'000	Residential mortgages RM'000	Equity exposures RM'000	Other assets RM'000	Grand total RM'000
‹ 3 months	162,115	-	-	-	76,251	-	-	-	-	238,366
3 - 6 months	-	-	-	-	5,330	-	-	-	-	5,330
6 - 12 months	-	-	-	-	6,799	-	-	-	-	6,799
1 - 3 years	38,731	-	13,757	-	20,036	52	-	-	175	72,751
3 - 5 years	-	-	-	-	108,185	88	-	-	-	108,273
› 5 years	-	-	-	-	70,016	457,363	493,184	-	-	1,020,563
Grand total	200,846	-	13,757	-	286,617	457,503	493,184	-	175	1,452,082

Credit Risk (Continued)

(iii) Past due and impaired loans analysed by industry:

Bank	2018		2017	
	Past due but not impaired RM'000	Impaired loans RM'000	Past due but not impaired RM'000	Impaired loans RM'000
Agriculture, hunting, forestry and fishing	32,870	661	1,784	11,161
Mining and quarrying	1,666	-	2,013	-
Manufacturing	207,265	136,935	341,447	140,079
Electricity, gas and water	8,767	-	1,983	-
Construction	233,725	204,187	484,167	138,526
Wholesale, retail trade, restaurants and hotels	454,208	173,862	469,093	133,802
Transport, storage and communication	42,932	70,630	7,866	142,836
Finance, insurance and business services	41,815	23,531	35,406	127,092
Real estate	225,964	209,088	226,457	121,485
Community, social and personal services	1,273	541	2,721	737
Households				
- purchase of residential properties	1,203,651	444,979	1,084,720	381,318
- purchase of non-residential properties	431,627	79,010	376,784	60,201
- others	205,309	89,728	179,922	93,182
	3,091,072	1,433,152	3,214,363	1,350,419

Islamic Banking Window	2018		2017	
	Past due but not impaired RM'000	Impaired loans RM'000	Past due but not impaired RM'000	Impaired loans RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-
Mining and quarrying	-	-	-	-
Manufacturing	8,559	-	-	-
Electricity, gas and water	-	-	-	-
Construction	1,910	-	-	-
Wholesale, retail trade, restaurants and hotels	6,431	2,119	-	-
Transport, storage and communication	-	-	-	-
Finance, insurance and business services	1,579	-	-	-
Real estate	-	-	-	-
Community, social and personal services	-	-	-	-
Households				
- purchase of residential properties	39,081	9,987	7,345	703
- purchase of non-residential properties	2,215	498	-	-
- others	364	100	43	-
	60,139	12,704	7,388	703

Credit Risk (Continued)

(iv) Expected Credit Loss (ECL) 1, 2 and 3 as well as individual and collective impairment provisions analysed by industry:

Bank	2018		2017	
	ECL 3 RM'000	ECL1 and ECL2 RM'000	Individual impairment RM'000	Collective impairment RM'000
Agriculture, hunting, forestry and fishing	-	19,279	-	35,474
Mining and quarrying	-	8,241	-	2,814
Manufacturing	41,214	111,604	58,480	179,166
Electricity, gas and water	-	7,980	-	5,354
Construction	32,140	112,241	29,415	191,160
Wholesale, retail trade, restaurants and hotels	32,727	191,239	26,529	232,089
Transport, storage and communication	40,349	21,747	37,439	32,408
Finance, insurance and business services	9,859	59,755	106,999	77,893
Real estate	3,062	66,332	1,984	134,010
Community, social and personal services	-	3,346	13	2,989
Households				
- purchase of residential properties	31,841	382,733	27,549	169,557
- purchase of non-residential properties	6,244	108,238	4,643	45,554
- others	15,238	68,101	17,092	120,389
	212,674	**1,160,836**	**310,143**	**1,228,857**

Islamic Banking Window	2018		2017	
	ECL 3 RM'000	ECL1 and ECL2 RM'000	Individual impairment RM'000	Collective impairment RM'000
Agriculture, hunting, forestry and fishing	-	57	-	-
Mining and quarrying	-	298	-	-
Manufacturing	-	5,094	-	1,088
Electricity, gas and water	-	1,232	-	-
Construction	-	1,957	-	1,999
Wholesale, retail trade, restaurants and hotels	348	12,560	-	2,881
Transport, storage and communication	-	1,779	-	263
Finance, insurance and business services	-	2,306	-	360
Real estate	-	3,740	-	956
Community, social and personal services	-	-	-	47
Households				
- purchase of residential properties	1,285	128	201	1,261
	1,633	**29,151**	**201**	**8,855**

Credit Risk (Continued)

(v) Expected Credit Loss 3 (ECL 3) allowances analysed by industry:

Bank	2018 ECL 3 allowances made during the year RM'000	2018 Write-offs during the year RM'000	2017 Individual impairment made during the year RM'000	2017 Write-offs during the year RM'000
Manufacturing	20,382	16,343	27,658	6,681
Construction	16,304	1,187	16,062	18,982
Wholesale, retail trade, restaurants and hotels	45,128	19,080	27,605	16,641
Transport, storage and communication	11,526	633	44,875	359
Finance, insurance and business services	10,019	100,475	70,801	4,815
Real estate	4,900	238	4,687	2,183
Community, social and personal services	168	160	18	10
Households				
- purchase of residential properties	63,174	20,813	53,861	14,772
- purchase of non-residential properties	7,967	2,426	5,512	1,644
- others	70,592	54,690	81,577	62,178
	250,160	**216,045**	**332,656**	**128,265**

Islamic Banking Window	2018 ECL 3 allowances made during the year RM'000	2018 Write-offs during the year RM'000	2017 Individual impairment made during the year RM'000	2017 Write-offs during the year RM'000
Wholesale, retail trade, restaurants and hotels	394	-	-	-
Households				
- purchase of residential properties	1,776	-	204	-
- others	9	-	-	-
	2,179	**-**	**204**	**-**

Impaired loans and impairment provision by geographical area

Past due loans, impaired loans and impairment provision were from customers residing in Malaysia.

Credit Risk (Continued)

(vi) Geographical Analysis for the Bank:

As at 31 December 2018	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	3,566,870	357,845	3,924,715
Securities purchased under resale agreements	4,603,059	-	4,603,059
Deposits and placements with financial institutions	800,000	-	800,000
Financial assets at fair value through profit or loss (FVTPL)	1,811,633	-	1,811,633
Debt instruments at fair value through other comprehensive income (FVOCI)	16,080,616	-	16,080,616
Equity instruments at fair value through other comprehensive income (FVOCI)	114,445	-	114,445
Loans, advances and financing	74,997,835	7,036,840	82,034,675
Derivative financial assets	311,462	65,034	376,496
Other assets	616,890	35,209	652,099
Statutory deposits with BNM	2,016,869	-	2,016,869
Financial assets not subject to credit risk	568,107	-	568,107
	105,487,786	7,494,928	112,982,714
Commitments and contingencies	91,053,870	10,534,500	101,588,370

As at 31 December 2017	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	7,970,457	468,459	8,438,916
Securities purchased under resale agreements	1,079,420	-	1,079,420
Deposits and placements with financial institutions	150,000	-	150,000
Financial assets at fair value through profit or loss (FVTPL)	229,455	-	229,455
Available-for-sale securities (AFS)	11,009,527	-	11,009,527
Loans, advances and financing	70,394,265	7,280,765	77,675,030
Derivative financial assets	511,835	80,325	592,160
Other assets	314,853	10,538	325,391
Statutory deposits with BNM	1,802,204	-	1,802,204
Financial assets not subject to credit risk	685,854	-	685,854
	94,147,870	7,840,087	101,987,957
Commitments and contingencies	86,590,471	10,519,679	97,110,150

Credit Risk (Continued)

Credit Exposures under Basel II

Under Basel II, credit risk for the various asset classes may be computed using a combination of:

i) Standardised Approach (SA);
ii) Foundation Internal Ratings-Based (FIRB) Approach; and
iii) Advanced Internal Ratings-Based (AIRB) Approach.

The table below summarises the approaches adopted by the Bank for credit risk computation.

The Bank has adopted the FIRB Approach for its non-retail exposures and the AIRB Approach for its retail exposures.

	Standardised* RM'million	FIRB RM'million	AIRB RM'million
Total Credit Exposures	14,680	47,766	62,372

*Amount under Standardised Approach refers to credit exposures where IRB Approach is not applicable.

The Bank had on 7 January 2010 received approval from BNM to migrate directly to the Internal Ratings-Based Approach for credit risk beginning January 2010 as per the Risk Weighted Capital Adequacy Framework.

For exposures subject to the SA, approved External Credit Assessment Institutions (ECAI) ratings and prescribed risk weights based on asset class are used in the computation of regulatory capital.

The ECAI used by the Bank are Rating Agency Malaysia, Fitch Ratings, Moody's Investors Service, Malaysian Rating Corporation Berhad and Standard & Poor's. ECAI ratings are mapped to a common credit quality grade prescribed by BNM.

Credit Risk (Continued)

The aggregate breakdown of credit risk standardised exposures by risk weights of the Bank for the financial year ended 31 December 2018 were as follows:

RM'000

Risk weights	Bank								
	Sovereigns/ central banks	Public sector entities	Banks, DFIs and MDBs	Insurance cos, securities firms and fund managers	Corporates	Other assets	Equity	Total exposures after netting and CRM	Total RWA
0%	13,036,857	-	-	-	1,174	248,540	-	13,286,571	-
10%	-	-	-	-	-	-	-	-	-
20%	34,135	58,654	-	-	-	-	-	92,789	18,558
35%	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	1	-	-	1	1
75%	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-
100%	-	-	-	31,089	374,322	780,236	112,489	1,298,136	1,298,136
110%	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	2,451	-	-	2,451	3,676
270%	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-
Total	13,070,992	58,654	-	31,089	377,948	1,028,776	112,489	14,679,948	1,320,371

Credit Risk (Continued)

The aggregate breakdown of credit risk standardised exposures by risk weights of the Bank for the financial year ended 31 December 2017 were as follows:

RM'000

Risk weights	Bank								
	Sovereigns/ central banks	Public sector entities	Banks, DFIs and MDBs	Insurance cos, securities firms and fund managers	Corporates	Other assets	Equity	Total exposures after netting and CRM	Total RWA
0%	15,136,493	-	-	-	1,170	122,413	-	15,260,076	-
10%	-	-	-	-	-	-	-	-	-
20%	21,308	43,065	15,431	-	-	-	-	79,804	15,960
35%	-	-	-	-	-	-	-	-	-
50%	-	-	28,387	-	1	-	-	28,388	14,194
75%	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-
100%	-	-	-	95,857	912,579	582,956	-	1,591,392	1,591,393
110%	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	10,742	-	-	10,742	16,112
270%	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-
Total	15,157,801	43,065	43,818	95,857	924,492	705,369	-	16,970,402	1,637,659

Credit Risk (Continued)

Credit Exposures Under Basel II (Continued)

The table below summarises the approaches adopted by the Islamic Banking Window for credit risk computation.

The Bank has adopted the FIRB Approach for its non-retail exposures and the AIRB Approach for its retail exposures under its Islamic Banking Window:

	Standardised* RM'million	FIRB RM'million	AIRB RM'million
Total Credit Exposures	2,830	920	2,417

*Amount under Standardised Approach refers to credit exposures where IRB Approach is not applicable.

The aggregate breakdown of credit risk standardised exposures by risk weights of the Islamic Banking Window for the financial year ended 31 December 2018 were as follows:

RM'000

Risk weights	Islamic Banking Window							
	Sovereigns/ central banks	Public sector entities	Banks, DFIs and MDBs	Insurance cos, securities firms and fund managers	Corporates	Other assets	Total exposures after netting and CRM	Total RWA
0%	2,808,929	-	-	-	-	-	2,808,929	-
10%	-	-	-	-	-	-	-	-
20%	-	1,552	-	-	-	-	1,552	311
35%	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	19,488	19,488	19,488
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-
Total	2,808,929	1,552	-	-	-	19,488	2,829,969	19,799

Credit Risk (Continued)

The aggregate breakdown of credit risk standardised exposures by risk weights of the Islamic Banking Window for the financial year ended 31 December 2017 were as follows:

RM'000

Risk weights	Islamic Banking Window							
	Sovereigns/ central banks	Public sector entities	Banks, DFIs and MDBs	Insurance cos, securities firms and fund managers	Corporates	Other assets	Total exposures after netting and CRM	Total RWA
0%	200,846	-	-	-	-	-	200,846	-
10%	-	-	-	-	-	-	-	-
20%	-	-	-	-	-	-	-	-
35%	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	175	175	175
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-
Total	200,846	-	-	-	-	175	201,021	175

Credit Risk (Continued)

Rated exposures according to ratings by ECAI of the Bank as at 31 December 2018 were as follows:

RM'000

Ratings of Corporates by approved ECAI						
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and off-balance sheet exposures						
Credit exposures (using corporate risk weights)						
Public sector entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	58,654
Insurance cos, securities firms and fund managers		-	-	-	-	31,089
Corporates		-	-	-	-	377,948
Total		**-**	**-**	**-**	**-**	**467,692**

RM'000

Ratings of Sovereigns and Central Banks by approved ECAI							
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and off-balance sheet exposures							
Sovereigns/central banks		-	13,070,992	-	-	-	-
Total		**-**	**13,070,992**	**-**	**-**	**-**	**-**

Credit Risk (Continued)

Rated exposures according to ratings by ECAI of the Bank for the financial year ended 31 December 2017 were as follows:

RM'000

Ratings of Corporates by approved ECAI						
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<u>On and off-balance sheet exposures</u>						
<u>Credit exposures (using corporate risk weights)</u>						
Public sector entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	43,065
Insurance cos, securities firms and fund managers		-	-	-	-	95,857
Corporates		-	-	-	-	924,492
Total		**-**	**-**	**-**	**-**	**1,063,414**

RM'000

Ratings of Banking Institutions by approved ECAI							
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<u>On and off-balance sheet exposures</u>							
Banks, DFIs and MDBs		14,000	24,262	37	-	-	5,519
Total		**14,000**	**24,262**	**37**	**-**	**-**	**5,519**

RM'000

Ratings of Sovereigns and Central Banks by approved ECAI							
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<u>On and off-balance sheet exposures</u>							
Sovereigns/central banks		-	15,157,801	-	-	-	-
Total		**-**	**15,157,801**	**-**	**-**	**-**	**-**

Credit Risk (Continued)

Rated exposures according to ratings by ECAI of the Islamic Banking Window as at 31 December 2018 were as follows:

RM'000

Ratings of Corporates by approved ECAI						
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and off-balance sheet exposures						
Credit exposures (using corporate risk weights)						
Public sector entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	1,552
Insurance cos, securities firms and fund managers		-	-	-	-	-
Corporates		-	-	-	-	-
Total		-	-	-	-	1,552

RM'000

Ratings of Sovereigns and Central Banks by approved ECAI							
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and off-balance sheet exposures							
Sovereigns/central banks		-	2,808,929	-	-	-	-
Total		-	2,808,929	-	-	-	-

Rated exposures according to ratings by ECAI of the Islamic Banking Window for the financial year ended 31 December 2017 were as follows:

RM'000

Ratings of Sovereigns and Central Banks by approved ECAI							
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and off-balance sheet exposures							
Sovereigns/central banks		-	200,846	-	-	-	-
Total		-	200,846	-	-	-	-

Credit Risk (Continued)

Internal Credit Rating System

The Bank employs internal rating models to support the assessment of credit risk and assignment of exposures to rating grades or pools. Internal ratings are used pervasively by the Bank in the areas of credit approval, credit review and monitoring, credit stress testing, limits setting, pricing and collections.

The Bank has established a credit rating governance framework to ensure the reliable and consistent performance of the Bank's rating systems. The framework defines the roles and responsibilities of the various parties in the credit rating process, including independent model performance monitoring, annual model validation and independent reviews by Internal Audit.

Credit risk models are independently validated before they are implemented to ensure they are fit for purpose. The robustness of these rating models is monitored on an ongoing basis, and all models are subject to annual reviews conducted by model owners to ascertain that the chosen risk factors and assumptions continue to remain relevant for the respective portfolios. All new models, model changes and annual reviews are approved by the EXCO or Board, depending on the materiality of the portfolio.

Non-Retail Exposures

The Bank has adopted the FIRB Approach for its non-retail exposures. Under this approach, the Probability of Default (PD) for each borrower is estimated using internal models. These PD models employ qualitative and quantitative factors to provide an assessment of the borrower's ability to meet their financial obligations, and are calibrated to provide an estimate of the likelihood of default over one-year time horizon. A default is considered to have occurred if:

- the obligor is unlikely to pay its credit obligations in full to the Bank, without recourse by the Bank to auction such as realising the security; or
- the obligor is past due for more than 90 days on any credit obligation to the Bank.

Supervisory Loss Given Default (LGD) and Exposure At Default (EAD) parameters prescribed by the BNM are used together with the internal credit ratings to calculate risk weights and regulatory capital requirements.

While the Bank's internal risk rating grades may show some correlation with the rating grades of ECAI, they are not directly comparable or equivalent to the ECAI ratings.

Corporate Portfolio

The Bank has developed models to rate exposures in the Non-bank Financial Institution (NBFI), Large Corporate and SME portfolios. Credit risk factors used to derive a borrower's risk rating include its financial strength, quality of management, business risks, and the industry in which it operates. The borrower risk rating process is augmented by facility risk ratings, which take into account the type and structure of the facility, availability and type of collateral, and seniority of the exposure.

The Bank's internal rating grade structure for the NBFI, Large Corporate and SME models consists of 16 pass grades. The models are mapped to the rating scale by calibration that takes into account the Bank's long-term average portfolio default rate.

Specialised Lending Portfolio

The Bank has developed models for four Specialised Lending portfolios, namely: Income Producing Real Estate (IPRE), Commodities Finance (CF), Project Finance (PF) and Ship Finance (SF). Internal risk grades are derived based on a comprehensive assessment of financial and non-financial risk factors using internal scorecards.

The rating grade structure for IPRE portfolios follows that of the corporate asset class, with 16 pass grades. Risk grades derived for CF, PF and SF portfolios are mapped to four supervisory slotting categories, which determines the risk weights to be applied to such exposures.

Bank Portfolio

The Bank's internal scorecard takes into account asset quality, capital adequacy, liquidity, management, regulatory environment and robustness of the overall banking system. The scorecard has an internal rating grade structure consisting of 15 pass grades.

Equity Portfolio

The Bank adopts the following approaches for its equity investments:

i) Simple Risk Weight (SRW) method for its equity investment portfolio; and
ii) PD/LGD method for its investments in Tier-1 and Tier-2 perpetual securities issued by banks.

Investment exposures adopting the SRW method are subject to the supervisory risk weights, while investment exposures adopting the PD/LGD method are rated using the Bank's internal scorecard.

Retail Exposures

The Bank has adopted the AIRB Approach for its retail exposures, which comprises residential mortgages, qualifying revolving retail exposures and other retail exposures.

Credit Risk (Continued)

Retail Exposures (Continued)

Exposures within each of these asset classes are not managed individually, but as part of a pool of similar exposures based on borrower and transaction characteristics. Internal risk segmentation models are used to estimate PD, LGD and EAD parameters for each of these exposure pools based on historical internal loss data. Where internal loss data are insufficient to provide robust risk estimates, the segmentation models may incorporate internal and/or external proxies and, where necessary, may be augmented with appropriate margins of conservatism.

Retail Probability of Default Models

Retail PD models are based on pools of homogeneous exposures segmented by a combination of application scores, behavioral scores and other risk drivers reflecting borrower, facility and delinquency characteristics. PD pools are calibrated through-the-cycle using at least five years of historical data that cover a full economic cycle. For low default portfolios, internal and/or external proxies that are highly correlated with internal defaults are used to estimate the long-run average PD. A regulatory floor of 0.03 per cent is applied to all PD pools.

In general, the long-run observed default rates are largely lower than the PD estimates due to the model's calibration philosophy and the application of conservative overlays to account for model risk.

Retail Loss Given Default Models

Retail LGD models are estimated directly using historical default and recovery data via the 'workout' approach, which considers the economic losses arising from different post-default scenarios such as cured, restructured and liquidated. LGD models are segmented using material pre-default risk drivers such as facility and collateral characteristics.

LGD models are calibrated to reflect a portfolio's economic downturn experience. In addition, for residential mortgages, an LGD floor of 10 per cent is applied at the segment level.

Retail Exposure at Default Models

For revolving products, EAD is computed based on the current outstanding balance and the estimated potential drawdown of undrawn commitments, which is statistically determined based on historical data. For closed-end products, the EAD is the current outstanding balance. EAD models are generally segmented by material pre-default risk drivers such as facility type, limit and utilisation.

EAD models are calibrated to reflect the portfolio long-run averages, except for portfolios that exhibit positive correlation between LGD and PD values, in which case, these portfolios' EAD models are calibrated to reflect their economic downturn conditions. EAD must be at least equal to the current outstanding balances.

Credit Risk (Continued)

Credit Risk Profile

The following tables presented the breakdown of exposures by RWA and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes for the financial year ended 31 December 2018:

Exposures under the IRB Approach by Risk Grade

CRR Band	1-9	10-16	17-20 (Default)
Non-retail exposures (EAD) (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	24,475,227	16,628,011	798,923
Bank	13,363,922	824,516	-
Total non-retail exposures	**37,839,149**	**17,452,527**	**798,923**
Undrawn commitments (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	1,930,295	1,753,562	21,579
Bank	-	-	-
Total undrawn commitments	**1,930,295**	**1,753,562**	**21,579**
Exposure weighted average LGD			
Large Corporate, SMEs and Specialised Lending (IPRE)	43%	39%	44%
Bank	34%	45%	-
Exposure weighted average risk weight			
Large Corporate, SMEs and Specialised Lending (IPRE)	71%	117%	2%
Bank	10%	40%	-

Specialised Lending Exposure under the Supervisory Slotting Criteria

Supervisory Categories/ Risk Weights	Strong/ 70%	Good/ 90%	Satisfactory/ 115%	Weak/ 250%	Default/ 0%
Specialised Lending Exposure (EAD) (RM'000)					
Project Finance	33,281	-	-	-	-
Object Finance	563	5,015	-	-	-
Risk Weighted Assets	23,691	4,514	-	-	-

PD range of retail exposures	0.00% to 1.00%	1.01% to 2.00%	2.01% to 99.99%	SD to default
Retail exposures (EAD) (RM'000)				
Residential mortgages	31,913,946	1,087,154	3,135,750	497,136
Qualifying revolving retail	4,241,809	760,733	1,744,008	38,737
Other retail	14,371,263	2,126,114	2,190,704	187,415
Total retail exposures	**50,527,018**	**3,974,001**	**7,070,462**	**723,288**
Undrawn commitments (RM'000)				
Residential mortgages	2,212,750	291,969	160,681	-
Qualifying revolving retail	3,126,817	328,075	587,096	-
Other retail	2,020,913	574,904	283,180	328
Total undrawn commitments	**7,360,480**	**1,194,948**	**1,030,957**	**328**
Exposure weighted average LGD				
Residential mortgages	12.17%	14.16%	12.62%	12.68%
Qualifying revolving retail	31.99%	45.02%	45.09%	56.19%
Other retail	16.20%	26.51%	26.43%	24.35%
Exposure weighted average risk weight				
Residential mortgages	6.92%	21.94%	42.30%	80.57%
Qualifying revolving retail	5.99%	19.66%	65.86%	353.30%
Other retail	12.06%	28.95%	40.91%	131.67%

Credit Risk (Continued)

Credit Risk Profile (Continued)

The following tables presented the breakdown of exposures by RWA and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes for the financial year ended 31 December 2017:

Exposures under the IRB Approach by Risk Grade

CRR Band	1-9	10-16	17-20 (Default)
Non-retail exposures (EAD) (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	22,669,812	14,461,704	761,842
Bank	8,668,711	181,546	-
Total non-retail exposures	**31,338,523**	**14,643,250**	**761,842**
Undrawn commitments (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	3,025,565	537,391	12,210
Bank	-	-	-
Total undrawn commitments	**3,025,565**	**537,391**	**12,210**
Exposure weighted average LGD			
Large Corporate, SMEs and Specialised Lending (IPRE)	42%	38%	44%
Bank	41%	45%	-
Exposure weighted average risk weight			
Large Corporate, SMEs and Specialised Lending (IPRE)	73%	114%	-
Bank	13%	42%	-

Specialised Lending Exposure under the Supervisory Slotting Criteria

Supervisory Categories/ Risk Weights	Strong/ 70%	Good/ 90%	Satisfactory/ 115%	Weak/ 250%	Default/ 0%
Specialised Lending Exposure (EAD) (RM'000)					
Object Finance	814	6,212	-	4,923	-
Risk Weighted Assets	570	5,590	-	12,306	-

PD range of retail exposures	0.00% to 1.00%	1.01% to 2.00%	2.01% to 99.99%	SD to default
Retail exposures (EAD) (RM'000)				
Residential mortgages	30,497,208	1,151,241	2,946,605	431,127
Qualifying revolving retail	4,351,731	672,789	1,741,084	44,997
Other retail	14,431,770	2,121,589	2,064,468	181,561
Total retail exposures	**49,280,709**	**3,945,619**	**6,752,157**	**657,685**
Undrawn commitments (RM'000)				
Residential mortgages	2,294,613	360,681	179,333	-
Qualifying revolving retail	3,247,451	299,049	701,731	-
Other retail	2,003,834	569,823	248,100	1,062
Total undrawn commitments	**7,545,898**	**1,229,553**	**1,129,164**	**1,062**
Exposure weighted average LGD				
Residential mortgages	11.87%	13.97%	12.41%	12.31%
Qualifying revolving retail	31.81%	45.21%	42.77%	55.80%
Other retail	15.98%	25.95%	26.75%	25.29%
Exposure weighted average risk weight				
Residential mortgages	6.75%	21.66%	41.91%	74.56%
Qualifying revolving retail	5.99%	19.91%	62.03%	316.12%
Other retail	11.97%	29.33%	42.54%	152.89%

Credit Risk (Continued)

Credit Risk Profile (Continued)

The following tables presented the breakdown of exposures by RWA and EAD for the Islamic Banking Window using the respective internal rating scale for the model applicable to the asset classes for the financial year ended 31 December 2018:

Exposures under the IRB Approach by Risk Grade

CRR band	1-9	10-16	17-20 (Default)
Non-retail exposures (EAD) (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	605,507	326,368	-
Bank	8,117	-	-
Total non-retail exposures	**613,624**	**326,368**	**-**
Undrawn commitments (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	10,612	13,141	-
Bank	-	-	-
Total undrawn commitments	**10,612**	**13,141**	**-**
Exposure weighted average LGD			
Large Corporate, SMEs and Specialised Lending (IPRE)	44%	44%	-
Bank	45%	-	-
Exposure weighted average risk weight			
Large Corporate, SMEs and Specialised Lending (IPRE)	85%	111%	-
Bank	10%	-	-

As at 31 December 2018, there were no Specialised Lending Exposure under the Supervisory Slotting Criteria for Islamic Banking Window.

PD range of retail exposures	0.00% to 1.00%	1.01% to 2.00%	2.01% to 99.99%	SD to default
Retail exposures (EAD) (RM'000)				
Residential mortgages	1,296,441	245,383	142,175	10,080
Other retail	356,351	279,317	84,742	2,617
Total retail exposures	**1,652,791**	**524,699**	**226,917**	**12,697**
Undrawn commitments (RM'000)				
Residential mortgages	267,182	68,623	13,717	-
Other retail	86,916	106,880	15,858	-
Total undrawn commitments	**354,098**	**175,504**	**29,575**	**-**
Exposure weighted average LGD				
Residential mortgages	15.45%	15.44%	16.79%	15.69%
Other retail	20.29%	23.31%	26.59%	32.31%
Exposure weighted average risk weight				
Residential mortgages	10.18%	23.70%	50.48%	29.43%
Other retail	15.95%	26.21%	39.51%	223.88%

Credit Risk (Continued)

Credit Risk Profile (Continued)

The following tables presented the breakdown of exposures by RWA and EAD for the Islamic Banking Window using the respective internal rating scale for the model applicable to the asset classes for the financial year ended 31 December 2017:

Exposures under the IRB Approach by Risk Grade

CRR band	1-9	10-16	17-20 (Default)
Non-retail exposures (EAD) (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	91,680	194,938	-
Bank	13,757	-	-
Total non-retail exposures	**105,437**	**194,938**	**-**
Undrawn commitments (RM'000)			
Large Corporate, SMEs and Specialised Lending (IPRE)	7,500	51,950	-
Bank	-	-	-
Total undrawn commitments	**7,500**	**51,950**	**-**
Exposure weighted average LGD			
Large Corporate, SMEs and Specialised Lending (IPRE)	45%	45%	-
Bank	45%	-	-
Exposure weighted average risk weight			
Large Corporate, SMEs and Specialised Lending (IPRE)	62%	144%	-
Bank	9%	-	-

PD range of retail exposures	0.00% to 1.00%	1.01% to 2.00%	2.01% to 99.99%	SD to default
Retail exposures (EAD) (RM'000)				
Residential mortgages	129,319	323,896	39,266	703
Other retail	125,531	271,943	60,029	-
Total retail exposures	**254,850**	**595,839**	**99,295**	**703**
Undrawn commitments (RM'000)				
Residential mortgages	34,544	94,142	9,345	-
Other retail	13,840	145,380	15,693	-
Total undrawn commitments	**48,384**	**239,522**	**25,038**	**-**
Exposure weighted average LGD				
Residential mortgages	15.31%	15.36%	16.99%	15.58%
Other retail	27.82%	17.21%	25.24%	-
Exposure weighted average risk weight				
Residential mortgages	10.10%	23.65%	46.59%	0.63%
Other retail	22.45%	19.87%	34.98%	-

Credit Risk (Continued)

Retail exposures under the IRB Approach by expected loss (EL) range of the Bank for the financial year ended 31 December 2018 were as follows:

EL% range of retail exposures	0.0% to 1.0%	1.0% to 5.0%	5.0% to 10.0%	10.0% to 30.0%	30.0% to 100.0%
Retail exposures (EAD) (RM'000)					
Residential mortgages	35,471,348	880,748	69,560	212,329	-
Qualifying revolving retail	5,062,787	1,220,837	214,840	213,146	73,677
Other retail	17,547,085	1,047,738	199,321	43,205	38,148
Total retail exposures	**58,081,220**	**3,149,322**	**483,722**	**468,680**	**111,825**
Undrawn commitments (RM'000)					
Residential mortgages	2,651,618	12,435	1,347	-	-
Qualifying revolving retail	3,511,836	464,725	39,867	23,561	1,999
Other retail	2,777,247	98,642	2,187	1,175	74
Total undrawn commitments	**8,940,701**	**575,802**	**43,401**	**24,736**	**2,073**
Exposure weighted average risk weight					
Residential mortgages	9.81%	65.32%	81.89%	29.47%	-
Qualifying revolving retail	7.64%	47.45%	112.85%	165.36%	174.02%
Other retail	14.89%	56.94%	96.04%	180.23%	35.81%

Retail exposures under the IRB Approach by expected loss (EL) range of the Bank for the financial year ended 31 December 2017 were as follows:

EL% range of retail exposures	0.0% to 1.0%	1.0% to 5.0%	5.0% to 10.0%	10.0% to 30.0%	30.0% to 100.0%
Retail exposures (EAD) (RM'000)					
Residential mortgages	33,935,786	898,003	38,230	154,085	77
Qualifying revolving retail	5,076,868	1,287,548	166,060	208,483	71,642
Other retail	17,529,204	969,888	230,091	42,649	27,556
Total retail exposures	**56,541,858**	**3,155,439**	**434,381**	**405,217**	**99,275**
Undrawn commitments (RM'000)					
Residential mortgages	2,786,752	46,303	1,572	-	-
Qualifying revolving retail	3,596,071	607,149	14,626	28,452	1,933
Other retail	2,699,466	113,788	5,303	4,188	74
Total undrawn commitments	**9,082,289**	**767,240**	**21,501**	**32,640**	**2,007**
Exposure weighted average risk weight					
Residential mortgages	9.53%	66.31%	89.55%	0.80%	-
Qualifying revolving retail	7.43%	46.12%	111.96%	161.79%	171.07%
Other retail	15.01%	51.28%	127.91%	190.36%	9.96%

Credit Risk (Continued)

Retail exposures under the IRB Approach by expected loss (EL) range of the Islamic Banking Window for the financial year ended 31 December 2018 were as follows:

EL% range of retail exposures	0.0% to 1.0%	1.0% to 5.0%	5.0% to 10.0%	10.0% to 30.0%	30.0% to 100.0%
Retail exposures (EAD) (RM'000)					
Residential mortgages	1,669,857	10,403	3,838	9,980	-
Other retail	692,020	22,455	4,854	3,696	-
Total retail exposures	**2,361,878**	**32,859**	**8,692**	**13,676**	**-**
Undrawn commitments (RM'000)					
Residential mortgages	349,522	-	-	-	-
Other retail	206,573	3,082	-	-	-
Total undrawn commitments	**556,094**	**3,082**	**-**	**-**	**-**
Exposure weighted average risk weight					
Residential mortgages	15.00%	77.43%	89.10%	29.00%	-
Other retail	21.12%	56.75%	68.22%	194.49%	-

Retail exposures under the IRB Approach by expected loss (EL) range of the Islamic Banking Window for the financial year ended 31 December 2017 were as follows:

EL% range of retail exposures	0.0% to 1.0%	1.0% to 5.0%	5.0% to 10.0%	10.0% to 30.0%	30.0% to 100.0%
Retail exposures (EAD) (RM'000)					
Residential mortgages	492,481	-	-	703	-
Other retail	446,310	11,193	-	-	-
Total retail exposures	**938,791**	**11,193**	**-**	**703**	**-**
Undrawn commitments (RM'000)					
Residential mortgages	138,031	-	-	-	-
Other retail	174,913	-	-	-	-
Total undrawn commitments	**312,944**	**-**	**-**	**-**	**-**
Exposure weighted average risk weight					
Residential mortgages	21.92%	-	-	0.63%	-
Other retail	21.72%	56.15%	-	-	-

Credit Risk (Continued)

Actual Loss by Asset Class

Actual loss consists of impairment loss allowance and write-off to the Bank's income statement for the financial year ended 31 December 2018.

Comparison of actual loss and expected loss by asset class

Bank RM'000

Asset class	Actual loss (as at 31 December 2018)	Expected loss (as at 31 December 2017)	Actual loss (as at 31 December 2017)	Expected loss (as at 31 December 2016)
Corporate	22,159	433,229	115,974	436,092
Bank	-	3,211	-	4,946
Retail	77,891	206,388	68,266	194,271
Total	**100,050**	**642,828**	**184,240**	**635,309**

The actual loss in 2018 is lower than the expected loss computed as at 31 December 2017. The Bank continues to be proactive in its risk management approach to ensure that actual losses remained within Bank's expectations.

EL is the estimated credit loss from defaults over a one-year horizon. EL is the product of PD, LGD and EAD. A comparison of actual loss and expected loss provides an indication of the predictive power of the IRB models used by the Bank.

However, they are not directly comparable due to the following reasons:

i) EL as at 31 December 2017 is a measure of expected credit loss based on the credit exposure as at that date. On the other hand, impairment loss allowance and write-offs are accounting entries relating to a fluctuating portfolio over the course of the financial year. Moreover, write-offs may relate to defaults from prior years.
ii) EL is estimated based on non-default exposures only, while impairment loss allowance is an accounting estimate of likely loss from defaulted exposures. Write-offs are recorded on defaulted exposures when no further recovery is possible.

Actual loss consists of impairment loss allowance and write-off to the Bank's income statement for the financial year ended 31 December 2018.

Comparison of actual loss and expected loss by asset class

Islamic Banking Window RM'000

Asset class	Actual loss (as at 31 December 2018)	Expected loss (as at 31 December 2017)	Actual loss (as at 31 December 2017)	Expected loss (as at 31 December 2016)
Corporate	-	5,063	-	522
Bank	-	6	-	-
Retail	1,583	2,351	204	37
Total	**1,583**	**7,420**	**204**	**559**

Credit Risk (Continued)

Actual loss consists of impairment loss allowance and write-off to the Bank's income statement for the financial year ended 31 December 2018.

Movements in allowance for ECL on loans, advances and financing were as follows:

Bank	Stage 1 12 Months ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	690,916	402,436	310,143	1,403,495
At 1 January 2018 as restated	690,916	402,436	310,143	1,403,495
Transferred to Stage 1	33,571	(104,752)	(5,340)	(76,521)
Transferred to Stage 2	(41,617)	189,282	(13,849)	133,816
Transferred to Stage 3	(678)	(52,481)	108,743	55,584
Allowances made for the year	398,271	88,051	141,417	627,739
Maturity/settlement/repayment	(281,908)	(160,254)	(113,673)	(555,835)
Exchange differences	113	(113)	-	-
Amount written-off			(216,045)	(216,045)
Other movements	-	-	1,278	1,278
Balance as at 31 December 2018	**798,668**	**362,169**	**212,674**	**1,373,511**

	2018 RM'000	2017 RM'000
<u>Collective Impairment</u>		
Balance as at 1 January	1,228,857	1,125,048
Restated for adoption of MFRS 9	(1,228,857)	-
Allowance made during the year	-	103,809
Balance as at 31 December	-	**1,228,857**
<u>Individual Impairment</u>		
Balance as at 1 January	310,143	233,670
Restated for adoption of MFRS 9	(310,143)	-
Allowance made during the year	-	332,656
Amount written back in respect of recoveries	-	(119,569)
Amount written-off	-	(128,265)
Interest recognition on impaired loans	-	(7,016)
Other adjustment	-	(1,333)
Balance as at 31 December	-	**310,143**

Credit Risk (Continued)

Allowance for impairment on loans, advances and financing were as follows:

Bank	2018 RM'000	2017 RM'000
Allowance for impairment on loans, advances and financing:		
Stage 1 ECL	107,752	-
Stage 2 ECL	(40,267)	-
Stage 3 ECL	117,298	-
Collective allowance made	-	103,809
Collective allowance written back	-	-
Individual allowance made	-	332,656
Individual allowance written back	-	(119,569)
Impaired loans, advances and financing		
- written-off	39,289	26,264
- recovered	(54,987)	(51,768)
	169,085	**291,392**

Movements in allowance for ECL on loans, advances and financing were as follows:

Islamic Banking Window	Stage 1 12 Months ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	4,678	1,733	201	6,612
At 1 January 2018 as restated	4,678	1,733	201	6,612
Transferred to Stage 1	349	(4,481)	-	(4,132)
Transferred to Stage 2	(1,054)	17,132	-	16,078
Transferred to Stage 3	-	(2,301)	2,130	(171)
Allowances made for the year	66,530	3,613	49	70,192
Maturity/settlement/repayment	(56,801)	(251)	(596)	(57,648)
Other movements	2	2	(151)	(147)
At 31 December 2018	**13,704**	**15,447**	**1,633**	**30,784**

Credit Risk (Continued)

Movements in allowance for ECL on loans, advances and financing were as follows (Continued):

Islamic Banking Window (Continued)	2018 RM'000	2017 RM'000
Collective Impairment		
Balance as at 1 January	8,855	80
Restated for adoption of MFRS 9	(8,855)	-
Allowance made during the year	-	8,775
Balance as at 31 December	-	**8,855**
Individual Impairment		
Balance as at 1 January	201	-
Restated for adoption of MFRS 9	(201)	-
Allowance made during the year	-	204
Interest recognition on impaired loans	-	(3)
Balance as at 31 December	-	**201**

Allowance for impairment on loans, advances and financing were as follows:

Islamic Banking Window	2018 RM'000	2017 RM'000
Allowance for impairment on loans, advances and financing:		
Stage 1 ECL	9,026	-
Stage 2 ECL	13,714	-
Stage 3 ECL	1,583	-
Collective impairment:		
- made in the financial year	-	8,775
Individual impairment:		
- made in the financial year	-	204
Recovery from SIA holder *	(54)	-
	24,269	**8,979**

* The SIA holder is the Conventional Banking (note c)

Credit Risk (Continued)

Credit Risk Mitigation

Potential credit losses are mitigated using a variety of instruments such as collateral, derivatives and guarantee. As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed and the value of the collateral is monitored periodically.

The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Bank are cash, marketable securities, real estate, equipment, inventory and receivables. Policies and processes are in place to monitor collateral concentration.

Appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature of the collateral, quality, volatility and liquidity. In addition, collateral taken by the Bank has to fulfil certain eligibility criteria (such as legal certainty across relevant jurisdictions) in order to be eligible for Internal Ratings-Based (IRB) purposes.

In extending credit facilities to SMEs, personal guarantees are also often taken as a form of moral support to ensure commitment from the principal shareholders and directors.

For IRB purposes, the Bank does not recognise personal guarantees as an eligible credit risk protection. Corporate guarantees are often obtained when the borrower's credit worthiness is not sufficient to justify an extension of credit. To recognise the effects of guarantees under the FIRB Approach, the Bank adopts the PD substitution approach whereby the PD of an eligible guarantor of an exposure will be used for calculating the capital requirement.

Exposures arising from FX and derivatives are typically mitigated through agreements such as the International Swaps and Derivatives Association (ISDA) Master Agreements, the Credit Support Annex (CSA) and the Global Master Repurchase Agreements (GMRA). Such agreements help to minimise credit exposure by allowing the Bank to offset what it owes to a counterparty against what is due from that counterparty in the event of a default.

For IRB purpose, the Bank does not recognise ISDA netting. The Current Exposure Method is used to estimate its FX and derivative exposures on a gross basis.

Credit Risk (Continued)

Credit Risk Mitigation (Continued)

The following tables presented the total exposures which are covered by eligible credit risk mitigants of the Bank for the financial year ended 31 December 2018:

RM'000

Exposure class	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral	Exposures covered by other eligible collateral
Credit risk				
On-balance sheet exposures				
Sovereign/central banks	13,036,857	-	-	-
Banks, DFIs and MDBs	12,935,681	-	3,373,455	-
Insurances cos, securities firms and fund managers	40,851	-	23,525	-
Corporates	31,736,591	1,511,970	2,245,903	1,578,968
Regulatory retail	18,513,646	187,209	-	-
Residential mortgages	33,471,449	-	-	-
Other assets	1,016,986	-	-	-
Equity exposures	114,445	-	-	-
Defaulted exposures	1,286,234	1,079	1,342	32,604
Total on-balance sheet exposures	**112,152,740**	**1,700,258**	**5,644,225**	**1,611,572**
Off-balance sheet exposures				
OTC derivatives	1,030,521	173	1,516	8
Off-balance sheet exposures other than OTC derivatives or credit derivatives	19,793,234	166,507	850,254	280,080
Defaulted exposures	22,495	-	20	378
Total off-balance sheet exposures	**20,846,250**	**166,680**	**851,790**	**280,466**
Total on and off-balance sheet exposures	**132,998,990**	**1,866,938**	**6,496,015**	**1,892,038**

Credit Risk (Continued)

Credit Risk Mitigation (Continued)

The following tables presented the total exposures which are covered by eligible credit risk mitigants of the Bank for the financial year ended 31 December 2017:

RM'000

Exposure class	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral	Exposures covered by other eligible collateral
Credit risk				
On-balance sheet exposures				
Sovereign/central banks	15,112,480	-	-	-
Banks, DFIs and MDBs	7,440,557	-	814,805	-
Insurances cos, securities firms and fund managers	22,226	-	22,026	-
Corporates	28,413,866	609,372	2,387,649	1,700,611
Regulatory retail	18,313,441	-	-	-
Residential mortgages	31,760,428	-	-	-
Other assets	692,707	-	-	-
Equity exposures	140,516	-	-	-
Defaulted exposures	1,101,582	341	1,022	14,416
Total on-balance sheet exposures	**102,997,803**	**609,713**	**3,225,502**	**1,715,027**
Off-balance sheet exposures				
OTC derivatives	1,170,997	869	3,422	42
Off-balance sheet exposures other than OTC derivatives or credit derivatives	20,031,147	105,562	777,543	205,403
Defaulted exposures	13,583	-	266	361
Total off-balance sheet exposures	**21,215,727**	**106,431**	**781,231**	**205,806**
Total on and off-balance sheet exposures	**124,213,530**	**716,144**	**4,006,733**	**1,920,833**

Credit Risk (Continued)

Credit Risk Mitigation (Continued)

The following tables presented the total exposures which are covered by eligible credit risk mitigants of the Islamic Banking Window for the financial year ended 31 December 2018:

RM'000

Exposure class	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral	Exposures covered by other eligible collateral
Credit risk				
On-balance sheet exposures				
Sovereign/central banks	2,808,928	-	-	-
Banks, DFIs and MDBs	8,117	-	-	-
Corporates	880,506	111,522	14,156	1,143
Regulatory retail	510,755	-	-	-
Residential mortgages	1,334,476	-	-	-
Other assets	19,488	-	-	-
Defaulted exposures	11,070	-	-	-
Total on-balance sheet exposures	**5,573,340**	**111,522**	**14,156**	**1,143**
Off-balance sheet exposures				
OTC derivatives	1,745	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	610,352	2,185	4,561	-
Total off-balance sheet exposures	**612,097**	**2,185**	**4,561**	**-**
Total on and off-balance sheet exposures	**6,185,437**	**113,707**	**18,717**	**1,143**

Credit Risk (Continued)

Credit Risk Mitigation (Continued)

The following tables presented the total exposures which are covered by eligible credit risk mitigants of the Islamic Banking Window for the financial year ended 31 December 2017:

RM'000

Exposure class	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral	Exposures covered by other eligible collateral
Credit risk				
On-balance sheet exposures				
Sovereign/central banks	200,846	-	-	-
Banks, DFIs and MDBs	13,757	-	-	-
Corporates	214,485	87,750	1,015	-
Regulatory retail	282,590	-	-	-
Residential mortgages	354,450	-	-	-
Other assets	175	-	-	-
Defaulted exposures	503	-	-	-
Total on-balance sheet exposures	1,066,806	87,750	1,015	-
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	385,076	8,842	579	-
Total off-balance sheet exposures	385,076	8,842	579	-
Total on and off-balance sheet exposures	1,451,882	96,592	1,594	-

Off-Balance Sheet Exposures and Counterparty Credit Risk

Counterparty Credit Risk

Unlike normal lending risk where the notional at risk can be determined with a high degree of certainty during the contractual period, counterparty credit risk exposure fluctuates with market variables. Counterparty credit risk is measured as the sum of current mark-to-market plus appropriate add-on factor for potential future exposure (PFE). The PFE factor is an estimate of the maximum credit exposure over the remaining life of the foreign exchange (FX)/derivative transactions and is used for limit setting and internal risk management.

The Bank also has established policies and procedures to manage wrong-way risk, i.e. where the counterparty credit exposure is correlated positively with its default risk. Transactions that exhibit such characteristics are identified and reported to Senior Management on a regular basis. In addition, transactions with specific wrong-way risk are generally rejected at the underwriting stage.

Credit Exposures from Foreign Exchange and Derivatives

Pre-settlement limits for FX and derivative transactions are established using the PFE approach. This approach takes into consideration the transaction currency and tenor to address the credit risk exposures arising from adverse market movements.

Credit Risk (Continued)

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

The Off-Balance Sheet Exposures and their related counterparty credit risk of the Bank for the financial year ended 31 December 2018 were as follows:

RM'000

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	RWA
Direct credit substitutes	3,189,451		3,124,810	2,346,211
Transaction related contingent items	6,192,218		3,104,378	2,184,179
Short-term self-liquidating trade-related contingencies	420,884		92,276	49,619
Foreign exchange related contracts				
One year or less	25,089,263	112,941	432,896	134,002
Over one year to five years	604,766	7,499	39,997	21,641
Interest/Profit rate related contracts				
One year or less	7,938,700	5,581	41,229	20,365
Over one year to five years	16,739,543	165,124	818,849	486,248
Over five years	444,858	8,569	62,165	47,091
Equity related contracts				
One year or less	368,736	42,506	21,318	19,472
Over one year to five years	592,241	362	24,477	3,863
Commodity contracts				
One year or less	491,782	33,782	70,992	14,754
Over one year to five years	142,850	131	16,031	2,818
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	11,436,035		6,463,900	4,894,091
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	16,268,384		801,816	175,486
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	11,595,281		5,724,250	629,471
Unutilised credit card lines	73,378		14,676	13,870
Total	101,588,370	376,495	20,854,060	11,043,181

Credit Risk (Continued)

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

The Off-Balance Sheet Exposures and their related counterparty credit risk of the Bank for the financial year ended 31 December 2017 were as follows:

RM'000

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	RWA
Direct credit substitutes	3,202,391		3,155,460	2,260,927
Transaction related contingent items	6,037,933		3,034,380	2,139,796
Short-term self-liquidating trade-related contingencies	524,618		115,387	93,389
Foreign exchange related contracts				
One year or less	24,198,577	296,421	635,018	159,262
Over one year to five years	204,645	99	11,512	11,065
Interest/Profit rate related contracts				
One year or less	7,689,651	95,793	152,398	63,654
Over one year to five years	15,526,922	133,699	746,707	542,178
Over five years	58,084	234	4,447	2,815
Equity related contracts				
One year or less	464,921	3,425	22,890	18,337
Over one year to five years	1,093,643	-	43,746	7,730
Commodity contracts				
One year or less	215,980	7,965	23,231	9,396
Over one year to five years	537,233	2,752	55,063	23,314
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	11,697,356		6,597,870	4,202,984
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	14,085,535		681,934	141,414
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	11,493,526		5,928,435	655,787
Unutilised credit card lines	79,135		15,827	14,915
Total	97,110,150	540,388	21,224,305	10,346,963

Credit Risk (Continued)

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

The off-balance sheet exposures and their related counterparty credit risk of the Islamic Banking Window for the financial year ended 31 December 2018 were as follows:

RM'000

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	RWA
Direct credit substitutes	11,092		11,092	5,833
Transaction related contingent items	31,974		15,987	14,260
Short-term self-liquidating trade-related contigencies	1,717		343	71
Foreign exchange related contracts with an original maturity up to one year	113,442		1,745	422
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,052,207		582,650	114,732
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	162,598		280	126
Total	1,373,030	-	612,097	135,444

The off-balance sheet exposures and their related counterparty credit risk of the Islamic Banking Window for the financial year ended 31 December 2017 were as follows:

RM'000

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	RWA
Direct credit substitutes	7,134		7,134	4,522
Transaction related contingent items	11,096		5,548	6,343
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	590,785		371,644	167,159
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	84,534		750	838
Total	693,549	-	385,076	178,862

Market Risk

Market risk refers to the risk of losses to the Bank from movements in the volatility of the market rates or prices (e.g. changes in interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads) of the underlying asset.

Market risk is governed by the Bank's ALCO, which meets monthly to review and provide directions on market risk matters. The Market Risk Management (MRM) and Balance Sheet Risk Management (BSRM) under Risk Management supports the RMC, RCC and ALCO with independent assessment of the market risk profile of the Bank.

The Bank's market risk framework comprises market risk policies, practices and the control structure with appropriate delegation of authority and market risk limits. The Bank employs valuation methodologies that are in line with sound market practices. Valuation and risk models are independently validated. In addition, a Product/Service Programme process ensures that market risk issues identified are adequately addressed prior to the launch of products and services.

One of the Bank's main objectives in undertaking trading activities is to provide customer-centric products to support client franchise business and to cater for clients' hedging needs. We review and enhance our management of derivatives risks continually to ensure that the complexities of the business are controlled appropriately.

Overall market risk appetite is balanced at the Bank and business unit levels with the targeted revenue, and takes into account the capital position of the Bank. This ensures that the Bank remain well-capitalised even under stress conditions. The risk appetite is translated into risk limits that are delegated to business units. These risk limits have proportional returns that are commensurate with the risks taken.

Market Risk appetite is provided for all trading exposures and non-trading FX exposures within the Bank.

The Bank currently adopts the Standardised Approach for the calculation of regulatory market risk capital but uses internal models to measure and control trading market risks. The financial products which are warehoused, measured and controlled using internal models include FX and FX options, plain vanilla interest rate contracts, interest rate option, cross currency swap, government bonds, quasi government bonds, corporate bonds, commodity contracts and commodity options.

The Bank estimates a daily Value-at-Risk (VaR) within a 99 per cent confidence interval using the historical simulation method, as a control for market risk. The method assumes that possible future changes in market rates may be implied by observed historical market movements.

As VaR is the statistical measure for potential losses, the VaR measures are backtested against profit or loss of the trading book to validate the robustness of the methodology. The backtesting processes and analyses whether the exceptions are due to model deficiencies or market volatility. All backtest exceptions are tabled at ALCO with recommended actions and resolutions.

To complement the VaR measure, stress and scenario tests are performed to identify the Bank's vulnerability to event risk. These tests serve to provide early warnings of plausible extreme losses to facilitate proactive management of market risks. The Bank's daily VaR on 31 December 2018 was RM5.08 million.

	Year End RM'000	High RM'000	Low RM'000	Average RM'000
2018				
Interest rate	3,677	10,470	1,998	3,978
Foreign exchange	3,572	6,818	1,162	3,128
Commodities	61	458	6	146
Total diversified VaR	5,082	10,463	3,306	5,572
2017				
Interest rate	2,447	16,774	1,430	6,197
Foreign exchange	4,052	9,935	151	4,797
Commodities	410	1,971	25	573
Total diversified VaR	4,198	16,848	1,254	7,745

Interest/Profit Rate Risk/Rate of Return Risk in the Banking Book

Interest/profit rate risk in the banking book is defined as the risk of potential loss of capital or reduction in earnings due to changes in interest rates environment.

The ALCO maintains oversight of the effectiveness of the interest/profit rate risk management structure. The BSRM supports the ALCO in monitoring the interest/profit rate risk profile of the banking book.

The primary objective of interest/profit rate risk management is to protect and enhance capital or economic net worth through adequate, stable and reliable growth in net interest/profit earnings under a broad range of possible economic conditions.

Banking book interest/profit rate risk exposure is quantified on a monthly basis using a combination of static analysis tools and dynamic simulation techniques. Static analysis tools include repricing schedules and sensitivity analysis. They provide indications of the potential impact of interest/profit rate changes on interest/profit income and price value through the analysis of the sensitivity of assets and liabilities to changes in interest/profit rates. Interest/profit rate sensitivity varies with different repricing periods, currencies and embedded options. Mismatches in the longer tenor will experience greater change in the price-value of interest/profit rate positions than similar positions in the shorter tenor.

In the dynamic simulation process, both the Net Interest/Profit Income (NII/NPI) and Economic Value of Equity (EVE) approaches are applied to assess interest/profit rate risk. The potential effects of interest/profit rate change on NII/NPI are estimated by simulating the possible future course of interest/profit rates, expected changes in business activities over time as well as embedded options. Changes in interest/profit rates are simulated using different interest/profit rate scenarios such as changes in the shape of the yield curve, including high and low rates, as well as positive and negative tilt scenarios.

NII/NPI simulation is performed to quantify a forward looking impact on NII/NPI for the next 12 months under various interest/profit rate scenarios to assess the impact of interest/profit rate movements on income. In EVE sensitivity simulation, the present values for repricing cash flows are computed, with the focus on changes in EVE under different interest/profit rate scenarios. This economic perspective measures interest/profit rate risks across the full maturity profile of the balance sheet, including off-balance sheet items.

Stress tests are also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest/profit rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating the proactive management of interest/profit rate risks in an environment of rapid financial market changes.

The risks arising from the trading book, such as interest/profit rates, foreign exchange rates and equity prices are managed and controlled under the market risk framework that is discussed under the Market Risk section.

Interest/Profit Rate Risk/Rate of Return Risk in the Banking Book (Continued)

Interest/Profit Rate Sensitivity Analysis - Banking Book

The table below showed the results at 100 and 200 basis points parallel interest/profit rate shocks to EVE and NII/NPI. The reported figures were based on the upward and downward parallel movement of the yield curve. The repricing profile of loans/financings and deposits that do not have maturity dates are generally based on the earliest possible repricing dates taking into account the notice period to be served to customers.

Economic Value of Equity (EVE)

	Increase/(Decrease) in basis point	Sensitivity of EVE	Increase/(Decrease) in basis point	Sensitivity of EVE
31 December 2018		RM'million		RM'million
Currency				
Total	**+ 200/(200)**	**(262.3)/332.2**	**+ 100/(100)**	**(139.2)/156.6**
MYR	+ 200/(200)	(263.5)/333.4	+ 100/(100)	(139.8)/157.2
USD	+ 200/(200)	1.2/(1.2)	+ 100/(100)	0.6/(0.6)
31 December 2017				
Currency				
Total	**+ 200/(200)**	**59.1/(32.1)**	**+ 100/(100)**	**26.5/(19.8)**
MYR	+ 200/(200)	60.2/(33.1)	+ 100/(100)	27.0/(20.3)
USD	+ 200/(200)	(1.1)/1.0	+ 100/(100)	(0.5)/0.5

Net Interest/Profit Income (NII/NPI)

	Increase/(Decrease) in basis point	Sensitivity of NII/NPI	Increase/(Decrease) in basis point	Sensitivity of NII/NPI
31 December 2018		RM'million		RM'million
Currency				
Total	**+ 200/(200)**	**549.74/(549.71)**	**+ 100/(100)**	**260.89/(260.89)**
MYR	+ 200/(200)	549.82/(549.79)	+ 100/(100)	260.93/(260.93)
USD	+ 200/(200)	(0.08)/0.08	+ 100/(100)	(0.04)/0.04
31 December 2017				
Currency				
Total	**+ 200/(200)**	**462.3/(463.7)**	**+ 100/(100)**	**204.2/(204.2)**
MYR	+ 200/(200)	464.3/(460.4)	+ 100/(100)	205.2/(205.2)
USD	+ 200/(200)	(2.0)/(3.3)	+ 100/(100)	(1.0)/1.0

Liquidity Risk

Liquidity risk is the risk to the Bank's earnings or capital from its inability to meet its obligations or fund increases in assets as they fall due, without incurring significant costs or losses. The Bank maintains sufficient liquidity to fund its day-to-day operations, to meet deposit withdrawals and loan/financing disbursements, to participate in new investments, and to repay borrowings. Hence, liquidity is managed in a manner to address known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of policies, controls and limits. These policies, controls and limits enable the Bank to monitor and manage liquidity risk to ensure that sufficient sources of funds are available over a range of market conditions. These include minimising excessive funding concentrations by diversifying the sources and terms of funding as well as maintaining a portfolio of high quality and marketable liquid assets.

The Bank takes a conservative stance in its liquidity management by continuing to gather core deposits, ensuring that liquidity limits are strictly adhered to and that there are adequate liquid assets to meet cash shortfalls.

The distribution of deposits is managed actively to ensure a balance between cost effectiveness, continued accessibility to funds, and diversification of funding sources. Important factors in ensuring liquidity are competitive pricing, proactive management of the Bank's core deposits and the maintenance of customer confidence.

Aligned with the regulatory liquidity risk management framework, the Bank's liquidity risk is measured and managed on a projected cash flow basis. The Bank's liquidity is monitored under business-as-usual and stress scenarios. Cash flow mismatch limits are established to limit the Bank's liquidity exposure. The Bank also employs liquidity early warning indicators and trigger points to signal possible contingency situations.

With regard to the regulatory requirements on Liquidity Coverage Ratio (LCR) which are effective from 1 June 2015, the Bank's ratios were above 100 per cent for both the All Currency LCR and the Ringgit Malaysia LCR as at 31 December 2018.

Contingency funding plans are in place to identify liquidity crisis using a series of warning indicators. Crisis management processes and various strategies including funding and communication have been developed to minimise the impact of any liquidity crunch.

The policy of the Bank is to be self-sufficient in its funding capabilities, notwithstanding that it has the support of parent bank in Singapore.

The table in Note 42 to the financial statements on pages 189-192 provides the maturity mismatch analysis of the Bank's near and long-term time bands relating to the cash inflows and outflows based on contractual maturity arising from the Bank's activities.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes banking operations risk, fraud risk, legal risk, regulatory compliance risk (including Shariah non-compliance risk), reputational risk, outsourcing risk and technology risk.

The Bank's primary objective is to foster a sound reputation and operating environment.

Operational Risk Governance, Framework and Programmes

Operational risk is managed through a framework of policies and procedures by which business and support units properly identify, assess, monitor, mitigate and report their risks. The ORMC meets monthly to provide oversight of operational risk matters across the Bank.

The Operational Risk Governance structure adopts the Three Lines of Defence Model. The business and support units, as the First Line of Defence, are responsible for establishing a robust control environment as part of their day-to-day operations. Each business and support unit is responsible for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities.

The Operational Risk Management (ORM) under Risk Management, as the Second Line of Defence, provides an overarching governance over operational risk through relevant frameworks, policies, programmes and system. It also monitors and reports key risk self-assessment results, outsourcing matters, operational risk indicator breaches, self-identified operational risk and operational risk incidents to Management, ORMC and the Board.

Internal Audit, as the Third Line of Defence, provides an independent and objective assessment on the overall effectiveness of the risk governance framework and internal control through periodic audit reviews.

Technology risk is defined as any potential adverse outcome, damage, loss, violation, failure or disruption arising from the use of or reliance on information and communication technologies. Governance over technology risks remains with ORMC to enable a holistic oversight of operational risk matters across the Bank. The Bank has an established technology risk management framework to enable technology and cyber risks be managed in a systematic and consistent manner. A dedicated Technology Risk Management (TRM) function has been set-up in ORM to drive the governance and oversight for technology risk management across the Bank. TRM will work closely with business and support units to oversee, review and strengthen their current practices in technology risk management.

Regulatory compliance risk refers to the risk of non-compliance with laws, regulations, rules, standards and codes of conduct. This risk is identified, monitored and managed through a structured framework of policies, procedures and guidelines maintained by the Bank. The framework also manages the risk of regulatory breaches and sanctions relating to Anti-Money Laundering and Countering the Financing of Terrorism.

Legal risk arises from unenforceable, unfavourable, defective or unintended contracts, lawsuits or claims, developments in laws and regulations, or non-compliance with applicable laws and regulations. Business and support units work with both internal and external legal counsels to ensure that legal risks are effectively managed.

Reputational risk is the risk of adverse impact on earnings, liquidity or capital arising from negative stakeholder perception or opinion of the Bank's business practices, activities and financial condition. The Bank recognises the impact of reputational risk and has developed a policy to identify and manage the risk across the Bank.

The Bank's insurance programme covers civil and crime liability, cyber security, property damage, terrorism, public liability, as well as directors' and officers' liability. The programme reduces operational losses through adequate insurance coverage.

Fraud Risk

Fraud is defined as an act, with an element to deceive or to conceal facts, and is not restricted to the gain of monetary or material benefits.

The Bank actively manages fraud risks. The Integrated Fraud Management (IFM) under Risk Management, drives strategy and governance and oversees the framework of fraud risk management across the Bank. The corporate governance of fraud risk is provided by the Audit Committee at Board level, and primarily by the ORMC at Management level.

All employees are required to uphold the UOB Code of Conduct, which includes anti-bribery and anti-corruption provisions. The Bank's fraud hotline to IFM ensures independent fraud investigation. IFM also works closely with business and support units to strengthen their current practices across the five pillars of prevention, detection, response, remediation and reporting.

Equities (Disclosures for Banking Book position)

The following table presented the equity exposures in the banking book.

These exposures were classified under fair value through other comprehensive income (FVOCI) for the financial year ended 31 December 2018 and available-for-sale (AFS) securities for the financial year ended 31 December 2017 which were being measured at fair value.

Type of Equities	Bank			
	31 December 2018		31 December 2017	
	Exposures	RWA	Exposures	RWA
	RM'000	RM'000	RM'000	RM'000
Publicly traded equity exposures *mainly acquired via loan restructuring activities	1,956	5,868	2,569	7,707
All other equity exposures	112,489	112,489	137,947	551,788
Total	114,445	118,357	140,516	559,495

	Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Realised loss arising from liquidation of subsidiary	-	11
Unrealised gains included in fair value reserve	101,907	127,978

As at 31 December 2018, there were no equity exposures under the Islamic Banking Window.

Profit Sharing Investment Accounts and Shariah Governance

Profit Sharing Investment Accounts

This disclosure is not applicable to UOBM's Islamic Banking Window.

Shariah Governance

This is disclosed in UOBM's Annual Report, under the section "Corporate Governance".

No actual Shariah non-compliance event has been detected for the financial year ended 31 December 2018. As such, no Shariah non-compliant income has been recorded for the year.

United Overseas Bank (Malaysia) Bhd
and its subsidiaries

31 December 2018

Financial Report

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of United Overseas Bank (Malaysia) Bhd ("the Group and the Bank") for the financial year ended 31 December 2018.

Principal Activities

The principal activities of the Bank are banking and related financial services, including Islamic Banking. The principal activities and other information of the subsidiaries and the associate are set out in Notes 14 and 15 to the financial statements, respectively. There have been no significant changes in the nature of the principal activities during the financial year.

Results

	Group RM'000	Bank RM'000
Profit before taxation	1,626,135	1,625,380
Income tax expense	(390,600)	(387,812)
Profit for the year	1,235,535	1,237,568

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

During the financial year, the total amount of indemnity coverage and insurance premium paid for the directors and the officers of the Group and of the Bank are RM455,000,000 and RM310,000 respectively.

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

Dividends

The amount of dividend paid by the Bank since 31 December 2017 was as follows:

	RM'000
In respect of the financial year ended 31 December 2017 as reported in the directors' report for that year, a final single-tier dividend of 98.2 sen, on 470,000,000 ordinary shares was paid on 25 April 2018	461,540

At the forthcoming Annual General Meeting, a final single-tier dividend of 105.3 sen in respect of the financial year ended 31 December 2018 on 470,000,000 issued and fully paid ordinary shares, amounting to dividend payable of RM494,910,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders and Bank Negara Malaysia, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2019.

Directors

The names of the directors of the Group and the Bank in office since the beginning of the financial year to the date of this report are:

The Bank
Wee Cho Yaw
Dato' Jeffrey Ng Tiong Lip
Wee Ee Cheong
Fatimah Binti Merican
Ching Yew Chye (appointed on 1 June 2018)
Datuk Phang Ah Tong (appointed on 2 January 2019)
Wong Kim Choong
Ong Yew Huat (retired on 1 January 2019)

The Subsidiaries of the Bank
Chang Yeong Gung
Kan Wing Yin (appointed on 29 October 2018)
Michael Beh Soo Heng (appointed on 29 October 2018)
Lai Tak Ming (appointed on 29 October 2018)
Teo Teck Hin
Josephine Lee Mae Yin (resigned on 30 October 2018)
Khoo Chock Seang (resigned on 30 October 2018)
Lum Chee Onn (resigned on 30 October 2018)

Directors' Benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Bank or any other body corporate, other than those arising from the share options granted under the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan of the ultimate holding company, United Overseas Bank Limited ("UOBL").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Bank as shown in Note 31 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

UOB Restricted Share Plan and Share Appreciation Rights Plan (the "Plans")

Following a review of the remuneration strategy across UOBL and its subsidiaries ("UOBL Group"), UOBL implemented the Plans on 28 September 2007, with a view to aligning the interests of participating employees with that of shareholders and the UOBL Group by fostering a culture of ownership and enhancing the competitiveness of the UOBL Group's remuneration for selected employees.

The Remuneration Committee of UOBL determined the number of Restricted Shares ("RS") and Share Appreciation Rights ("SAR") to be granted, the vesting period and the conditions for vesting. Since 2014, no SAR has been granted as an instrument for share-based compensation. Grants from prior years continue to vest per schedule.

RS represent UOBL shares that are restricted by time and performance conditions as to when they vest. Upon vesting, participants will receive UOBL shares represented by the RS.

SAR are rights, which upon exercise, confer the right to receive such number of UOBL shares (or by exception, cash) equivalent to the difference between the prevailing market value and the grant value of the underlying UOBL shares comprised in the SAR, divided by the prevailing market value of a UOBL share. The grant value is determined with reference to the average of the closing prices of UOBL shares over the three days preceding the grant date. Upon vesting of SAR, participants have up to six years from the date of grant to exercise their rights.

Grants made in 2012 to 2013 are subject to the achievement of predetermined return on equity ("ROE") targets, half of the grants will vest after two years, and the remainder after three years from the dates of grant.

For grants made in 2014 onwards, thirty percent will vest after two years, subject to the achievement of two-year ROE targets. The remaining seventy percent will vest after three years, subject to the achievement of the three-year ROE targets.

Participating employees who leave the UOBL Group before the vesting of the RS and SAR will have their rights forefeited, unless otherwise decided by the Remuneration Committee of UOBL.

The Plans shall be in force for a period of ten years from 2017 or such other period as the Remuneration Committee of UOBL may determine. The Plans only allow the delivery of UOBL ordinary shares held in treasury by UOBL.

Directors' Interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Bank and its related companies during the financial year were as follows:

		Number of ordinary shares				
		1.1.2018	Acquired	Disposed	Forfeited	31.12.2018
Ultimate holding company: UOBL						
Wee Cho Yaw	- Direct	21,136,589	463,209	-	-	21,599,798
	- Indirect	283,788,114	6,214,970	-	-	290,003,084
Wee Ee Cheong	- Direct	3,356,455	-	(300,000)	-	3,056,455
	- Indirect	169,699,240	4,002,247	-	-	173,701,487
Wong Kim Choong	- Direct	-	3,631	-	-	3,631
	- Indirect	92,947	34,805	(8,755)	-	118,997
Ching Yew Chye	- Direct	12,935	-	-	-	12,935
Related company: United Overseas Insurance Limited						
Wee Cho Yaw	- Direct	38,100	-	-	-	38,100

Directors' Interests (Continued)

		Number of options over ordinary shares under UOB Restricted Share Plan				
		1.1.2018	Granted	Vested	Forfeited	31.12.2018
Ultimate holding company: UOBL						
Wong Kim Choong	- Direct	45,040	14,800	(13,077)	(2,503)	44,260

		Number of options over ordinary shares vested under UOB Share Appreciation Rights Plan				
		1.1.2018	Vested	Exercised/ lapsed	Forfeited	31.12.2018
Ultimate holding company: UOBL						
Wong Kim Choong	- Direct	59,500	-	(59,500)	-	-

Wee Cho Yaw and Wee Ee Cheong by virtue of their substantial interest in the shares of UOBL are also deemed to have substantial interest in shares of the Bank and all the Bank's subsidiaries to the extent the Bank has an interest.

Other than the above, no other directors in office at the end of the financial year had any interests in shares and share options in the Bank or its related companies during the financial year.

Holding Companies

The holding and ultimate holding companies of the Bank are Chung Khiaw (Malaysia) Berhad, a company incorporated in Malaysia, and UOBL, a bank incorporated in Singapore, respectively.

Strategy and Performance for the Financial Year Ended 31 December 2018

The Bank's strategy to maintain a strong balance sheet, be disciplined in managing resources and generate sustainable growth all enabled us to achieve solid financial performance in 2018. Focusing on our strategic priorities, we continued to capitalise on regional growth drivers, strengthen our digital capabilities and technology systems and sharpen our service capabilities and risk management to serve us for the long term.

Wholesale Banking

Supporting Companies in Their Regional Expansion

In Wholesale Banking, we continued to tap our established regional network and industry expertise to help connect our commercial and corporate clients to intra-regional business and investment opportunities. To help our clients seize business opportunities across the region, we collaborated with government trade bodies and associations including the Malaysia External Trade Development Corporation and Malaysian Investment Development Authority. We also partnered industry-specific associations namely the Malaysian Rubber Glove Manufacturers Association, Malaysian Air-Conditioning & Refrigeration Association and Malaysian Plastics Manufacturers Association. These partnerships were effective in helping our clients connect with service providers in new markets and sectors, thereby enabling our clients to establish a wider network within their sectors and larger regional footprint.

Our Client Coverage Teams in Corporate Banking, Commercial Banking and specialised teams for Multinational Corporations ("MNCs") provided sector-specific solutions to clients operating across Malaysia's key sectors. We also drew on our deep understanding of our clients' business needs to provide them with cash management, trade services, capital market and treasury solutions. Our cross-border Corporate Advisory team also supported our clients in their capital raising initiatives abroad.

Our commitment to creating value for our clients has enabled us to establish ourselves as a trusted partner for their regional businesses. In 2018, we focused on providing customised working capital and multi-product solutions spanning cross-border cash management, trade finance, financial supply chain management, treasury, currencies and commodities, and capital market advisory services.

Strategy and Performance for the Financial Year Ended 31 December 2018 (Continued)

Wholesale Banking (Continued)

Enhancing Our Expertise to Meet Our Clients' Cash Flow, Working Capital and Liquidity Management Needs

Our Transaction Banking business recorded another successful year. We continued to support our clients' growth aspirations with cash and trade products including payments, collections, liquidity management and trade financing. To help more companies expand and invest in Asia, we invested in strengthening our technology infrastructure to enhance our cash management solutions and made improvements to the UOB BIBPlus electronic banking platform. In the past year, we enhanced our business internet banking platform to help businesses monitor and manage their cash flow across multiple locations in real-time for better returns on their cash. In 2018, we made improvements to the UOB Virtual Account, our receivable solution, to help drive operational efficiency. We also introduced direct debit facilities through the UOB Virtual Account to help our clients automate their end-to-end receivables cycle.

To facilitate our clients' access to working capital and help them drive revenue, we also strengthened our financial supply chain management capabilities. We received international recognition for our efforts as we were awarded the Best Supply Chain Solution provider by *Treasury Today Asia* at the Adam Smith Awards Asia 2018; and Best Working Capital Solution in Malaysia by *The Asset* at The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2018. For our market leading position in cash management, we were also recognised as the International Cash Management Bank of the Year in Malaysia by *Asian Banking and Finance* at the Asian Banking and Finance Wholesale Banking Awards 2018.

Helping Our Clients Manage Their Investments, Liabilities and Risks

Over the course of the year, our Global Markets team worked closely with product specialists at the Group level to provide structured solutions to meet the business needs of our clients from across multiple segments including Financial Institutions Group, Corporate, Commercial and Business Banking. This cross-collaboration enabled us to provide our clients with tailored solutions that were timely and responsive to market developments. To help our clients manage risk, our Global Markets team provided foreign exchange, interest rate and commodity hedging solutions. Our team of economists and dedicated treasury specialists continued to support our small and medium-sized enterprise ("SME") customers through regular seminars aimed at providing them with a greater understanding of financial market risk and how to manage it.

Islamic Banking

Providing Our Customers With Greater Choice Through Islamic Banking

In line with our strategy to achieve sustainable and long term growth, we continued to strengthen our Islamic Banking business to provide our personal banking and business banking customers, as well as our commercial and corporate clients with greater choice in banking solutions. In 2018, we focused our efforts on strengthening our existing range of Islamic Banking solutions, while investing in awareness raising initiatives and training and development programmes for our people. During the year, we continued to run programmes aimed at enhancing our people's understanding of Shariah-compliant products and solutions. We also made improvements to our existing Shariah-compliant product range with the provision of the Specific Investment Account. Through this facility we were able to extend larger financing limits to our corporate and commercial clients, giving them the flexibility of financing their expansion and operations through Shariah-compliant forms of financing. To strengthen our presence across the Islamic Banking industry, we participated in a range of reputable Islamic Banking trade exhibitions and conferences such as the 2018 Malaysia International Halal Showcase and the 2018 Global Islamic Finance Forum.

Retail Banking

Helping Small Businesses Improve Their Productivity Through Digital Capabilities

To provide our small business customers with simple, secure and widely accessible banking solutions, we harnessed digital technology and data analytics to provide convenient payment and business management solutions to suit their needs. In Business Banking, we focused on providing our SME customers with digital solutions to help them manage their costs and drive operational efficiency. We also provided them with greater choice of solutions, including flexible and alternative lending facilities to help them grow. We continued to invest in training and building expertise in our advisory teams to serve the specific needs of our SME customers.

At the Bank, we are committed to creating solutions that will help prepare businesses for the digital age. As part of this commitment, in 2018 we partnered software provider, SAP to launch the UOB SmartBusiness, a cloud-based integrated digital solution that enables SMEs to digitise and automate their accounting, payroll and administrative functions. With the automation of these administrative functions, we are able to help our SME customers focus on their core business operations and drive productivity.

Understanding that for most start-ups, gaining access to funding sources is a priority, we partnered Funding Societies, a regional peer-to-peer ("P2P") digital financing platform. Through the partnership, start-ups can access Funding Societies' global investor network to raise additional working capital. As start-ups grow in scale, we will be able to extend a wider range of term-financing solutions to help them access more working capital or acquire fixed assets. This will enable us to help companies progress through different stages of growth more rapidly.

Strategy and Performance for the Financial Year Ended 31 December 2018 (Continued)

Retail Banking (Continued)

Creating Financial Solutions Specifically for Small Businesses

To help new businesses finance their operational expansion and progress through their early stages of growth, we enhanced UOB BizMoney, our collateral-free unsecured business loan, through greater collaboration with our strategic partners. In 2018, we partnered Syarikat Jaminan Pembiayaan Perniagaan Berhad ("SJPP") to bundle UOB BizMoney with SJPP's Working Capital Guarantee and Services Sector Guarantee Schemes, government-funded credit guarantee schemes. The enhanced SJPP-UOB BizMoney financial solution enables customers to access loans of up to RM1 million with flexible repayment tenures of up to five years without any collateral requirement.

In 2018, we made credit underwriting for small businesses more efficient and effective through the use of our data analytics-powered credit underwriting engine. This helped to reduce both the turnaround time and number of steps involved in a small business loan application by more than half. The engine, which includes additional information that is not traditionally used in the assessment process, enabled us to determine more accurately the creditworthiness of our small business customers and in turn, extend credit with more certainty. Since the implementation of the enhanced credit underwriting engine, we have seen a 50 per cent reduction in the default rate of our small business loans. In recognition of this innovation, our credit underwriting engine was awarded the Best Credit Evaluation Initiative, Application or Programme at the International Excellence in Retail Financial Services Awards 2018 organised by *The Asian Banker*.

During the year, our business bankers also supported our SME customers through seminars and workshops focused on helping customers grow and build their businesses. To support this initiative, we partnered business and trade associations including the Chinese Chambers of Commerce and SME Corporation of Malaysia. We also partnered co-working space providers Common Ground and WORQ to support companies in the early stages of development manage their costs by providing them with access to co-working spaces at competitive rates. These efforts affirmed our commitment to provide SMEs with business consulting, research and industry insights to help them grow their businesses. To expand the Bank's presence within the digital ecosystem and to help customers grow their digital footprint, our Channels and Digitalisation team continued to support our Business Banking team by identifying and connecting with SMEs across the e-commerce, supply-chain and telecommunication sectors through coordinated talks, seminars and presentations.

Drawing On Data to Design Intuitive Customer Experiences

While rising consumer affluence across the country continued to be a strong growth driver for our Personal Financial Services ("PFS") business, we were steadfast in helping our customers manage their wealth and meet their financial objectives in 2018. We provided them with digital solutions and greater wealth advisory services through our dedicated wealth and privilege banking centres.

In 2018, we configured two branches to offer our wealth management customers greater access to our range of customised wealth management services and solutions. Both our branches in Bangsar and Kuching now comprise dedicated wealth management centres to meet the requirements of our affluent customers through tailored services and solutions. In creating the branch's wealth management concept, the Bank drew on its insights into and understanding of the needs of its affluent customers. With an increasing number of our affluent customers using their mobile phones or going online to conduct simple banking transactions and to manage their accounts, the role of the branch has evolved. The branch has become less about transactions and more about customer advisory. Taking this into consideration, we reconfigured the branch layout and focused on creating spaces for our customers to hold private conversations about achieving their financial aspirations.

Harnessing Technology to Make Banking Simpler, Smarter and Safer

We continued to invest in technology to enhance our product and service capabilities to meet our customers' changing lifestyle needs. To make banking simpler, smarter and safer for our customers we introduced our digital software ("soft") token solution, UOB Mighty Secure. Using a two-factor authentication process, UOB Mighty Secure provides customers with an additional layer of security than that provided by an SMS One-Time-Password ("SMS-OTP"). UOB Mighty Secure enables customers to create their own unique secure PIN, which will then be used to verify and to authenticate transactions carried out through the UOB Mighty app. This additional layer of security offers a more robust protection against fraudulent transactions. UOB Mighty Secure also provides customers with greater convenience since they would no longer need to wait to receive an SMS-OTP and then separately key in the one-time password to perform a transaction.

To encourage the adoption of contactless payment methods and in support of Bank Negara Malaysia's initiative to create a cashless society, we provided our customers with a wider choice of e-payment solutions in 2018. In addition to our existing contactless payment options, we partnered with WeChat Pay MY E-wallet, a major e-payment service payment provider in China and a new entrant to Malaysia. This partnership affirms our commitment to give our customers greater value and choice of digital payment providers.

Strategy and Performance for the Financial Year Ended 31 December 2018 (Continued)

Retail Banking (Continued)

Harnessing Technology to Make Banking Simpler, Smarter and Safer (Continued)

We further supported our customers' preference for contactless payments through our Private School Project. As part of this initiative, our PFS team worked with 25 schools across Malaysia to install digital payment terminals in their bookshops, canteens and administration offices. Through this initiative, we were able to help our customers to make contactless payments when settling their children's school fees, buying books and paying for school meals.

While we execute our long-term strategies to grow our franchise and to meet the financial needs of our customers, in 2018 we fortified our commitment to uphold sound risk management and compliance standards. We continued to maintain a firm stance against financial crimes through a robust and dynamic Anti-Money Laundering/Countering the Financing of Terrorism ("AML/CFT") framework and introduced refresher AML/CFT training courses to reinforce high standards of ethical and professional behaviour across the Bank.

Colleagues

Building Meaningful Careers

Our people are critical for the success of our business strategy. As such, we adopt an integrated approach to attracting, engaging and retaining the best talent. Our distinctive employee value proposition is built upon our values of being Honourable, Enterprising, United and Committed and supported by a wide range of programmes that cover flexible work arrangements, health and wellness, employee welfare benefits, training and development courses and recognition awards.

Grooming Young Talent and Building Capabilities for the Future

To encourage the development of our people and to equip them with future-ready skills, some 1,600 of our employees completed training and development programmes during the course of the year. Encouraging enterprising thinking and acquiring digital skills are among our top priorities as we strive to anticipate and to meet the needs of a new generation of increasingly tech-savvy customers. In 2018, we introduced training programmes aimed at enhancing our peoples' digital literacy through workshops in design thinking, agile and enterprise thinking as well as data analytics.

To attract a wider pool of graduates to our 16-month Management Associate Programme, we extended our recruitment drive to include overseas career fairs, varsities and targeted school outreach events. We attended career fairs in Australia in addition to recruiting talent from Malaysia's top universities.

Developing Leaders

To strengthen our talent management and to cultivate leadership skills, more than 100 members of our senior leadership team completed leadership programmes in 2018. This included both in-house and external programmes aimed at developing our senior leaders' management skills and aptitude for new technology and innovation. In 2018, we introduced the Leadership Masterclass Series with the aim of keeping our senior leaders abreast with emerging trends in the financial services industry. These masterclasses included topics ranging from blockchain technology to evolving trends in globalisation strategies. We also developed programmes with external training partners including the Melbourne Business School's Executive Presence Programme, the Asian Banking School's ("ABS") Global Banking Leaders Programme and the ABS Emerging Banking Leaders Programme. These programmes provided our senior leaders with international exposure and the opportunity to exchange knowledge and build relationships with their peers in the banking fraternity within Malaysia and abroad.

Caring for Our Colleagues

To help our colleagues achieve more harmony between their professional and personal commitments, we introduced flexible work options. This included the option of having staggered work hours to give our colleagues greater flexibility in managing their daily work schedule. In 2018, we also introduced the Flexi2 initiative. Through this initiative, our people can take two hours of paid leave each month to attend to their personal matters. We also provided our people the flexibility to work from home for up to 10 days a year to help them manage their personal needs while fulfilling work responsibilities. During the year, we also extended our support to our colleagues by way of financial assistance. We extended six full scholarships to help our colleagues finance their children's tertiary education at local universities.

Recognising Our People's Achievements

To recognise those colleagues who best demonstrate our values, we conduct two recognition programmes annually – the UOB Honours and the UOB Customer Commitments Awards ("CCA"). Through our 2018 UOB Honours, we celebrated the success of 14 teams, comprising 115 colleagues from more than 15 functions across the Bank who collaborated to deliver innovative solutions and to increase productivity. We also honoured and celebrated the dedication of 187 long-serving colleagues who served 10, 20, 30 and 40 years with the Bank.

In 2018, we ran our third UOB CCA programme across the Bank. The UOB CCA campaign, competition and ceremony seek to encourage and to inspire our people to always act in the best interests of our customers. During the year, we recognised 60 individual colleagues and 7 teams for their exemplary conduct and commitment to our customers.

Strategy and Performance for the Financial Year Ended 31 December 2018 (Continued)

Community

Keeping the Good Going Through UOB Heartbeat

As a bank with a deep understanding of the markets in which we operate, we are resolute in our support of the social and economic development of our local communities and are committed to investing in areas that create long-term value for them. As part of our efforts to give back to the communities in which we live and operate, we contributed more than RM1 million to the community in 2018 through corporate sponsorships and donations and funds raised by our colleagues. Through our wide range of education and outreach initiatives, we continued to express our shared commitment towards making a difference to communities across Malaysia in the areas of art, children and education.

Under the UOB Heartbeat Run/Walk, our annual flagship event to raise funds to improve the lives of children from less privileged backgrounds, we raised more than RM200,000 for local charities in 2018. The funds raised went towards supporting children from HOPE Worldwide Malaysia, Teach for Malaysia and Yayasan Sunbeams Home.

Fundraising by Our Personal Financial Services Colleagues

To help support children battling cancer and their families, our PFS team and the Bank's business partners contributed RM105,000 to the National Cancer Society Malaysia's Children Home of Hope. The donation went towards providing children with recreational therapy programmes to help them resolve the psychosocial challenges associated with cancer. In 2018, our business teams collectively contributed more than RM700,000 to local communities through sponsorships and donations while our colleagues from across the country volunteered more than 5,000 hours of their time to charity.

Connecting Communities Through Art

Now in its eight year in Malaysia, the UOB Painting of the Year ("POY") competition underscores our commitment to nurturing and encouraging the development of Malaysia's artistic talent both at home and across the region. In the 2018 POY competition, we awarded cash prizes totalling more than RM230,000 to established and emerging Malaysian artists.

We also unveiled the UOB POY Gallery in 2018, reaffirming our commitment to uncover and to promote artistic talent across Malaysia by profiling winning artists and providing them with opportunities to showcase their artworks. The UOB POY Gallery displays the winning paintings from the competitions held over the past eight years and is open to the public. Housed at our UOB Bangsar Branch, it is the first permanent display of the Bank's art collection in Malaysia. To support further the development of Malaysia's artists and to help the competitions' past winners progress their artistic careers, in 2018 the Bank also sponsored its 2016 UOB POY (Malaysia) winner, Ms Yim Yen Sum's first solo exhibition in Kuala Lumpur.

To mark Malaysia's vibrant and illustrious history in the field of art, we sponsored the National Art Gallery's seminal exhibition entitled 'Teh Tarik with The Flag'. The exhibition was held to commemorate 61 years of the National Art Gallery and 60 years of Malaysia's independence. The exhibition, which featured artworks from 13 prominent Malaysian artists, marked the Bank's first corporate sponsorship of a national art exhibition in Malaysia.

Developing Young Minds for the Future

In education, we focused on raising financial literacy standards to promote responsible spending and saving among children and youth across the country. During the year, we participated in programmes organised by Bank Negara Malaysia, the Financial Industry Collective Outreach ("FINCO") and Teach for Malaysia. As part of these initiatives, our senior managers participated in on-the-ground mentoring programme across schools in Sabah and Sarawak. Through our Private School Project aimed at encouraging greater adoption of contactless payments solutions, we were able to conduct financial literacy and financial management classes across five private schools in the Klang Valley. The classroom-based tutorial included basic topics such as saving, managing money and spending responsibly.

Outlook

The global economy is expected to moderate in 2019. Slower growth patterns across major economies are expected to contribute to softer global growth in the year ahead. We expect the US economy to moderate as it continues to unwind its monetary and fiscal stimulus programmes. However, the pace of growth across the US economy should remain healthy driven by strong domestic demand amid improved labour market conditions. Meanwhile, growth across the European Union is expected to be impacted by slower exports, lower private consumption levels and weaker industrial production. Japan's economic growth is also expected to slow in the year ahead, although it will be cushioned by fiscal support and loose monetary policy.

We expect intra-regional trade flows and rising consumer affluence to support growth across the emerging Asian economies in the year ahead, albeit at a slower rate. This is driven by concerns over China's moderating growth, international trade disputes, pressure from rising US interest rates as well as volatile capital flows.

Despite our expectations for a moderate global growth in 2019, we expect Malaysia's gross domestic product to expand in line with global expectations. Domestic growth is likely to be supported by strong domestic demand from private consumption and steady flow of foreign investments and exports. Efforts to build a more transparent government, the economy's underlying strengths, steady economic growth, low unemployment and a surplus current account, will help support the domestic economy in the year ahead.

Strategy and Performance for the Financial Year Ended 31 December 2018 (Continued)

Outlook (Continued)

Malaysia is also likely to benefit from regional and multilateral trade initiatives that will boost development of trade and investment in the country and across ASEAN. These strategies will help enhance the country's resilience against risk from rising global trade protectionism.

Over the medium term, we expect the economy to continue on its growth trajectory given its strong fundamentals and ongoing policy reforms to stimulate growth through labour productivity, capital spending and technology.

In 2019, we will continue to develop and to strengthen our capabilities to meet our customers' needs while remaining prudent and disciplined as we pursue sustainable growth. For our customers, we will continue to harness technology and our regional franchise and expertise to offer a distinctive and consistent experience with products and solutions designed around their business and lifestyle needs, both through conventional and Islamic Banking.

In all that we do, we will be guided by our time-tested values of honour, enterprise, unity and commitment, and a strong sense of accountability to our stakeholders. The Board of Directors remains optimistic that the Group and the Bank are well positioned to capture emerging business opportunities and to achieve strong performance as the economy builds momentum.

Rating by External Rating Agencies

Rating Agency Malaysia ("RAM") has reaffirmed United Overseas Bank (Malaysia) Bhd's AAA/Stable/P1 financial institution ratings ("FIRs") as well as the ratings of its debt instruments below, for its sturdy credit metrics, healthy funding and liquidity profile, and robust capitalisation.

United Overseas Bank (Malaysia) Bhd's issue ratings

No.	Debt instruments issued by the Bank	Ratings
1	RM1 billion Tier-2 Subordinated Bonds (2015/2025)	AA1/Stable
2	RM8 billion Medium Term Notes Programme: Senior Notes	AAA/Stable
3	RM8 billion Medium Term Notes Programme: Tier-2 Subordinated Notes	AA1/Stable

A financial institution rated AAA has a superior capacity to meet its financial obligations, this is the highest long-term FIR assigned by RAM. A financial institution rated P1 has a strong capacity to meet its short-term financial obligations, this is the highest short-term FIR assigned by RAM. An issue rated AA has high safety for payment of financial obligations. The issuer is resilient against adverse changes in circumstances, economic conditions and/or operating environments. The subscript 1 indicates that the rank is at the higher end of its generic rating category.

Other Statutory Information

(a) Before the statements of financial position, income statements and statements of comprehensive income of the Group and the Bank were made out, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Bank inadequate to any substantial extent; and

(ii) the values attributed to current assets in the financial statements of the Group and the Bank misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Bank misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and the Bank which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

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

(ii) any contingent liability in respect of the Group and the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and the Bank.

Other Statutory Information (Continued)

(f) In the opinion of the directors:

   (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Bank to meet their obligations when they fall due; and

   (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and the Bank for the financial year in which this report is made.

Auditors and Auditors' Remuneration

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

The auditors' remuneration is disclosed in Note 30 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 13 March 2019.

Ng Tiong Lip **Wong Kim Choong**

Statement by Directors

Pursuant to Section 251(2) of the Companies Act 2016

We, Ng Tiong Lip and Wong Kim Choong, being two of the Directors of United Overseas Bank (Malaysia) Bhd, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 100 to 218 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 13 March 2019.

Ng Tiong Lip **Wong Kim Choong**

Statutory Declaration

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Wong Kim Choong, being the director primarily responsible for the financial management of United Overseas Bank (Malaysia) Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 100 to 218 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Wong Kim Choong at Kuala Lumpur in the Federal Territory on 13 March 2019.

Wong Kim Choong

Before me,

Shariah Committee's Report

In the name of Allah, the Most Beneficent, the Most Merciful

"O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent" [4:29]

In compliance with Shariah Governance Framework, we are submitting the following report:

We, the members of the Shariah Committee of United Overseas Bank (Malaysia) Bhd (the Bank), are responsible for the oversight of Shariah matters related to the Bank's Islamic Banking business, operations and activities. Although the directors are ultimately responsible and accountable for all Shariah matters under the Bank, the directors rely on our independent advice on the same. The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with the Shariah rules and principles. It is our responsibility to form independent opinions, based on our review of the operations of the Bank, and to report to the Board of Directors and Bank Negara Malaysia accordingly.

We have concluded eight meetings to review various Shariah product structures and documentation, transactions, services, and operations of the Bank during the financial year ended 31 December 2018. In the course of our meetings, we reviewed the Bank's existing range of Shariah products and approved six new products, namely BizSolution-i, Current Account-i (based on Tawarruq), Foreign Currency Call Account-i (Foreign Currency Account Trade-i), Foreign Currency Call Account-i (Foreign Currency Account Investment-i), Non-Chequing Account-i and ProSave Account-i and one new distribution services of PruBSN Takaful's Smart Secure Takaful product. We have also provided Shariah opinions on various matters relating to the Bank and observed the conducted review by the Shariah officers to form an opinion as to whether the Bank has complied with the Shariah rulings, resolutions and guidelines issued by the Shariah Committee and the Shariah Advisory Council of Bank Negara Malaysia.

We have assessed and endorsed the works carried out by the Shariah Review, Shariah Risk and Shariah Audit team, which were conducted by way of examining the relevant documentation and procedures adopted by the Bank in carrying out its Islamic Banking business. We are satisfied that the reviews and audits were properly planned and performed to deliver key information, and provided us with sufficient evidence to give reasonable assurance that the Bank has not violated any Shariah principles.

In our opinion:

(i) The Bank's Islamic Banking products, legal documents and processes that we approved during the financial year ended 31 December 2018 are in compliance with the Shariah rules and principles;

(ii) The Bank's Islamic Banking transactions and dealings carried out in the financial year ended 31 December 2018 are in compliance with the Shariah rules and principles;

(iii) The Bank's sources of Shariah income during the financial year ended 31 December 2018 are in compliance with the Shariah rules and principles;

(iv) No Shariah non-compliant event was reported during the financial year ended 31 December 2018;

(v) The Bank has maintained sufficient internal policies, frameworks, manuals and operating procedures to ensure compliance with the Shariah rules and principles when carrying out its Islamic Banking business;

(vi) The Bank has taken sufficient and proactive steps in ensuring the competency of its employees through training programmes and various learning tools; and

(vii) No disclosure on the zakat payment as it is not applicable to the Bank.

To the best of our knowledge and based on the information provided to us, we hereby confirm that the Bank's Islamic Banking business, operations and activities for the financial year ended 31 December 2018 are in conformity with the Shariah rules and principles.

Dr Samsuri Sharif

Chairman,
Shariah Committee

Prof. Dr Norhashimah
Mohd Yasin

Member,
Shariah Committee

Kuala Lumpur, Malaysia
13 March 2019

Independent Auditors' Report

to the Members of United Overseas Bank (Malaysia) Bhd
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of United Overseas Bank (Malaysia) Bhd, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Bank, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 100 to 218.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other Than the Financial Statements and Auditors' Report Thereon

The directors of the Bank are responsible for the other information. The other information comprises the information in Directors' Report and Annual Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon, which the Directors' Report we obtained prior to the date of this auditors' report, and the Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard on the Directors' Report.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Bank and take appropriate action.

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Independent Auditors' Report (Continued)

to the Members of United Overseas Bank (Malaysia) Bhd (Continued)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

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

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation; and

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other Matters

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

Ernst & Young AF: 0039 Chartered Accountants	Chan Hooi Lam No. 02844/02/2020 J Chartered Accountant

Kuala Lumpur, Malaysia
13 March 2019

Statements of Financial Position

As at 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Assets					
Cash and short-term funds	3	3,924,715	8,438,916	3,924,715	8,438,916
Deposits and placements with financial institutions	4	800,000	150,000	800,000	150,000
Securities purchased under resale agreements	5	4,603,059	1,079,420	4,603,059	1,079,420
Financial assets at fair value through profit or loss ("FVTPL")	6	1,811,633	229,455	1,811,633	229,455
Available-for-sale ("AFS") securities	7	-	11,009,527	-	11,009,527
Debt instruments at fair value through other comprehensive income ("FVOCI")	8	15,852,301	-	15,852,301	-
Equity instruments at fair value through other comprehensive income ("FVOCI")	9	114,445	-	114,445	-
Debt instruments at amortised cost	10	228,315	-	228,315	-
Other assets	11	651,888	546,103	652,099	549,590
Loans, advances and financing	12	81,913,278	77,561,301	82,034,675	77,675,030
Derivative financial assets	24	376,496	592,160	376,496	592,160
Statutory deposits with Bank Negara Malaysia	13	2,016,869	1,802,204	2,016,869	1,802,204
Investment in subsidiaries	14	-	-	185,020	120,040
Investment in an associate	15	10,087	9,854	13,522	13,522
Property, plant and equipment	16	699,459	561,281	266,727	239,757
Deferred tax assets	17	102,838	88,336	102,838	88,336
Total assets		113,105,383	102,068,557	112,982,714	101,987,957
Liabilities					
Deposits from customers	18	88,733,098	83,388,785	88,755,027	83,404,659
Deposits and placements of banks and other financial institutions	19	9,214,438	4,401,690	9,214,458	4,401,720
Bills and acceptances payable		414,255	232,173	414,255	232,173
Derivative financial liabilities	24	399,947	601,266	399,947	601,266
Other liabilities	20	2,548,407	2,500,173	2,546,618	2,498,288
Tax payable		62,140	126,506	60,908	125,433
Subordinated bonds	21	1,602,082	1,502,702	1,602,082	1,502,702
Deferred tax liabilities	17	20,559	13,758	-	-
Total liabilities		102,994,926	92,767,053	102,993,295	92,766,241
Equity attributable to equity holders of the Bank					
Share capital	22	792,555	792,555	792,555	792,555
Reserves	23	9,317,902	8,508,949	9,196,864	8,429,161
Total equity		10,110,457	9,301,504	9,989,419	9,221,716
Total liabilities and equity		113,105,383	102,068,557	112,982,714	101,987,957
Commitments and contingencies	37	101,959,153	97,541,595	101,588,370	97,110,150

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

Income Statements

For the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Operating revenue	26	6,134,675	5,663,137	6,140,307	5,671,995
Interest income	27	5,063,308	4,726,352	5,068,664	4,733,300
Interest expense	28	(2,993,465)	(2,703,828)	(2,993,827)	(2,703,878)
Net interest income		2,069,843	2,022,524	2,074,837	2,029,422
Net income from Islamic Banking Operations	47	40,805	23,678	40,805	23,678
Other operating income	29	889,557	850,192	889,833	852,108
Operating income		3,000,205	2,896,394	3,005,475	2,905,208
Other operating expenses	30	(1,165,846)	(1,078,744)	(1,172,443)	(1,087,177)
Operating profit before allowance for expected credit losses/impairment		1,834,359	1,817,650	1,833,032	1,818,031
(Allowance for)/write-back of expected credit losses/impairment on:					
Loans, advances and financing	32	(168,720)	(292,065)	(169,085)	(291,392)
Other financial assets	32	4,566	-	4,566	-
Commitments and contingencies	20	(43,133)	3,343	(43,133)	3,343
Impairment loss on property, plant and equipment	16	(1,170)	(4,791)	-	-
		1,625,902	1,524,137	1,625,380	1,529,982
Share of net profit of an associate	15	233	221	-	-
Profit before taxation		1,626,135	1,524,358	1,625,380	1,529,982
Income tax expense	33	(390,600)	(379,976)	(387,812)	(376,205)
Profit for the year attributable to equity holders of the Bank		1,235,535	1,144,382	1,237,568	1,153,777
Basic/diluted earnings per share (sen)	34	262.9	243.5		
Dividend per share (sen)	35	105.3	98.2		

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

Statements of Comprehensive Income

For the financial year ended 31 December 2018

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit for the year	1,235,535	1,144,382	1,237,568	1,153,777
Other comprehensive income/(loss):				
Items that will be reclassified subsequently to income statements:				
Net fair value changes in AFS securities	-	57,905	-	57,905
Net fair value changes in debt instruments at fair value through other comprehensive income	15,117	-	15,117	-
Income tax effect (Note 17)	(3,628)	(13,897)	(3,628)	(13,897)
	11,489	44,008	11,489	44,008
Items that will not be reclassified subsequently to income statements:				
Net fair value changes in equity instruments at fair value through other comprehensive income	(26,071)	-	(26,071)	-
Revaluation of land and buildings (Note 16)	49,202	-	-	-
Income tax effect (Note 17)	338	-	6,257	-
	23,469	-	(19,814)	-
Total other comprehensive income/(loss) for the year, net of tax	34,958	44,008	(8,325)	44,008
Total comprehensive income for the year attributable to equity holders of the Bank	1,270,493	1,188,390	1,229,243	1,197,785

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

Statements of Changes in Equity

For the financial year ended 31 December 2018

Group	Share capital RM'000	Revaluation reserve RM'000	Fair value through other comprehensive income reserve RM'000	Net unrealised reserve on AFS securities RM'000	Retained profits RM'000	Total RM'000
	Non-distributable				Distributable	
2018						
Balance as at 1 January 2018						
As previously stated	792,555	146,736	-	101,037	8,261,176	9,301,504
Effect of adopting MFRS 9 *Financial Instruments*	-	-	101,037	(101,037)	-	-
Balance as at 1 January 2018, as restated	**792,555**	**146,736**	**101,037**	**-**	**8,261,176**	**9,301,504**
Profit for the year	-	-	-	-	1,235,535	1,235,535
Other comprehensive income	-	43,283	(8,325)	-	-	34,958
Total comprehensive income	-	43,283	(8,325)	-	1,235,535	1,270,493
Transaction with owners:						
Dividend paid						
- Final dividend for the financial year ended 31 December 2017 (Note 35)	-	-	-	-	(461,540)	(461,540)
Balance as at 31 December 2018	**792,555**	**190,019**	**92,712**	**-**	**9,035,171**	**10,110,457**

Group	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Net unrealised reserve on AFS securities RM'000	Retained profits RM'000	Total RM'000
		Non-distributable				Distributable	
2017							
Balance as at 1 January 2017	**470,000**	**322,555**	**470,000**	**146,736**	**57,029**	**7,032,664**	**8,498,984**
Profit for the year	-	-	-	-	-	1,144,382	1,144,382
Other comprehensive income	-	-	-	-	44,008	-	44,008
Total comprehensive income	-	-	-	-	44,008	1,144,382	1,188,390
Transactions with owners/other equity movements:							
Transfer to paid up share capital (Note 23(a))	322,555	(322,555)	-	-	-	-	-
Transfer to retained profits (Note 23(b))	-	-	(470,000)	-	-	470,000	-
Dividend paid							
- Final dividend for the financial year ended 31 December 2016 (Note 35)	-	-	-	-	-	(385,870)	(385,870)
Balance as at 31 December 2017	**792,555**	**-**	**-**	**146,736**	**101,037**	**8,261,176**	**9,301,504**

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

Statements of Changes in Equity (Continued)

For the financial year ended 31 December 2018

Bank	Share capital RM'000	Fair value through other comprehensive income reserve RM'000	Net unrealised reserve on AFS securities RM'000	Retained profits RM'000	Total RM'000
	Non-distributable			Distributable	
2018					
Balance as at 1 January 2018					
As previously stated	792,555	-	94,135	8,335,026	9,221,716
Effect of adopting MFRS 9					
Financial Instruments	-	94,135	(94,135)	-	-
Balance as at 1 January 2018, as restated	**792,555**	**94,135**	**-**	**8,335,026**	**9,221,716**
Profit for the year	-	-	-	1,237,568	1,237,568
Other comprehensive income	-	(8,325)	-	-	(8,325)
Total comprehensive income	-	(8,325)	-	1,237,568	1,229,243
Transaction with owners:					
Dividend paid					
- Final dividend for the financial year ended 31 December 2017 (Note 35)	-	-	-	(461,540)	(461,540)
Balance as at 31 December 2018	**792,555**	**85,810**	**-**	**9,111,054**	**9,989,419**

Bank	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Net unrealised reserve on AFS securities RM'000	Retained profits RM'000	Total RM'000
		Non-distributable			Distributable	
2017						
Balance as at 1 January 2017	**470,000**	**322,555**	**470,000**	**50,127**	**7,097,119**	**8,409,801**
Profit for the year	-	-	-	-	1,153,777	1,153,777
Other comprehensive income	-	-	-	44,008	-	44,008
Total comprehensive income	-	-	-	44,008	1,153,777	1,197,785
Transactions with owners/other equity movements:						
Transfer to paid up share capital (Note 23(a))	322,555	(322,555)	-	-	-	-
Transfer to retained profits (Note 23(b))	-	-	(470,000)	-	470,000	-
Dividend paid						
- Final dividend for the financial year ended 31 December 2016 (Note 35)	-	-	-	-	(385,870)	(385,870)
Balance as at 31 December 2017	**792,555**	**-**	**-**	**94,135**	**8,335,026**	**9,221,716**

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

Statements of Cash Flows

For the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Cash flows from operating activities					
Profit before taxation		1,626,135	1,524,358	1,625,380	1,529,982
Adjustments for:					
Share of net profit of an associate	15	(233)	(221)	-	-
Gain on disposal of property, plant and equipment		(255)	(1,215)	(255)	(1,215)
Loss on write off of property, plant and equipment		195	-	195	-
Depreciation of property, plant and equipment	30	68,260	56,530	57,610	48,127
Allowance for impairment on loans, advances and financing	32	168,720	292,065	169,085	291,392
Write-back of impairment for other financial assets	32	(4,566)	-	(4,566)	-
Net unrealised loss/(gain) on financial assets at FVTPL	29	2,409	(600)	2,409	(600)
Allowance for/(write-back) of commitments and contingencies	20	43,133	(3,343)	43,133	(3,343)
Dividend income from AFS securities	29	-	(813)	-	(813)
Dividend income from equity instruments at FVOCI	29	(822)	-	(822)	-
Dividend income from an associate	29	-	-	-	(1,921)
Interest/profit income from AFS securities	27	-	(379,740)	-	(379,740)
Interest/profit income from debt instruments at FVOCI	27	(521,751)	-	(521,751)	-
Interest income from debt instruments at amortised cost	27	(5,292)	-	(5,292)	-
Gain from sale of AFS securities	29	-	(12,327)	-	(12,327)
Gain from sale of debt instruments at FVOCI	29	(10,282)	-	(10,282)	-
Unrealised foreign exchange (gain)/loss		(40,256)	194,594	(40,256)	194,594
Loss from sale of financial assets at FVTPL	29	283	1,073	283	1,073
Gain from trading derivatives	29	(77,388)	(65,939)	(77,388)	(65,939)
Unrealised loss from trading derivatives	29	31,322	539	31,322	539
Unrealised gain on fair value hedge	29	(620)	(1,082)	(620)	(1,082)
Gain from sale of precious metals	29	(1,395)	(1,071)	(1,395)	(1,071)
Unrealised gain from revaluation of precious metals	29	(213)	(20)	(213)	(20)
Loss on dissolution of subsidiaries	29	-	-	-	11
Impairment loss on property, plant and equipment	16	1,170	4,791	-	-
Amortisation of premium less accretion of discount from:					
- Financial assets at FVTPL	27	(44,178)	158	(44,178)	158
- Debt securities at FVOCI	27	12,932	-	12,932	-
- AFS securities	27	-	10,672	-	10,672
Operating profit before working capital changes		1,247,308	1,618,409	1,235,331	1,608,477
(Increase)/decrease in operating assets:					
Loans, advances and financing		(4,520,697)	(1,403,234)	(4,528,730)	(1,336,295)
Financial assets at FVTPL		(1,540,692)	(2,031)	(1,540,692)	(2,031)
Securities purchased under resale agreements		(3,523,639)	(435,379)	(3,523,639)	(435,379)
Statutory deposits with BNM		(214,665)	296,464	(214,665)	296,464
Derivative financial assets		215,664	176,821	215,664	176,821
Other assets		94,024	(27,691)	57,065	(18,880)
		(9,490,005)	(1,395,050)	(9,534,997)	(1,319,300)

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

Statements of Cash Flows (Continued)

For the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Cash flows from operating activities (Continued)					
Increase/(decrease) in operating liabilities:					
Deposits from customers		5,344,313	1,204,109	5,350,368	1,216,062
Deposits and placements of banks and other financial institutions		4,812,748	(471,013)	4,812,738	(471,013)
Bills and acceptances payable		182,082	4,657	182,082	4,657
Derivative financial liabilities		(201,319)	(130,337)	(201,319)	(130,337)
Other liabilities		36,886	(39,798)	77,238	(39,900)
		10,174,710	567,618	10,221,107	579,469
Cash generated from operations		1,932,013	790,977	1,921,441	868,646
Tax paid		(465,957)	(381,352)	(464,210)	(376,803)
Net cash generated from operating activities		1,466,056	409,625	1,457,231	491,843
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		281	1,285	281	1,285
Purchase of property, plant and equipment	16	(158,627)	(92,098)	(84,802)	(56,226)
Interest/profit income from AFS securities		-	338,708	-	338,708
Interest/profit income from debt instruments at FVOCI		403,342	-	403,342	-
Interest income from debt instruments at amortised cost	27	5,292	-	5,292	-
Net purchase of AFS securities		-	(4,078,387)	-	(4,078,387)
Net purchase of debt instruments at FVOCI		(4,955,831)	-	(4,955,831)	-
Net purchase of debt instruments at amortised cost		(236,875)	-	(236,875)	-
Net payment from dissolution of subsidiaries		-	-	-	(11)
Dividend income from AFS securities		-	813	-	813
Dividend income from equity instruments at FVOCI		822	-	822	-
Dividend income from an associate	14(a)	-	-	-	1,921
Subscription of redeemable preference shares		-	-	(65,000)	(120,000)
Net cash used in investing activities		(4,941,596)	(3,829,679)	(4,932,771)	(3,911,897)
Cash flows from financing activities	21(c)				
Net proceeds from issuance of subordinated bonds	21(a)	600,000	-	600,000	-
Repayment of subordinated bonds	35	(500,000)	-	(500,000)	-
Dividend paid		(461,540)	(385,870)	(461,540)	(385,870)
Net cash used in financing activity		(361,540)	(385,870)	(361,540)	(385,870)
Net decrease in cash and cash equivalents		(3,837,080)	(3,805,924)	(3,837,080)	(3,805,924)
Cash and cash equivalents at beginning of the year		8,588,916	12,394,840	8,588,916	12,394,840
Cash and cash equivalents at end of the year		4,751,836	8,588,916	4,751,836	8,588,916
Analysis of cash and cash equivalents					
Cash and short-term funds	3	3,951,836	8,438,916	3,951,836	8,438,916
Deposits and placements with financial institutions	4	800,000	150,000	800,000	150,000
		4,751,836	8,588,916	4,751,836	8,588,916
Less: Allowance for ECL	3	(27,121)	-	(27,121)	-
		4,724,715	8,588,916	4,724,715	8,588,916

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

Notes to the Financial Statements

1. Corporate Information

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 11, Menara UOB, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding companies of the Bank are Chung Khiaw (Malaysia) Berhad, a company incorporated in Malaysia, and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

The principal activities of the Bank are banking and related financial services, including Islamic Banking. The principal activities of the subsidiaries and the associate are set out in Notes 14 and 15, respectively. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 13 March 2019.

2. Significant Accounting Policies

2.1 Basis of Preparation

The financial statements comply with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

The financial statements of the Group and the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

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

2.2 Changes in Accounting Policies

Adoption of New, Amended MFRS and Interpretation Committee ("IC") Interpretations issued

The accounting policies as set out in Note 2.4 adopted by the Group and the Bank are consistent with those adopted in previous years, except as follows:

The Group and the Bank adopted the following new, amended MFRS and IC Interpretations beginning on or after 1 January 2018

MFRS 9 Financial Instruments
MFRS 15 Revenue from Contracts with Customers
Annual Improvements to MFRS Standards 2014–2016 Cycle
Amendments to MFRS 2 Classification and Measurement of Share-based Payment Transactions
Clarifications to MFRS 15
Amendments to MFRS 140 Transfers of Investment Property
IC Interpretation 22 Foreign Currency Transaction and Advance Consideration

The adoption of the above new, amended MFRS and IC Interpretations did not have any material impact on the financial statements of the Group and the Bank, except as described below:

(a) MFRS 9 Financial Instruments

The adoption of MFRS 9 *Financial Instruments* ("MFRS 9") resulted in change in accounting policies and adjustments to the amount previously recognised in the financial statements. As permitted by the transitional provisions of MFRS 9 *Financial Instruments*, the Group and the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of adoption were recognised directly in retained profits and reserves as of 1 January 2018.

The accounting policies that relate to recognition and derecognition, classification and measurements of financial instruments and impairment of financial assets were amended to comply with MFRS 9 *Financial Instruments*. The Group and the Bank have opted to continue to apply the existing requirements and practices under MFRS 139 *Financial Instruments: Recognition and Measurement* ("MFRS 139") for hedge accounting which is allowed under MFRS 9 *Financial Instruments*.

Set out below are disclosures relating to the impact of the adoption of MFRS 9 Financial Instruments to the Group and the Bank.

(i) Changes to Accounting Policies

<u>Financial Assets - Classification and Measurements</u>

Financial assets are classified as follows:

- Amortised cost;
- Fair value through other comprehensive income with and without recycling to profit or loss; and
- Fair value through profit or loss (inclusive of held for trading, designated and mandatory).

The classification and measurements of the financial assets depend on the Group's and the Bank's business models in managing the assets and assessment of the instruments' contractual cash flows. Business model reflects how financial assets are managed to generate cash flows. It is determined at a portfolio level and not instrument by instrument. Contractual cash flows of a financial asset are solely payments of principal and interest or profit ("SPPI") if they give rise on specified dates to payments of principal and interest or profit on the principal outstanding and the interest or the profit reflects the time value of money and credit risk of the assets. The following summarises the key changes:

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)

(i) Changes to Accounting Policies (Continued)

Financial Assets - Classification and Measurements (Continued)

(i) The categories of 'available-for-sale' ("AFS") and 'loans and receivables' are removed.

(ii) New classification categories were introduced:

a) 'Fair value through other comprehensive income ("FVOCI") with recycling to profit or loss' applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest or profit and business model of which the objective is to both collect contractual cash flows and selling of the financial assets.

b) 'FVOCI without recycling to profit or loss' applies to equity instruments which are not held for trading, and which the irrevocable option of not carrying the financial instruments at fair value through profit or loss ("FVTPL") has been selected.

c) 'Amortised cost' applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest or profit and held under the business model whose objective is to hold to collect the underlying contractual cash flows.

There is no impact on the classification and measurement of the Group's and the Bank's financial liabilities upon the adoption of MFRS 9.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income (debt instrument) and certain loan and financing commitments as well as financial guarantee contracts. The allowances for impairment are based on the expected credit losses ("ECL") associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since orgination, in which case, the allowance is based on the probability of default over the expected remaining life of the assets.

The Group and the Bank have grouped their financial assets which are subject to credit risk into Stage 1, Stage 2 and Stage 3, based on the newly applied impairment methodology under MFRS 9, as described below:

- Stage 1:
  Performing: Since the financial assets are first recognised and with no significant deterioration of credit quality, the Group and the Bank recognise an allowance based on 12-month expected credit loss.
- Stage 2:
  Underperforming: When financial assets show significant increase in credit risk, the Group and the Bank record an allowance for the lifetime expected credit loss.
- Stage 3:
  Credit-impaired: the Group and the Bank recognise the lifetime expected credit losses for these credit-impaired financial assets with 100% probability of default.

Hedge Accounting

The Group and the Bank continue to apply MFRS 139 hedge accounting requirements as allowed under MFRS 9. At the date of the initial application, all of the Group's and the Bank's existing hedge relationships are brought forward and continue to be eligible for hedge accounting. As such, the adoption of MFRS 9 has no impact on the Group's and the Bank's hedge accounting application in the financial statements.

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)
(ii) Classification and Measurement of Financial Instruments

Group	Note	Measurement category		Carrying amount as at 1 January 2018	
		Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM'000	New (MFRS 9) RM'000
<u>Financial assets</u>					
Cash and short-term funds	1	Loans and receivables	Amortised cost	8,438,916	8,402,901
Securities purchased under resale agreement	1	Loans and receivables	Amortised cost	1,079,420	1,079,420
Deposits and placements with financial institutions	1	Loans and receivables	Amortised cost	150,000	150,000
Loans, advances and financing	1	Loans and receivables	Amortised cost	77,561,301	77,696,806
Statutory deposits with Bank Negara Malaysia	1	Loans and receivables	Amortised cost	1,802,204	1,802,204
Available-for-sale securities - Debt	2	Available-for-sale	Debt instruments at fair value through other comprehensive income	10,869,011	10,860,679
Available-for-sale securities - Equity	3	Available-for-sale	Equity instruments at fair value through other comprehensive income	140,516	140,516
Other assets	1	Loans and receivables	Amortised cost	483,839	480,966
Derivative financial assets		Fair value through profit or loss	Fair value through profit or loss	592,160	592,160
Financial assets at fair value through profit or loss		Fair value through profit or loss	Fair value through profit or loss	229,455	229,455
<u>Financial Liabilities</u>					
Deposits from customers		Amortised cost	Amortised cost	83,388,785	83,388,785
Bills and acceptances payable		Amortised cost	Amortised cost	232,173	232,173
Derivative financial liabilities		Fair value through profit or loss	Fair value through profit or loss	601,266	601,266
Other liabilities*		Amortised cost	Amortised cost	2,305,957	2,394,242
Subordinated bonds		Amortised cost	Amortised cost	1,502,702	1,502,702

** Including impairment allowance for off-balance sheet credit exposures*

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)
(ii) Classification and Measurement of Financial Instruments (Continued)

Bank	Note	Measurement category		Carrying amount as at 1 January 2018	
		Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM'000	New (MFRS 9) RM'000
Financial assets					
Cash and short-term funds	1	Loans and receivables	Amortised cost	8,438,916	8,402,901
Securities purchased under resale agreement	1	Loans and receivables	Amortised cost	1,079,420	1,079,420
Deposits and placements with financial institutions	1	Loans and receivables	Amortised cost	150,000	150,000
Loans, advances and financing	1	Loans and receivables	Amortised cost	77,675,030	77,810,535
Statutory deposits with Bank Negara Malaysia	1	Loans and receivables	Amortised cost	1,802,204	1,802,204
Available-for-sale securities - Debt	2	Available-for-sale	Debt instruments at fair value through other comprehensive income	10,869,011	10,860,679
Available-for-sale securities - Equity	3	Available-for-sale	Equity instruments at fair value through other comprehensive income	140,516	140,516
Other assets	1	Loans and receivables	Amortised cost	487,326	484,453
Derivative financial assets		Fair value through profit or loss	Fair value through profit or loss	592,160	592,160
Financial assets at fair value through profit or loss		Fair value through profit or loss	Fair value through profit or loss	229,455	229,455
Financial Liabilities					
Deposits from customers		Amortised cost	Amortised cost	83,404,659	83,404,659
Bills and acceptances payable		Amortised cost	Amortised cost	232,173	232,173
Derivative financial liabilities		Fair value through profit or loss	Fair value through profit or loss	601,266	601,266
Other liabilities*		Amortised cost	Amortised cost	2,436,024	2,524,309
Subordinated bonds		Amortised cost	Amortised cost	1,502,702	1,502,702

** Including impairment allowance for off-balance sheet credit exposures*

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)

(ii) Classification and Measurement of Financial Instruments (Continued)

1. Cash and short-term funds, securities purchased under resale agreement, deposits and placement with financial institutions, loans, advances and financing, statutory deposits with Bank Negara Malaysia and other assets that have previously been measured as loans and receivables are now classified at amortised cost. The Group and the Bank intend to hold these assets to maturity to collect contractual cash flows consists solely for payments of principal and interest or profit on the principal amount outstanding.

2. Debt financial instruments that were previously classified as AFS are now classified as fair value through other comprehensive income based on the business models and cash flow characteristic tests.

3. The Group and the Bank have elected to apply fair value through other comprehensive income option for their equity instruments that were previously classified as AFS. These assets will remain to be accounted for at fair value through other comprehensive income with no subsequent recycling of realised gains or losses to profit or loss upon disposal.

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)

(iii) Reconciliation of Statements of Financial Position balances from MFRS 139 to MFRS 9

The following tables are reconciliation of the carrying amount of the Group's and the Bank's certain financial assets and liabilities from MFRS 139 *Financial Instruments: Recognition and Measurement* to MFRS 9 *Financial Instruments* as at 1 January 2018:

Group	Original (MFRS 139) Carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	New (MFRS 9) Carrying amount 1 January 2018 RM'000
Financial assets				
Cash and short-term funds				
Opening balance under MFRS 139	8,438,916	-	-	8,438,916
Remeasurement: ECL	-	-	(36,015)	(36,015)
Total cash and short-term funds	**8,438,916**	**-**	**(36,015)**	**8,402,901**
Loans, advances and financing				
Opening balance under MFRS 139	77,561,301	-	-	77,561,301
Remeasurement: ECL	-	-	135,505	135,505
Total loans, advances and financing	**77,561,301**	**-**	**135,505**	**77,696,806**
AFS securities				
Opening balance under MFRS 139	11,009,527	-	-	-
To debt instruments at FVOCI	-	(10,869,011)	-	-
To equity instruments at FVOCI	-	(140,516)	-	-
Total AFS securities	**11,009,527**	**(11,009,527)**	**-**	**-**
Debt instruments at fair value through other comprehensive income ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS securities	-	10,869,011	-	10,869,011
Remeasurement: ECL	-	-	(8,332)	(8,332)
Total debt instruments at FVOCI	**-**	**10,869,011**	**(8,332)**	**10,860,679**
Equity instruments at fair value through other comprehensive income ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS	-	140,516	-	140,516
Total equity instruments at FVOCI	**-**	**140,516**	**-**	**140,516**
Other assets				
Opening balance under MFRS 139	483,839	-	-	483,839
Remeasurement: ECL	-	-	(2,873)	(2,873)
Total other assets	**483,839**	**-**	**(2,873)**	**480,966**
Total changes to financial assets balance	**97,493,583**	**-**	**88,285**	**97,581,868**

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)

(iii) Reconciliation of Statements of Financial Position balances from MFRS 139 to MFRS 9 (Continued)

Group (Continued)	Original (MFRS 139) Carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	New (MFRS 9) Carrying amount 1 January 2018 RM'000
Financial liabilities				
Other liabilities				
Opening balance under MFRS 139	2,305,957	-	-	2,305,957
Remeasurement: ECL	-	-	88,285	88,285
Total other liabilities	2,305,957	-	88,285	2,394,242
Total change to financial liabilities balance	2,305,957	-	88,285	2,394,242
Reserves and retained profits				
AFS reserve				
Opening balance under MFRS 139	101,037	-	-	-
To FVOCI reserve - debt instruments	-	3,128	-	-
To FVOCI reserve - equity instruments	-	(104,165)	-	-
Total AFS reserve	101,037	(101,037)	-	-
FVOCI reserve - Debt instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	(3,128)	-	(3,128)
Total FVOCI reserve - Debt instruments	-	(3,128)	-	(3,128)
FVOCI reserve - Equity instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	104,165	-	104,165
Total FVOCI reserve - Equity instruments	-	104,165	-	104,165
Retained profits				
Opening balance under MFRS 139	8,261,176	-	-	8,261,176
Remeasurement: ECL for cash and short-term funds	-	-	(36,015)	(36,015)
Remeasurement: ECL for loans, advances and financing	-	-	135,505	135,505
Remeasurement: ECL for debt instruments at FVOCI	-	-	(8,332)	(8,332)
Remeasurement: ECL for other assets	-	-	(2,873)	(2,873)
Remeasurement: ECL for other liabilities	-	-	(88,285)	(88,285)
Total retained profits	8,261,176	-	-	8,261,176
Total change to reserve and retained profits	8,362,213	-	-	8,362,213

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)
(iii) Reconciliation of Statements of Financial Position balances from MFRS 139 to MFRS 9 (Continued)

Bank	Original (MFRS 139) Carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	New (MFRS 9) Carrying amount 1 January 2018 RM'000
Financial assets				
Cash and short-term funds				
Opening balance under MFRS 139	8,438,916	-	-	8,438,916
Remeasurement: ECL	-	-	(36,015)	(36,015)
Total cash and short-term funds	8,438,916	-	(36,015)	8,402,901
Loans, advances and financing				
Opening balance under MFRS 139	77,675,030	-	-	77,675,030
Remeasurement: ECL	-	-	135,505	135,505
Total loans, advances and financing	77,675,030	-	135,505	77,810,535
AFS securities				
Opening balance under MFRS 139	11,009,527	-	-	-
To debt instruments at FVOCI	-	(10,869,011)	-	-
To equity instruments at FVOCI	-	(140,516)	-	-
Total AFS securities	11,009,527	(11,009,527)	-	-
Debt instruments at fair value through other comprehensive income ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS securities	-	10,869,011	-	10,869,011
Remeasurement: ECL	-	-	(8,332)	(8,332)
Total debt instruments at FVOCI	-	10,869,011	(8,332)	10,860,679
Equity instruments at fair value through other comprehensive income ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS securites	-	140,516	-	140,516
Total equity instruments at FVOCI	-	140,516	-	140,516
Other assets				
Opening balance under MFRS 139	487,326	-	-	487,326
Remeasurement: ECL	-	-	(2,873)	(2,873)
Total other assets	487,326	-	(2,873)	484,453
Total changes to financial assets balance	97,610,799	-	88,285	97,699,084

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(a) MFRS 9 Financial Instruments (Continued)

(iii) Reconciliation of Statements of Financial Position balances from MFRS 139 to MFRS 9 (Continued)

Bank (Continued)	Original (MFRS 139) Carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	New (MFRS 9) Carrying amount 1 January 2018 RM'000
Financial liabilities				
Other liabilities				
Opening balance under MFRS 139	2,436,024	-	-	2,436,024
Remeasurement: ECL	-	-	88,285	88,285
Total other liabilities	2,436,024	-	88,285	2,524,309
Total change to financial liabilities balance	2,436,024	-	88,285	2,524,309
Reserves and retained profits				
AFS reserve				
Opening balance under MFRS 139	94,135	-	-	-
To FVOCI reserve - debt instruments	-	3,128	-	-
To FVOCI reserve - equity instruments	-	(97,263)	-	-
Total AFS reserve	94,135	(94,135)	-	-
FVOCI reserve - Debt instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	(3,128)	-	(3,128)
Total FVOCI reserve - Debt instruments	-	(3,128)	-	(3,128)
FVOCI reserve - Equity instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	97,263	-	97,263
Total FVOCI reserve - Equity instruments	-	97,263	-	97,263
Retained profits				
Opening balance under MFRS 139	8,335,026	-	-	8,335,026
Remeasurement: ECL for cash and short-term funds	-	-	(36,015)	(36,015)
Remeasurement: ECL for loans, advances and financing	-	-	135,505	135,505
Reclassification to debt instruments at FVOCI	-	-	-	-
Remeasurement: ECL for debt instruments at FVOCI	-	-	(8,332)	(8,332)
Remeasurement: ECL for other assets	-	-	(2,873)	(2,873)
Remeasurement: ECL for other liabilities	-	-	(88,285)	(88,285)
Total retained profits	8,335,026	-	-	8,335,026
Total change to reserve and retained profits	8,429,161	-	-	8,429,161

2. Significant Accounting Policies (Continued)

2.2 Changes in Accounting Policies (Continued)

Adoption of New, Amended MFRS and IC Interpretations issued (Continued)

(b) **MFRS 15 Revenue From Contracts With Customers**

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in MFRS 15 provide a more structured approach to measure and recognise revenue.

The Group and the Bank adopted MFRS 15 using the modified retrospective method, for annual period effective 1 January 2018.

The adoption of this Standard results in changes in accounting policies for revenue recognition, and has no material financial impact in the Group's and the Bank's financial statements.

2.3 Standards Issued but not yet Effective

As at the date of authorisation of these financial statements, the following MFRS, amendments to MFRS and IC Interpretations have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective and have not been adopted by the Group and the Bank.

Effective for financial periods beginning on or after 1 January 2019

Amendments to MFRS 9 Prepayment Features with Negative Compensation
Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures
MFRS 16 Leases
IC Interpretation 23 Uncertainty over Income Tax Treatments
Annual Improvements to MFRS Standards 2015-2017 Cycle
Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement

Effective for financial periods beginning on or after 1 January 2020

Amendments to MFRS 3 Definition of a Business
Amendments to MFRS 101 Definition of Material
Amendments to MFRS 108 Definition of Material

Effective for financial periods beginning on or after 1 January 2021

MFRS 17 Insurance Contracts

Effective for financial periods to be determined by the MASB

Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group and the Bank plan to adopt the above pronouncements when they become effective in the respective financial periods. A brief description of new MFRS that is considered substantially material to the Group and the Bank is set out below:

MFRS 16 Leases ("MFRS 16")

MFRS 16 will replace MFRS 117 Leases ("MFRS 17"), IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group and the Bank are in the process of assessing the financial implication resulting from the adoption of the MFRS 16.

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

Subsidiaries are entities of which the Group has control. Subsidiaries are consolidated where the Group obtains control and ceases when the Group ceases control.

Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

In the Bank's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(ii) Basis of Consolidation

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of acquisition, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedure used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the cost of acquisition, then the gain is recognised immediately in profit or loss.

(b) Associate

An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investment in an associate is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the carrying amount of the investment in an associate is adjusted for post-acquisition changes in the Group's share of net assets of the associate.

The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes, when applicable, in the statement of changes in equity. In applying the equity method, unrealised gains or losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(b) Associate (Continued)

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recently available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Bank's separate financial statements, investment in an associate is stated at cost less impairment loss.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(c) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(d) Recognition of Interest/Profit Income

Interest/profit income is recognised using the effective interest/profit method. Interest/profit income includes the amortisation of premium or accretion of discount. The effective interest/profit method applies the rate that exactly discounts estimated future cash receipts through the effective life of the financial instrument to the net carrying amount of the financial asset.

(e) Recognition of Fees, Commission Income, Dividends and Other Income

Fees and commission income are recognised in the accounting period when services are rendered. For services that are provided over a period of time, material fees and commission income are recognised over the service period.

Dividends from subsidiaries and an associate, securities at FVTPL, equity instruments at FVOCI and available-for-sale securities are recognised on a declared basis.

(f) Securities Purchased Under Resale Agreements

Securities purchased under resale agreements are collateralised lending whereby the lender (i.e. the Bank) buys securities or money market instruments (representing the collateral) from the borrower and simultaneously agrees to sell them back to the borrower at a specified price and date. The commitment to resell the securities is reflected as an asset at amortised cost on the statements of financial position.

(g) Financial Instruments

(i) Classification

Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial assets. The Group and the Bank classify its financial assets under the following categories.

Classification for the financial year ended 31 December 2018

a) Amortised cost

Financial assets are measured at amortised cost if they are held within a business model which the objective is to hold the financial assets in order to collect contractual cash flow which represent solely payments of principal and interest/profit.

b) Debt instruments at FVOCI

'FVOCI with recycling to profit or loss' applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest or profit and business model objective is to both collect contractual cash flow and selling of the financial assets.

c) Equity instruments at FVOCI

'FVOCI without recycling to profit or loss' applies to equity instruments which are not held for trading, and which the irrevocable option of not carrying the financial instruments at fair value through profit or loss has been selected.

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(g) Financial Instruments (Continued)

(i) Classification (Continued)

Financial Assets (Continued)

Classification for the financial year ended 31 December 2018 (Continued)

d) **Financial instruments at FVTPL**
Financial assets that qualify for neither held at amortised cost nor at FVOCI are measured at FVTPL.

Classification for the financial year ended 31 December 2017

a) **Financial instruments at FVTPL**
Financial assets are classified as held for trading if they are acquired for short-term profit taking. Financial derivatives are classified as held for trading unless they are designated as hedging instruments.

b) **Loans and receivables**
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

c) **AFS securities**
Non-derivative financial assets that are not classified into any of the preceding categories and are available for sale are classified in this category.

Classification for the financial year ended 31 December 2018 and 31 December 2017

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

a) **Financial instruments at FVTPL**
Financial liabilities are measured at FVTPL if it is held for trading and designated upon initial recognition as FVTPL.

b) **Amortised cost**
Non-derivative financial liabilities that are not held for active trading or designated as FVTPL are classified as non-trading liabilities.

(ii) Measurement

Initial measurement

Financial instruments are initially recognised at their fair value plus transaction costs directly attributable to the acquisition or issuance of the instruments. For financial instruments classified as fair value through profit or loss, transaction costs are expensed off.

Subsequent measurement

Measurements for the financial year ended 31 December 2018

a) **Amortised cost**
Amortised cost financial instruments are measured at amortised cost using effective interest/profit rate method. Gains/losses are recognised in profit or loss through the amortisation process and when the financial instruments are impaired or derecognised.

b) **Debt instruments at FVOCI**
Debt instruments classified as FVOCI are measured at fair value. Any gains or losses arising from the changes in fair value of these financial instruments are recognised in other comprehensive income, except for impairment loss, exchange differences and interest or profit income which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is classified from equity to profit or loss as a reclassification adjustment when the financial instrument is derecognised.

c) **Equity instruments at FVOCI**
Equity instruments classified as FVOCI are measured at fair value. Any gains or losses arising from the changes in fair value of these financial instruments are recognised in other comprehensive income and are not subsequently transferred to profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's or the Bank's right to receive payment is established.

d) **Financial instruments at FVTPL**
All other financial instruments which classified as FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial instruments at FVTPL do not include exchange differences, interest/profit and dividend income. Exchange differences, interest/profit and dividend income on financial instruments at FVTPL are recognised separately in profit or loss as part of income or losses.

Measurements for the financial year ended 31 December 2017

a) **Financial instruments at FVTPL**
Financial instruments classified as held for trading and/or designated as FVTPL are measured at fair value with fair value changes recognised in profit or loss. Net gains or net losses on financial instruments at FVTPL do not include exchange differences, interest/profit and dividend income. Exchange differences, interest/profit and dividend income on financial instruments at FVTPL are recognised separately in profit or loss as part of other income or other losses.

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(g) Financial Instruments (Continued)

(ii) Measurement (Continued)

Subsequent measurement (Continued)

Measurements for the financial year ended 31 December 2017 (Continued)

b) AFS securities

AFS assets are measured at fair value with fair value changes taken to the fair value reserve and subsequently to profit or loss upon disposal or impairment of assets.

Impairment loss is recognised when there is objective evidence, such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators, that the recoverable amount of the asset is below its carrying amount.

c) Other financial instruments

All other financial instruments are measured at amortised cost using the effective interest/profit method, less impairment, if any.

(iii) Classification of Credit-Impaired Loans, Advances and Financing

The Group and the Bank classify a loan or advance or financing as credit-impaired when there is objective evidence that the loan or advance or financing is credit-impaired. In addition, the Group and the Bank also complies with Bank Negara Malaysia's Guidelines on Classification and Impairment Provisions for Loans/Financing which states that, based on repayment conduct, a loan or financing should be classified as credit-impaired:

- where the principal or interest/profit or both of the loan/financing is past due for more than 90 days or 3 months. In the case of revolving facilities (e.g. overdraft facilities), the facility shall be classified as credit-impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;
- where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the loan/financing exhibits weaknesses in accordance with the banking institution's credit risk grading framework; or
- when the loan/financing is classified as rescheduled and restructured in Central Credit Reference Information System ("CCRIS").

Upgrading or de-classification of a credit-impaired account shall be supported by a credit assessment of the repayment capability, cash flows and financial position of the borrower or obligor. The Group and the Bank must also be satisfied that once the account is de-classified, the account is unlikely to be classified again in the near future.

(iv) Impairment

Impairment for the financial year ended 31 December 2018

The impairment requirements apply to financial assets measured at amortised cost and debt instruments at FVOCI and certain loan and financing commitments as well as financial guarantee contracts. The allowances for impairment are based on the expected credit losses ("ECL") associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since orgination, in which case, the allowance is based on the probability of default over the expected remaining life of the assets. The impairment can be assessed either individually or collectively.

Impairment for the financial year ended 31 December 2017

Individual impairment

Financial assets, other than those measured at FVTPL, are subject to impairment review at each reporting date.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.

For financial assets carried at amortised cost, impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the appropriate original effective interest/profit rate. The loss is recognised in profit or loss.

For AFS securities, impairment loss is determined as the difference between the asset's cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. The loss is transferred from the fair value reserve to profit or loss.

Collective impairment

Collective impairment is made for estimated losses inherent in but not currently identifiable to individual financial assets. The provision is made based on management's experience and judgement and taking into account country and portfolio risks.

For the purpose of evaluating collective impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(g) Financial Instruments (Continued)

(iv) Impairment (Continued)

Collective impairment (Continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(v) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(vi) Recognition and Derecognition

Financial instruments are recognised when the Group and the Bank become a party to the contractual provision of the instruments. All regular purchases and sales of financial assets that require delivery within the period generally established by regulation or market convention are recognised on the settlement date.

Financial instruments are derecognised when the risks and rewards associated with the instruments are substantially transferred/disclosed, cancelled or expired. On derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the cumulative gain or loss that has been recognised in the equity are taken to profit or loss.

(vii) Write Off Policy

A credit-impaired account that is not secured by any realisable collateral will be written off either when the prospect of a recovery is considered poor or when all feasible avenues of recovery have been exhausted.

(h) Impairment of Non-Financial Assets

The carrying amounts of the Group's and the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

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

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

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

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

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(i) Financial Derivatives

Financial derivatives with positive and negative fair values are presented as assets and liabilities in the statements of financial position, respectively.

Such financial derivatives are initially recognised at fair value as the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in the fair value of derivative are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income ("OCI") and later reclassified to profit or loss where the hedge items affect profit or loss.

Derivatives embedded in financial liabilities are accounted for separately as derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not carried at FVTPL.

(j) Property, Plant and Equipment, and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment, except for freehold land and certain leasehold land and buildings, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land, leasehold land and buildings are stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the reporting date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss.

Freehold land is not depreciated. Capital work-in-progress is not depreciated as these assets are not yet available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Leasehold land	50 years or lease period, whichever is shorter
Buildings	2%
Office furniture, fittings and equipment	10 - 20%
Computer equipment and software	12.5 - 33⅓%
Motor vehicles	20%

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(k) Leases

(i) Operating Leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases except where property held under operating leases that would otherwise meet the definition of investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

Payments made under operating leases are charged to profit or loss on the straight-line basis over the lease period.

(l) Fair Value Measurement

Fair values of financial assets and financial liabilities with active markets are determined based on the market bid and ask prices respectively at the reporting date. For financial instruments with no active markets, fair values are established using valuation techniques such as making reference to recent transactions or other comparable financial instruments, discounted cash flow method and option pricing models.

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(m) Foreign Currencies

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Group and the Bank are presented in Ringgit Malaysia, which is the Bank's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the Bank's functional currency ("foreign currencies") are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

(n) Income and Deferred Taxes

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in the profit or loss, except when it arises from a transaction which is recognised in OCI or directly in equity, in which case the deferred tax is also recognised in OCI or directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

Deferred tax assets and deferred tax liabilities are offset as it is a legally enforceable right to set off current tax assets against current income tax liabilities and the deferred taxes relates to the same taxable entity and the same taxation authority.

(o) Employee Benefits

(i) Short-Term Employee Benefits

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

(ii) Post-Employment Benefits - Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(p) Share-Based Payment

Cost of equity-settled share based compensation (being the fair value at grant date) is expensed to the profit or loss over the vesting period with the corresponding increase in the amount due to the ultimate holding company.

The estimated number of grants to be ultimately vested and its financial impact are reviewed quarterly and adjustments made accordingly to reflect changes in the non-market vesting conditions.

(q) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposit placements maturing in less than one month held for the purpose of meeting short-term commitments and are readily convertible into cash without significant risk of changes in value.

(r) Bills and Acceptances Payable

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

2. Significant Accounting Policies (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(s) Provisions

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation where an outflow of resources to settle the obligation is probable and a reliable estimate can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. When an outflow of resources to settle the obligation is no longer probable, the provision is reversed.

(t) Subordinated Bonds

Subordinated bonds are classified as liabilities in the statements of financial position as there is a contractual obligation to make cash payments of either principal or interest/profit or both to holders of the debt securities and that the Group and the Bank are contractually obligated to settle the financial instrument in cash.

(u) Share Capital and Share Issuance Expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(v) Precious Metal

Included in the other assets and other liabilities are precious metal accounts resulting from the Bank's broker-dealer activities. These are accounted for at fair value less costs to sell. Changes in fair value less costs to sell are recognised in the income statements under the caption of 'other operating income'.

(w) Hedge Accounting

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; and
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group and the Bank formally designate and document the hedge relationship to which the Group or the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(i) Fair Value Hedges

The change in the fair value of a hedging instrument is recognised in profit or loss as a finance cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in profit or loss as a finance cost.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest/profit rate ("EIR" or "EPR"). The amortisation using the EIR or EPR may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit and loss.

The Group and the Bank have an interest rate swap that is used as a hedge for the exposure of changes in the fair value of its subordinated bonds as disclosed in Note 21(d).

2. Significant Accounting Policies (Continued)

2.5 Significant Accounting Estimates and Judgements

In the preparation of the financial statements, management was required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have a significant effect on the amount recognised in the financial statements include the following:

(a) Allowance for ECL on Losses on Financial Assets

The measurement of impairment losses both under MFRS 9 and MFRS 139 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's and the Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group and the Bank's internal credit grading model, which assigns probability of default ("PD") to each individual grade;
- The Group and the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic variables and, economic inputs, such as unemployment rates and collateral values, and the effect on PD, exposure at default ("EAD") and loss given default ("LGD"); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's and Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The amounts of allowances for ECL on loans, advances and financing recognised by the Group and the Bank are as disclosed in Note 12.

(b) Level 3 Fair Value Estimation for Financial Instruments and Land and Buildings

The fair value of financial instruments, land and buildings are the price that would be received to sell an asset in the principal (or most advantageous) market at the measurement date under the current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The key assumptions used to determine the fair value are as disclosed in Note 25(d).

3. Cash and Short-Term Funds

	Group and Bank	
	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	476,049	576,916
Money at call and deposit placements maturing within one month	3,475,787	7,862,000
	3,951,836	8,438,916
Less: Allowance for ECL	(27,121)	-
	3,924,715	8,438,916

3. Cash and Short-Term Funds (Continued)

Movements in the allowances for ECL on cash and short-term funds are as follows:

Group and Bank	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	36,015	-	-	36,015
At 1 January 2018, as restated	36,015	-	-	36,015
Allowances made for the financial year	68,378	-	-	68,378
Maturity/settlement/repayment	(77,272)	-	-	(77,272)
	(8,894)	-	-	(8,894)
At 31 December 2018	27,121	-	-	27,121

4. Deposits and Placements With Financial Institutions

	Group and Bank 2018 RM'000	 2017 RM'000
Licensed banks	800,000	150,000

5. Securities Purchased Under Resale Agreements ("Reverse Repos")

Reverse Repos are treated as collateralised lending and the amounts lent are reported as assets.

	Group and Bank 2018 RM'000	 2017 RM'000
Assets received for Reverse Repos transactions, at amortised cost	4,603,059	1,079,420

6. Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

	Group and Bank 2018 RM'000	 2017 RM'000
Money market instruments		
Bank Negara Malaysia bills	967,779	-
Malaysian Government treasury bills	123,525	29,415
Malaysian Government securities	360,554	-
Private debt securities	159,735	-
Negotiable instruments of deposits	200,040	200,040
	1,811,633	229,455

7. Available-For-Sale ("AFS") Securities

	Group and Bank	
	2018 RM'000	2017 RM'000
At fair value		
Money market instruments		
Malaysian Government securities	-	5,379,150
Negotiable instruments of deposits	-	3,850,480
Cagamas bonds	-	1,490,494
	-	10,720,124
Private debt securities of companies incorporated in Malaysia		
Quoted corporate bonds	-	188,571
Less: Impairment loss	-	(39,960)
	-	148,611
Quoted securities		
Shares of corporations in Malaysia	-	2,569
Unquoted securities		
Shares of corporations in Malaysia	-	137,947
At cost		
Unquoted securities		
Private debt securities	-	276
Total AFS securities	-	11,009,527

Movements in the allowance for impairment on private debt securities are as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
At 1 January	39,960	39,960
- as previously stated	39,960	39,960
- effect of adopting MFRS 9	(39,960)	-
At 1 January/31 December	-	39,960

8. Debt Instruments at Fair Value Through Other Comprehensive Income ("FVOCI")

	Group and Bank	
	2018 RM'000	2017 RM'000
Money market instruments		
Bank Negara Malaysia bills	149,899	-
Malaysian Government securities	7,668,583	-
Negotiable instruments of deposits	5,812,558	-
Cagamas bonds	1,613,027	-
Less: Allowance for ECL	(10,661)	-
	15,233,406	-
Private debt securities of companies incorporated in Malaysia		
Quoted corporate bonds	652,212	-
Less: Allowance for ECL	(33,593)	-
	618,619	-
Unquoted securities		
Private debt securities	276	-
Total debt instruments at FVOCI	**15,852,301**	-

Movements in the allowances for ECL on debt instruments at FVOCI are as follows:

Group and Bank	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	8,332	-	39,960	48,292
At 1 January 2018, as restated	8,332	-	39,960	48,292
Allowances made for the financial year	45,546	-	-	45,546
Maturity/settlement/repayment	(49,584)	-	-	(49,584)
	(4,038)	-	-	(4,038)
At 31 December 2018	4,292	-	39,960	44,254

9. Equity Instruments at Fair Value Through Other Comprehensive Income ("FVOCI")

	Group and Bank	
	2018 RM'000	2017 RM'000
Quoted securities		
Shares of corporations in Malaysia	1,956	-
Unquoted securities		
Shares of corporations in Malaysia (Note (a))	112,489	-
	114,445	-

(a) The Group and the Bank has equity interests in several unquoted securities, which the fair values determined are disclosed in Note 25(d).

10. Debt Instruments at Amortised Cost

	Group and Bank	
	2018 RM'000	2017 RM'000
Private debt securities of companies incorporated In Malaysia		
Unquoted corporate bonds	236,875	-
Less: Allowance for ECL	(8,560)	-
	228,315	-

Movements in the allowances for ECL on debt instruments at amortised cost are as follows:

Group and Bank	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018	-	-	-	-
Allowances made for the financial year	8,560	-	-	8,560
At 31 December 2018	8,560	-	-	8,560

11. Other Assets

	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Other receivables, deposits and prepayments	259,866	183,393	259,939	186,743
Accrued interest/income receivable	205,603	151,637	205,603	151,637
Amount due from subsidiaries (Note (a))	-	-	138	137
Amount due from ultimate holding company (Note (b))	15,869	6,861	15,869	6,861
Precious metal accounts (Note (c))	173,229	204,212	173,229	204,212
Less: Allowance for ECL (Note (d))	(2,679)	-	(2,679)	-
	651,888	546,103	652,099	549,590

(a) Amount due from subsidiaries are unsecured, interest free and repayable on demand.

(b) Amount due from ultimate holding company are unsecured, interest free and repayable on demand.

(c) As at 31 December 2018, precious metal accounts comprise the following:

(i) Precious metals on loan to customers of the Bank are directly sought from the gold market amounting to RM124,623,000 (2017: RM29,531,000). The net balance due from customers of the Bank are stated at the gross amounts loaned amounting to RM64,770,000 (2017: RM48,195,000) net of cash collateral received from the customers of RM42,436,000 (2017: RM24,691,000).
(ii) Precious metals lent to the ultimate holding company is Nil (2017: RM110,465,000).
(iii) Precious metal accounts due from financial institutions amounting to RM26,272,000 (2017: RM40,712,000).

The gross amounts loaned to customers and precious metals lent to the ultimate holding company and other financial institutions are marked-to-market based on the quoted market prevailing prices of the respective precious metals as quoted by the London Bullion Market Association.

(d) Movements in the allowances for ECL on other assets are as follows:

Group and Bank	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	1,745	1,128	-	2,873
At 1 January 2018, as restated	1,745	1,128	-	2,873
Allowances made for the financial year	360	-	-	360
Maturity/settlement/repayment	-	(554)	-	(554)
	360	(554)	-	(194)
At 31 December 2018	2,105	574	-	2,679

12. Loans, Advances and Financing

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Overdrafts	3,296,981	3,186,510	3,296,981	3,186,510
Term loans/financing and revolving credits				
- Housing loans/financing	31,082,702	29,291,401	31,082,702	29,291,401
- Syndicated term loans/financing	618,983	544,209	618,983	544,209
- Other term loans/financing*	36,414,587	34,922,311	36,537,257	35,036,948
Credit cards receivables	2,775,736	2,600,791	2,775,736	2,600,791
Bills receivables	930,165	1,178,127	930,165	1,178,127
Trust receipts	2,575,485	2,184,802	2,575,485	2,184,802
Claims on customers under acceptance credits	5,717,466	5,270,115	5,717,466	5,270,115
Staff loans	37,183	39,057	37,183	39,057
Others	10,247	12,050	10,247	12,050
	83,459,535	79,229,373	83,582,205	79,344,010
Unearned interest/income	(174,019)	(129,980)	(174,019)	(129,980)
Gross loans, advances and financing	83,285,516	79,099,393	83,408,186	79,214,030
Allowances for impairment on loans, advances and financing				
- Stage 1 - 12-month ECL	(797,395)	-	(798,668)	-
- Stage 2 - Lifetime ECL non credit-impaired	(362,169)	-	(362,169)	-
- Stage 3 - Lifetime ECL credit-impaired	(212,674)	-	(212,674)	-
- Individual impairment	-	(310,143)	-	(310,143)
- Collective impairment	-	(1,227,949)	-	(1,228,857)
Net loans, advances and financing	81,913,278	77,561,301	82,034,675	77,675,030

* Other term loans/financing include the following:

Loans/financing to subsidiaries				
- UOB Properties Bhd	-	-	109,155	114,637
- UOB Properties (KL) Bhd	-	-	13,515	-
	-	-	122,670	114,637

(i) **Gross loans, advances and financing by maturity structure:**

Maturing within one year	24,325,312	22,606,194	24,325,312	22,606,194
One year to three years	4,730,492	4,079,050	4,853,162	4,193,687
Three years to five years	4,961,830	4,535,444	4,961,830	4,535,444
Over five years	49,267,882	47,878,705	49,267,882	47,878,705
	83,285,516	79,099,393	83,408,186	79,214,030

12. Loans, Advances and Financing (Continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(ii) Gross loans, advances and financing by type of customers:				
Domestic non-banking financial institutions				
- Stockbroking companies	10,373	22,047	10,373	22,047
- Others	757,929	579,005	757,929	579,005
Domestic business enterprises				
- Small and medium enterprises	17,687,565	17,074,341	17,687,565	17,074,341
- Others	16,601,228	14,809,905	16,723,898	14,924,542
Individuals	41,191,581	39,333,330	41,191,581	39,333,330
Foreign entities	7,036,840	7,280,765	7,036,840	7,280,765
	83,285,516	79,099,393	83,408,186	79,214,030

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(iii) Gross loans, advances and financing by interest/profit rate sensitivity:				
Fixed rate				
- Housing loans/financing	36,387	38,422	36,387	38,422
- Other fixed rate loans/financing	9,616,001	8,613,910	9,616,001	8,613,910
Variable rate				
- Base rate/base lending/financing rate-plus	53,589,211	51,846,728	53,589,211	51,846,728
- Cost-plus	19,493,298	17,773,452	19,615,968	17,888,089
- Other variable rates	550,619	826,881	550,619	826,881
	83,285,516	79,099,393	83,408,186	79,214,030

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(iv) Gross loans, advances and financing by economic sectors:				
Agriculture, hunting, forestry and fishing	1,550,623	1,251,997	1,550,623	1,251,997
Mining and quarrying	827,392	1,176,581	827,392	1,176,581
Manufacturing	7,032,638	6,331,060	7,032,638	6,331,060
Electricity, gas and water	241,989	131,078	241,989	131,078
Construction	7,061,239	6,909,577	7,061,239	6,909,577
Wholesale, retail trade, restaurants and hotels	11,103,719	9,970,141	11,103,719	9,970,141
Transport, storage and communication	1,396,309	1,217,056	1,396,309	1,217,056
Finance, insurance and business services	3,317,014	3,099,679	3,317,014	3,099,679
Real estate	4,067,240	4,275,124	4,189,910	4,389,761
Community, social and personal services	162,448	154,374	162,448	154,374
Households				
- Purchase of residential properties	31,851,983	30,114,804	31,851,983	30,114,804
- Purchase of non-residential properties	9,046,495	9,065,647	9,046,495	9,065,647
- Others	5,626,427	5,402,275	5,626,427	5,402,275
	83,285,516	79,099,393	83,408,186	79,214,030

12. Loans, Advances and Financing (Continued)

(v) **Movements in impaired loans, advances and financing are as follows:**

	Group and Bank	
	2018 RM'000	2017 RM'000
At beginning of the financial year	1,350,419	1,226,347
Classified as impaired during the financial year	1,001,207	907,062
Amounts recovered	(370,124)	(378,498)
Reclassified as non-impaired	(312,772)	(258,288)
Amounts written off	(235,578)	(146,204)
Gross impaired loans at 31 December 2018/2017	1,433,152	1,350,419
Less: Stage 3 - Lifetime ECL credit-impaired/individual impairment	(212,674)	(310,143)
Net impaired loans, advances and financing	1,220,478	1,040,276
Ratio of net impaired loans, advances and financing to gross loans, advances and financing less allowance for ECL on credit-impaired/individual impairment provisions	1.5%	1.3%

(vi) **Movements in the allowances for ECL on loans, advances and financing are as follows:**

Group	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	690,008	402,436	310,143	1,402,587
At 1 January 2018, as restated	690,008	402,436	310,143	1,402,587
Transferred to Stage 1	33,571	(104,752)	(5,340)	(76,521)
Transferred to Stage 2	(41,617)	189,282	(13,849)	133,816
Transferred to Stage 3	(678)	(52,481)	108,743	55,584
Allowances made for the financial year	397,906	88,051	141,417	627,374
Maturity/settlement/repayment	(281,908)	(160,254)	(113,673)	(555,835)
Exchange differences	113	(113)	-	-
Net total (Note 32)	107,387	(40,267)	117,298	184,418
Amounts written off	-	-	(216,045)	(216,045)
Other movements	-	-	1,278	1,278
At 31 December 2018	797,395	362,169	212,674	1,372,238

12. Loans, Advances and Financing (Continued)

(vi) Movements in the allowances for ECL on loans, advances and financing are as follows (Continued):

Bank	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	690,916	402,436	310,143	1,403,495
At 1 January 2018, as restated	690,916	402,436	310,143	1,403,495
Transferred to Stage 1	33,571	(104,752)	(5,340)	(76,521)
Transferred to Stage 2	(41,617)	189,282	(13,849)	133,816
Transferred to Stage 3	(678)	(52,481)	108,743	55,584
Allowances made for the year	398,271	88,051	141,417	627,739
Maturity/settlement/repayment	(281,908)	(160,254)	(113,673)	(555,835)
Exchange differences	113	(113)	-	-
Net total (Note 32)	107,752	(40,267)	117,298	184,783
Amounts written off	-	-	(216,045)	(216,045)
Other movements	-	-	1,278	1,278
At 31 December 2018	798,668	362,169	212,674	1,373,511

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
Individual impairment		
Balance as at 1 January		
- as previously stated	310,143	233,670
- effect of adopting MFRS 9	(310,143)	-
At 1 January 2018, as restated	-	233,670
Impairment loss during the financial year (Note 32)	-	332,656
Amounts written back in respect of recoveries (Note 32)	-	(119,569)
Amounts written off	-	(128,265)
Interest/profit recognised on impaired loans/financing	-	(7,016)
Others	-	(1,333)
At 31 December	-	310,143

12. Loans, Advances and Financing (Continued)

(vi) Movements in the allowances for ECL on loans, advances and financing are as follows (Continued):

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Collective impairment				
Balance as at 1 January				
- as previously stated	1,227,949	1,123,467	1,228,857	1,125,048
- effect of adopting MFRS 9	(1,227,949)	-	(1,228,857)	-
At 1 January 2018, as restated	-	1,123,467	-	1,125,048
Impairment loss during the financial year (Note 32)	-	104,482	-	103,809
At 31 December	-	1,227,949	-	1,228,857

(vii) Credit-impaired loans, advances and financing analysed by economic sectors are as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
Agriculture, hunting, forestry and fishing	661	11,161
Manufacturing	136,935	140,079
Construction	204,187	138,526
Wholesale, retail trade, restaurants and hotels	173,862	133,802
Transport, storage and communication	70,630	142,836
Finance, insurance and business services	23,531	127,092
Real estate	209,088	121,485
Community, social and personal services	541	737
Households		
- Purchase of residential properties	444,979	381,318
- Purchase of non-residential properties	79,010	60,201
- Others	89,728	93,182
	1,433,152	1,350,419

(viii) Credit-impaired loans, advances and financing analysed by geographical distribution are as follows:

In Malaysia	1,433,152	1,350,419

13. Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia ("BNM") in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act 2009. The amounts are set at a predetermined percentage of total eligible liabilities.

14. Investment in subsidiaries

	Bank 2018 RM'000	Bank 2017 RM'000
Unquoted shares in Malaysia, at cost		
At 1 January	40	40
Dissolution of a subsidiary	(20)	^
At 31 December	20	40
Redeemable preference shares in Malaysia, at cost		
At 1 January	120,000	-
Subscription of preference shares (Note (a))	65,000	120,000
At 31 December	185,000	120,000
Total investment in subsidiaries	185,020	120,040

The subsidiaries of the Bank, all of which are incorporated in Malaysia and held directly by the Bank (except as indicated*), are as follows:

	Paid-up capital RM	Group's effective interest 2018 %	Group's effective interest 2017 %	Principal activities
UOB Properties (KL) Bhd* (held directly by UOB Properties Bhd)	2	100	100	Property investment holding and property management company
UOB Properties Bhd	7	100	100	Property holding company
UOBM Nominees (Tempatan) Sdn Bhd	10,000	100	100	Nominee services
UOBM Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services
UOB Credit Bhd	2	100	100	Dormant
UOB 2006 Nominees (Tempatan) Sdn Bhd	10,000	100	100	Nominee services
United Overseas Nominees (Asing) Sdn Bhd (dissolved on 14 August 2018)	-	-	100	Dormant
UOB 2006 Nominees (Asing) Sdn Bhd (dissolved on 26 May 2018)	-	-	100	Nominee services
United Overseas Nominees (Tempatan) Sdn Bhd (dissolved on 5 July 2017)	-	-	-	Dormant

^ The balances on the dissolution of a subsidiary is equal to RM20.

(a) In July 2017, the Board of UOB Properties (KL) Bhd approved the issuance of redeemable preference shares amounting to RM600,000,000 over the period from 1 July 2017 to 31 January 2021. As at 31 December 2018, the Bank has subscribed to 185,000,000 units of redeemable preference shares amounting to RM185,000,000, of which RM65,000,000 was subscribed by the Bank during the current financial year. The preference shares rank ahead of the ordinary shares in the event of liquidation. The redemption of the redeemable preference shares are solely at the discretion of UOB Properties (KL) Bhd and it does not carry the right to any dividends.

14. Investment in subsidiaries (Continued)

All trading transactions of UOBM Nominees (Tempatan) Sdn Bhd, UOBM Nominees (Asing) Sdn Bhd and UOB 2006 Nominees (Tempatan) Sdn Bhd are entered into as agents for the Bank and the records accordingly are incorporated into the books and financial statements of the Bank.

All of the subsidiaries are audited by Ernst & Young.

15. Investment in an Associate

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unquoted shares, at cost	33,277	33,277	33,277	33,277
Balance brought forward	(3,668)	(1,968)	-	-
Dividend received (Note 29)	-	(1,921)	-	-
Share of net profit for the year	233	221	-	-
Share of post-acquisition deficit	(3,435)	(3,668)	-	-
	29,842	29,609	33,277	33,277
Accumulated impairment loss	(19,755)	(19,755)	(19,755)	(19,755)
	10,087	9,854	13,522	13,522

The details of the associate, which is incorporated in Malaysia, are as follows:

	Group's effective interest		Principal activities	Accounting model applied
	2018 %	2017 %		
Uni.Asia Capital Sdn Bhd ("Uni.Asia Capital")	49	49	Investment holding company	Equity

The financial statements of Uni.Asia Capital is not coterminous with the Bank and has its financial year end at 31 March to conform with its holding company's financial year end.

The summarised financial information of the associate as at 31 December is as follows:

	2018 RM'000	2017 RM'000
Assets and liabilities		
Current assets	20,715	20,209
Total assets	20,715	20,209
Current liabilities	47	17
Total liabilities	47	17
Results		
Revenue	679	651
Profit before taxation	636	604
Profit for the year	475	451

At 31 December 2018, the amount of goodwill included within the Group's carrying amount of investment in an associate is RM19,755,000 (2017: RM19,755,000).

16. Property, Plant and Equipment

Group	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
2018								
Cost or valuation								
At 1 January								
At cost	-	-	-	228,948	471,606	7,180	133,907	841,641
At valuation	60,382	81,068	187,175	-	-	-	-	328,625
	60,382	81,068	187,175	228,948	471,606	7,180	133,907	1,170,266
Additions	9,250	-	550	17,305	51,746	1,242	78,534	158,627
Revaluation surplus	17,745	15,778	15,679	-	-	-	-	49,202
Reclassifications	-	-	-	7,012	2,865	-	(9,877)	-
Disposals	-	-	-	(5,486)	(15,121)	(1,336)	-	(21,943)
At 31 December	87,377	96,846	203,404	247,779	511,096	7,086	202,564	1,356,152
Representing:								
At cost	-	-	-	247,779	511,096	7,086	202,564	968,525
At valuation	87,377	96,846	203,404	-	-	-	-	387,627
At 31 December	87,377	96,846	203,404	247,779	511,096	7,086	202,564	1,356,152
Accumulated depreciation								
At 1 January	-	15,947	90,739	161,473	330,925	4,320	-	603,404
Depreciation charge (Note 30)	-	1,211	7,941	13,456	44,577	1,075	-	68,260
Disposals	-	-	-	(5,274)	(15,112)	(1,336)	-	(21,722)
At 31 December	-	17,158	98,680	169,655	360,390	4,059	-	649,942
Impairment loss								
At 1 January	-	-	5,581	-	-	-	-	5,581
Additional	-	-	1,170	-	-	-	-	1,170
At 31 December	-	-	6,751	-	-	-	-	6,751
Net carrying amount								
At cost	-	-	-	78,124	150,706	3,027	202,564	434,421
At valuation	87,377	79,688	97,973	-	-	-	-	265,038
At 31 December	87,377	79,688	97,973	78,124	150,706	3,027	202,564	699,459

16. Property, Plant and Equipment (Continued)

Group	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
2017								
Cost or valuation								
At 1 January								
At cost	-	-	-	216,428	426,520	7,616	105,302	755,866
At valuation	60,382	81,068	187,175	-	-	-	-	328,625
	60,382	81,068	187,175	216,428	426,520	7,616	105,302	1,084,491
Additions	-	-	-	6,176	27,243	2,942	55,737	92,098
Reclassifications	-	-	-	6,479	20,653	-	(27,132)	-
Disposals	-	-	-	(135)	(2,810)	(3,378)	-	(6,323)
At 31 December	60,382	81,068	187,175	228,948	471,606	7,180	133,907	1,170,266
Representing:								
At cost	-	-	-	228,948	471,606	7,180	133,907	841,641
At valuation	60,382	81,068	187,175	-	-	-	-	328,625
At 31 December	60,382	81,068	187,175	228,948	471,606	7,180	133,907	1,170,266
Accumulated depreciation								
At 1 January	-	14,781	84,208	149,739	297,936	6,463	-	553,127
Depreciation charge (Note 30)	-	1,166	6,531	11,803	35,795	1,235	-	56,530
Disposals	-	-	-	(69)	(2,806)	(3,378)	-	(6,253)
At 31 December	-	15,947	90,739	161,473	330,925	4,320	-	603,404
Impairment loss								
At 1 January	-	-	790	-	-	-	-	790
Additional	-	-	4,791	-	-	-	-	4,791
At 31 December	-	-	5,581	-	-	-	-	5,581
Net carrying amount								
At cost	-	-	-	67,475	140,681	2,860	133,907	344,923
At valuation	60,382	65,121	90,855	-	-	-	-	216,358
At 31 December	60,382	65,121	90,855	67,475	140,681	2,860	133,907	561,281

16. Property, Plant and Equipment (Continued)

Bank	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
2018								
Cost								
At 1 January	-	-	-	220,547	471,508	7,180	35,922	735,157
Additions	-	-	-	16,940	51,724	1,240	14,898	84,802
Reclassifications	-	-	-	1,754	2,865	-	(4,619)	-
Disposals	-	-	-	(5,485)	(15,120)	(1,336)	-	(21,941)
At 31 December	-	-	-	233,756	510,977	7,084	46,201	798,018
Accumulated depreciation								
At 1 January	-	-	-	160,194	330,887	4,319	-	495,400
Depreciation charge (Note 30)	-	-	-	11,975	44,561	1,074	-	57,610
Disposals	-	-	-	(5,271)	(15,112)	(1,336)	-	(21,719)
At 31 December	-	-	-	166,898	360,336	4,057	-	531,291
Net carrying amount								
At 31 December	-	-	-	66,858	150,641	3,027	46,201	266,727
2017								
Cost								
At 1 January	-	-	-	210,933	426,452	7,616	40,253	685,254
Additions	-	-	-	6,011	27,213	2,942	20,060	56,226
Reclassifications	-	-	-	3,738	20,653	-	(24,391)	-
Disposals	-	-	-	(135)	(2,810)	(3,378)	-	(6,323)
At 31 December	-	-	-	220,547	471,508	7,180	35,922	735,157
Accumulated depreciation								
At 1 January	-	-	-	149,153	297,910	6,463	-	453,526
Depreciation charge (Note 30)	-	-	-	11,110	35,783	1,234	-	48,127
Disposals	-	-	-	(69)	(2,806)	(3,378)	-	(6,253)
At 31 December	-	-	-	160,194	330,887	4,319	-	495,400
Net carrying amount								
At 31 December	-	-	-	60,353	140,621	2,861	35,922	239,757

16. Property, Plant and Equipment (Continued)

The net carrying amount of land and buildings, had these assets been carried at cost less accumulated depreciation, are as follows:

	Group	
	2018 RM'000	2017 RM'000
Freehold land	18,508	18,508
Freehold buildings	12,056	12,501
Leasehold land and buildings	36,887	38,139
	67,451	69,148

17. Deferred Tax Assets/(Liabilities)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	74,578	31,498	88,336	46,052
Charged to the income statements (Note 33)	10,991	56,977	11,873	56,181
Recognised in other comprehensive income	(3,290)	(13,897)	2,629	(13,897)
At 31 December	82,279	74,578	102,838	88,336

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities in respect of each entity and when the deferred income taxes relate to the same tax authority. The net deferred tax assets and liabilities shown on the statements of financial position after appropriate offsetting are as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets, net	102,838	88,336	102,838	88,336
Deferred tax liabilities, net	(20,559)	(13,758)	-	-
	82,279	74,578	102,838	88,336

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets	149,318	138,579	149,114	138,450
Deferred tax liabilities	(67,039)	(64,001)	(46,276)	(50,114)
	82,279	74,578	102,838	88,336

17. Deferred Tax Assets/(Liabilities) (Continued)

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

Deferred tax assets

Group	Provisions RM'000	Other temporary difference RM'000	Deferred income RM'000	Allowances for ECL RM'000	Total RM'000
At 1 January 2017	56,048	(22,514)	54,073	-	87,607
Charged to income statements	11,759	46,702	(7,489)	-	50,972
At 31 December 2017	67,807	24,188	46,584	-	138,579
Charged to income statements	(8,346)	(9,661)	(7,557)	36,303	10,739
At 31 December 2018	59,461	14,527	39,027	36,303	149,318

Deferred tax liabilities

Group	Property, plant and equipment RM'000	Net unrealised reserves on AFS securities RM'000	FVOCI reserve RM'000	Total RM'000
At 1 January 2017	40,279	15,830	-	56,109
Charged to income statements	(6,005)	-	-	(6,005)
Recognised in other comprehensive income	-	13,897	-	13,897
At 31 December 2017	34,274	29,727	-	64,001
Transfer to FVOCI reserve	-	(29,727)	29,727	-
Charged to income statements	(252)	-	-	(252)
Recognised in other comprehensive income	5,919	-	(2,629)	3,290
At 31 December 2018	39,941	-	27,098	67,039

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

Deferred tax assets

Bank	Provisions RM'000	Other temporary difference RM'000	Deferred income RM'000	Allowances for ECL RM'000	Total RM'000
At 1 January 2017	55,919	(22,514)	54,073	-	87,478
Charged to income statements	11,759	46,702	(7,489)	-	50,972
At 31 December 2017	67,678	24,188	46,584	-	138,450
Charged to income statements	(8,421)	(9,661)	(7,557)	36,303	10,664
At 31 December 2018	59,257	14,527	39,027	36,303	149,114

17. Deferred Tax Assets/(Liabilities) (Continued)

Deferred tax liabilities

Bank	Property, plant and equipment RM'000	Net unrealised reserves on AFS securities RM'000	FVOCI reserve RM'000	Total RM'000
At 1 January 2017	25,596	15,830	-	41,426
Charged to income statements	(5,209)	-	-	(5,209)
Recognised in other comprehensive income	-	13,897	-	13,897
At 31 December 2017	20,387	29,727	-	50,114
Transfer to FVOCI reserve	-	(29,727)	29,727	-
Charged to income statements	(1,209)	-	-	(1,209)
Recognised in other comprehensive income	-	-	(2,629)	(2,629)
At 31 December 2018	19,178	-	27,098	46,276

The amounts of net deferred tax assets, calculated at the current applicable tax rate, which are not recognised in the financial statements due to uncertainty of their realisation, are as follows:

	Group	
	2018 RM'000	2017 RM'000
Unutilised tax losses	131	131
Unabsorbed capital allowances	11,069	11,069
	11,200	11,200

The unutilised tax losses of the Group are available for offsetting against future taxable profits of the respective entities within the Group for another 7 consecutive years effective from Year of Assessment 2019. The unabsorbed capital allowances of the Group are not subject to 7 year limitation period and available in definitely for offsetting against future taxable profits of the respective entities within the Group.

These utilisation of carry forward of tax losses and allowances are also subject to no substantial charge in shareholdings of those entities under Income Tax Act, 1967 and guidelines issued by the tax authority.

18. Deposits from Customers

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Demand deposits #	21,027,840	20,885,858	21,049,769	20,901,732
Savings deposits	3,654,396	1,891,887	3,654,396	1,891,887
Fixed deposits #	60,717,079	53,847,599	60,717,079	53,847,599
Others	3,333,783	6,763,441	3,333,783	6,763,441
	88,733,098	83,388,785	88,755,027	83,404,659

18. Deposits from Customers (Continued)

Demand deposits and fixed deposits include the following:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Demand deposits from subsidiaries				
- UOB Properties Bhd	-	-	1,904	1,207
- UOB Properties (KL) Bhd	-	-	20,025	14,667
	-	-	21,929	15,874
Demand deposits from related companies				
- UOB Centre of Excellence (M) Sdn Bhd	500	500	500	500
- Chung Khiaw Realty Limited	198	243	198	243
	698	743	698	743
Fixed deposit from a related company				
- Chung Khiaw Realty Limited	356	346	356	346

(i) **The maturity structure of fixed deposits is as follows:**

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Due within six months	36,398,052	34,109,466	36,398,052	34,109,466
Six months to one year	24,058,409	19,680,142	24,058,409	19,680,142
One year to three years	96,889	56,847	96,889	56,847
Three years to five years	163,729	1,144	163,729	1,144
	60,717,079	53,847,599	60,717,079	53,847,599

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Business enterprises				
- Subsidiaries	-	-	21,929	15,874
- Related companies	1,054	1,089	1,054	1,089
- Others	34,113,169	33,237,005	34,113,169	33,237,005
Individuals	48,188,124	44,326,247	48,188,124	44,326,247
Others	6,430,751	5,824,444	6,430,751	5,824,444
	88,733,098	83,388,785	88,755,027	83,404,659

19. Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Licensed banks in Malaysia	1,848,770	422,234	1,848,770	422,234
Bank Negara Malaysia*	864,808	1,211,835	864,808	1,211,835
Other financial institutions**	6,500,860	2,767,621	6,500,880	2,767,651
	9,214,438	4,401,690	9,214,458	4,401,720

* Included in the deposits from BNM is an amount of RM789,357,000 (2017: RM1,139,850,000) placed by BNM for the purposes of funding the Fund for Small and Medium Industries 2 and New Entrepreneurs Fund 2. The amounts loaned to customers of the Bank under these schemes are included in loans and advances.

** Included in the deposits from other financial institutions are the deposit placement from ultimate holding company amounting to RM6,472,788,000 (2017: RM2,758,072,000), deposit placement from subsidiaries amounting to RM20,000 (2017: RM30,000) and deposit placement from fellow subsidiaries amounting to RM518,000 (2017: RM6,862,000).

20. Other Liabilities

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Provision for commitments and contingencies (Note (c))	-	17,111	-	17,111
Allowances for ECL on commitments and contingencies (Note (d))	148,529	-	148,529	-
Accrued interest payable	603,659	708,543	603,659	708,543
Accruals and provisions for operational expenses	198,426	246,000	196,863	244,169
Other payables and accruals (Note (a))	1,435,180	1,334,208	1,434,954	1,334,154
Deferred income (Note (b))	162,613	194,311	162,613	194,311
	2,548,407	2,500,173	2,546,618	2,498,288

(a) Included in other payables and accruals are 'Customer Gold Accounts' amounting to RM232,828,000 (2017: RM233,872,000).

(b) Included in deferred income is upfront cash payment from a Bancassurance partnership signed in 2011 for a contractual 12 years period until 2023.

(c) Movements in provision for commitment and contingencies are as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
At 1 January	17,111	20,292
- as previously stated	17,111	20,292
- effect of adopting MFRS 9	(17,111)	-
Write-back during the year	-	(3,343)
Foreign translation loss	-	162
At 1 January/31 December	-	17,111

20. Other Liabilities (Continued)

(d) Movements in the allowances for ECL on irrevocable commitment and contingencies are as follows:

Group and Bank	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	74,010	14,275	17,111	105,396
At 1 January 2018, as restated	74,010	14,275	17,111	105,396
Transferred to Stage 1	16,992	(23,616)	(2)	(6,626)
Transferred to Stage 2	(23,094)	46,826	(55)	23,677
Transferred to Stage 3	(2)	(7)	410	401
Allowances made for the financial year	356,117	117,779	265	474,161
Maturity/settlement/repayment	(323,005)	(123,373)	(2,169)	(448,547)
Foreign translation loss/(gain)	89	(24)	2	67
	27,097	17,585	(1,549)	43,133
At 31 December 2018	101,107	31,860	15,562	148,529

21. Subordinated Bonds

At amortised cost	Group and Bank 2018 RM'000	2017 RM'000
RM500 million subordinated bond 2013/2023, at par (Note (a))	-	500,000
RM1 billion subordinated bond 2015/2025, at par (Note (b))	1,001,690	1,002,702
RM600 million subordinated bond 2018/2028, at par (Note (c))	600,392	-
	1,602,082	1,502,702
Accumulated fair value hedge loss (Note (d))	(2,082)	(2,702)

(a) On 30 August 2013, the Bank issued RM500 million Basel III compliant subordinated bonds (10 years maturity, non-callable 5 years) ("the Bond 1").

The Bond 1 bears interest at the rate of 4.55% per annum from 30 August 2013 to 30 August 2018 and thereafter, the rate of interest will be reset to a fixed rate per annum equal to the Initial Spread (1.05%) plus the prevailing 5 years Malaysian Government Securities Rate. The interest is payable semi-annually in arrears on 28 February and 30 August each year commencing 28 February 2014. The Bond 1 qualifies as Tier 2 capital for the purpose of determining the Bank's capital adequacy ratio. On 30 August 2018, the Bond 1 has been fully redeemed.

21. Subordinated Bonds (Continued)

(b) On 8 May 2015, the Bank issued RM1 billion Basel III compliant Tier 2 subordinated bonds (10 years maturity, non-callable 5 years) ("the Bond 2").

The Bond 2 bears interest at the rate of 4.65% per annum. The coupon rate herein is applicable throughout the tenure of the subordinated bonds.

The Bond 2 may be redeemed at par at the option of the Bank, in part or in whole, on 8 May 2020 or at any interest payment date thereafter.

The interest is payable semi-annually in arrears on 8 May and 8 November each year commencing 9 November 2015.

The Bond 2 has been rated AA1 by Rating Agency Malaysia Bhd and it qualifies as Tier 2 capital for the purpose of determining the Bank's capital adequacy ratio.

(c) On 25 July 2018, the Bank issued RM600 million Basel III compliant Tier 2 subordinated bonds (10 years maturity, non-callable 5 years) ("the Bond 3").

The Bond 3 bears interest at the rate of 4.80% per annum. The coupon rate herein is applicable throughout the tenure of the subordinated bonds.

The Bond 3 may be redeemed at par at the option of the Bank, in part or in whole, on 25 July 2023 or at any interest payment date thereafter.

The interest is payable semi-annually in arrears on 25 January and 25 July each year commencing 25 January 2019.

The Bond 3 has been rated AA1 by Rating Agency Malaysia Bhd and it qualifies as Tier 2 capital for the purpose of determining the Bank's capital adequacy ratio.

(d) **Fair value hedge**

The Bank uses fair value hedge to protect changes in fair value of the Bond 2 and Bond 3. The Bank primarily uses interest rate swap as hedge of interest rate risk.

As at 31 December 2018, the Bank had an interest rate swap agreement in place with notional amount of RM500 million (31 December 2017: RM500 million) for Bond 2 and RM600 million (31 December 2017: Nil) for Bond 3.

For Bond 2, the Bank receives a fixed interest rate of 4.650% per annum and pays variable interests rate of 6-month KLIBOR plus 0.590% to 0.725% on the notional amount.

For Bond 3, the Bank receives a fixed interest rate of 3.835% per annum and pays variable interests rate of 3-month KLIBOR on the notional amount.

The swap is being used to hedge exposure to changes in fair value of fixed rate of both bonds, which have a fixed rate.

The movements in fair value of the interest rate swap of RM620,000 (31 December 2017: RM1,082,000) are recognised in trading and investment income during the period (Note 29). There is no ineffectiveness recognised for this hedge.

21. Subordinated Bonds (Continued)

(d) **Fair value hedge (Continued)**

The net gain and loss arising from fair value hedge during the year is as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
Loss on hedging instrument	(620)	(1,082)
Gain on the hedged item attributable to the hedged risk (Note 29)	620	1,082
	-	-

22. Share Capital

	Group and Bank 2018		Group and Bank 2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid ordinary shares				
At 1 January	470,000	792,555	470,000	470,000
Transfer from share premium	-	-	-	322,555
At 31 December	470,000	792,555	470,000	792,555

23. Reserves

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-distributable					
Share premium	(a)	-	-	-	-
Statutory reserve	(b)	-	-	-	-
Revaluation reserve	(c)	190,019	146,736	-	-
Fair value through other comprehensive income reserve	2.4(g)(ii) (b) and (c)	92,712	-	85,810	-
Net unrealised reserve on AFS securities		-	101,037	-	94,135
		282,731	247,773	85,810	94,135
Distributable					
Retained profits	(d)	9,035,171	8,261,176	9,111,054	8,335,026
Total reserves		9,317,902	8,508,949	9,196,864	8,429,161

23. Reserves (Continued)

(a) With the enactment of Companies Act 2016, the Bank's share premium account has become part of the Bank's share capital. Therefore, in 2017, the Bank had transferred a total of RM322,555,000 from its share premium account to the share capital.

(b) The statutory reserve is no longer required under the revised BNM policy document on Capital Funds, issued on 3 May 2017. Therefore, in 2017, the Bank had transferred RM470,000,000 from its statutory reserve to retained profits.

(c) The revaluation reserve is in respect of gain from revaluation of freehold land, leasehold land and buildings.

(d) The Bank may distribute dividends out of its entire retained profits as at 31 December 2018 under the single-tier system.

24. Financial Derivatives

Financial derivatives are instruments whose values change in response to the change in one or more "underlying", such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Group and the Bank customise derivatives to meet specific needs of their customers. The Group and the Bank also transact in these derivatives for proprietary trading purposes as well as to manage their assets/liabilities and structural positions. While the Group and the Bank also enter into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases for customers, these other contracts are not designated as hedge relationships and are measured at fair value through profit or loss.

The fair values of the financial derivatives are as follows:

Group and Bank	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
2018			
Foreign exchange contracts			
- forwards	7,931,513	86,357	70,023
- swaps	16,964,555	30,824	107,689
- options	797,961	3,258	808
Interest rate related contracts			
- swaps	21,399,277	179,274	133,776
- futures	3,723,824	-	2,964
Equity related contracts			
- swaps	260,441	28,885	28,885
- options	700,536	13,984	13,984
Commodity related contracts			
- swaps	400,292	31,496	40,156
- futures	106,078	2,418	1,662
- options	128,262	-	-
		376,496	399,947

24. Financial Derivatives (Continued)

The fair values of the financial derivatives are as follows (Continued):

Group and Bank	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
2017			
Foreign exchange contracts			
- forwards	8,459,626	61,201	252,042
- swaps	15,252,340	232,044	141,989
- options	691,256	11,295	8,494
Interest rate related contracts			
- swaps	22,329,026	234,932	145,484
- futures	945,631	163	-
Equity related contracts			
- swaps	183,900	4,498	4,498
- options	1,374,664	37,310	37,310
Commodity related contracts			
- swaps	218,533	6,326	11,019
- futures	125,299	4,391	166
- options	409,381	-	264
		592,160	601,266

The table above analyses the principal amounts and the positive and negative fair values of the Group's and the Bank's financial derivatives. The notional amounts of these instruments indicate the value of transactions outstanding at the reporting date for both trading and hedging instruments. They do not necessarily indicate the amount of future cash flows or the fair value of the derivatives and therefore, do not represent total amount of risk. The positive and negative fair values represent the favourable and unfavourable fair values respectively of hedging and trading derivatives as a result of fluctuations in the value of the underlying relative to their contractual terms as at reporting date.

25. Fair Value of Assets and Liabilities

(a) Determination of fair values and fair values hierarchy

Where available, quoted and observable market prices are used as the measure of fair values. Where quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions, the principal ones being as follows:

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

(ii) Fair value of precious metals are determined based on prevailing quoted market prices from the London Bullion Market Association.

25. Fair Value of Assets and Liabilities (Continued)

(a) Determination of fair values and fair values hierarchy (Continued)

(iii) For financial derivatives, where quoted and observable market prices are not available, fair values are arrived at using internal pricing models. As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(iv) Fair value of land and buildings is determined by a registered valuer, using the comparison approach.

Level 1 - Unadjusted quoted prices in active market for identical financial instruments.
Level 2 - Inputs other than quoted prices that are observable either directly or indirectly.
Level 3 - Inputs that are not based on observable market data.

(b) Financial instruments and non-financial assets carried at fair value

The following tables show the Group's and the Bank's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy.

Group 2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets at FVTPL	-	1,811,633	-	1,811,633
Debt instruments at FVOCI	-	15,852,025	276	15,852,301
Equity instruments at FVOCI	1,956	-	112,489	114,445
Derivative financial assets	-	376,496	-	376,496
Precious metal accounts	173,229	-	-	173,229
Land and buildings	-	-	265,038	265,038
Total	175,185	18,040,154	377,803	18,593,142
Liabilities				
Derivative financial liabilities	-	399,947	-	399,947
Total	-	399,947	-	399,947

Group 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets at FVTPL	-	229,455	-	229,455
AFS securities*	2,569	10,868,735	137,947	11,009,251
Derivative financial assets	-	592,160	-	592,160
Precious metal accounts	204,212	-	-	204,212
Land and buildings	-	-	216,358	216,358
Total	206,781	11,690,350	354,305	12,251,436
Liabilities				
Derivative financial liabilities	-	601,266	-	601,266
Total	-	601,266	-	601,266

25. Fair Value of Assets and Liabilities (Continued)

(b) Financial instruments and non-financial assets carried at fair value (Continued)

Bank 2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets at FVTPL	-	1,811,633	-	1,811,633
Debt instruments at FVOCI	-	15,852,025	276	15,852,301
Equity instruments at FVOCI	1,956	-	112,489	114,445
Derivative financial assets	-	376,496	-	376,496
Precious metal accounts	173,229	-	-	173,229
Total	175,185	18,040,154	112,765	18,328,104
Liabilities				
Derivative financial liabilities	-	399,947	-	399,947
Total	-	399,947	-	399,947

Bank 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets at FVTPL	-	229,455	-	229,455
AFS securities*	2,569	10,868,735	137,947	11,009,251
Derivative financial assets	-	592,160	-	592,160
Precious metal accounts	204,212	-	-	204,212
Total	206,781	11,690,350	137,947	12,035,078
Liabilities				
Derivative financial liabilities	-	601,266	-	601,266
Total	-	601,266	-	601,266

* Excluding unquoted private debt securities.

25. Fair Value of Assets and Liabilities (Continued)

(c) Fair value of financial instruments not carried at fair value

The fair value of fixed rate loans, advances and financing are estimated based on discounted cash flows using prevailing market rates of loans, advances and financing of similar credit risks and maturity. For fair values of variable rate loans, advances and financing, the fair values are estimated to approximate their carrying amounts.

The fair value of the subordinated bonds are estimated based on prevailing market rates of the subordinated bond of similar credit risks and maturity. For fair value of the Bond 2 and 3, the fair value is estimated based on independent brokers' quotation.

The fair value of the debt instruments at amortised cost are estimated based on independent broker quotations.

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not carried at fair value in the financial statement.

	2018		2017	
Group	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Assets				
Gross loans, advances and financing	83,285,516	82,675,407	79,099,393	78,506,803
Debt instruments at amortised cost	228,315	243,118	-	-
	83,513,831	82,918,525	79,099,393	78,506,803
Liabilities				
Subordinated bonds	1,602,082	1,606,758	1,502,702	1,503,650
Bank				
Assets				
Gross loans, advances and financing	83,408,186	82,798,077	79,214,030	78,621,440
Debt instruments at amortised cost	228,315	243,118	-	-
	83,636,501	87,041,195	79,214,030	78,621,440
Liabilities				
Subordinated bonds	1,602,082	1,606,758	1,502,702	1,503,650

25. Fair Value of Assets and Liabilities (Continued)

(c) Fair value of financial instruments not carried at fair value (Continued)

The following tables show the fair values of the Group's and the Bank's financial instruments which are not carried at fair value at the reporting date, analysed by various levels within the fair value hierarchy.

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Assets				
Loans, advances and financing	-	82,675,407	-	82,675,407
Debt instruments at amortised cost	-	243,118	-	243,118
	-	82,918,525	-	82,918,525
Liabilities				
Subordinated bonds	-	1,606,758	-	1,606,758
2017				
Assets				
Loans, advances and financing	-	78,506,803	-	78,506,803
Liabilities				
Subordinated bonds	-	1,503,650	-	1,503,650

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Assets				
Loans, advances and financing	-	82,798,077	-	82,798,077
Debt instruments at amortised cost	-	243,118	-	243,118
	-	83,041,195	-	83,041,195
Liabilities				
Subordinated bonds	-	1,606,758	-	1,606,758
2017				
Assets				
Loans, advances and financing	-	78,621,440	-	78,621,440
Liabilities				
Subordinated bonds	-	1,503,650	-	1,503,650

25. Fair Value of Assets and Liabilities (Continued)

(d) Movement and assumptions used in Level 3 fair value

The following table presents the changes in Level 3 financial assets and non-financial assets for the financial year end ended:

Reconciliation of fair value/revalued amount:

	Group and Bank			Group
	Debt instruments at FVOCI: unquoted securities RM'000	Equity instruments at FVOCI: unquoted securities RM'000	AFS securities: unquoted securities RM'000	Land and buildings RM'000
At 1 January 2017	-	-	123,128	228,846
Re-measurement				
- recognised in other comprehensive income	-	-	14,819	-
Depreciation (recognised in other operating expenses)	-	-	-	(7,697)
Impairment loss	-	-	-	(4,791)
At 31 December 2017	-	-	137,947	216,358
Effect of adopting MFRS 9	276	137,947	(137,947)	-
At 1 January 2018, as restated	276	137,947	-	216,358
Recognised in other comprehensive income	-	(25,458)	-	-
Depreciation (recognised in other operating expenses)	-	-	-	(9,152)
Additions	-	-	-	9,800
Impairment loss	-	-	-	(1,170)
Revaluation gain	-	-	-	49,202
At 31 December 2018	276	112,489	-	265,038

Debt instruments at FVOCI, equity instruments at FVOCI and AFS securities: unquoted securities

Unquoted securities were revalued using the Cost/Asset Based Approach, specifically the Adjusted Net Assets Method. This method uses the assets and liabilities on the statements of financial position of the respective unquoted securities audited financial statements as at 31 December 2017 and 2016 by adopting the fair value of each item as disclosed in the notes to the accounts, where applicable.

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

25. Fair Value of Assets and Liabilities (Continued)

(d) Movement and assumptions used in Level 3 fair value (Continued)

Land and buildings

Land and buildings were revalued on 12 September 2018 by Knight Frank Malaysia Sdn Bhd, a registered valuer, by using the comparison approach. The investment method is also used as a check against the comparison approach. The previous valuation was performed on 28 August 2015.

The comparison approach generally compares and analyses recent recorded transactions of similar type of properties in the locality or similar locations and making the relevant adjustments for differences in factors that affect value. Listings and offers may also be considered. The investment method considers income and expense data relating to the properties being valued and estimates value through a capitalisation process by converting an income amount into a value estimate. This process may consider direct relationships including yield or discount rates (reflecting measures of return on investment).

Area	Significant unobservable valuation input:	Range
Central	Price per square metre	RM3,121 - RM11,225
North	Price per square metre	RM2,354 - RM5,789
South	Price per square metre	RM1,778 - RM11,189
East Coast	Price per square metre	RM2,136 - RM2,465
East Malaysia	Price per square metre	RM2,950 - RM5,659

Significant increases/(decreases) in estimated price per square metre in isolation would result in a significantly higher/(lower) fair value.

(e) Fair values of financial instruments that are carried at cost and which the fair values could not be reliably measured

Included in the AFS securities as at 31 December 2017 was a private debt security of RM276,000 of the Group and the Bank that was carried at cost as its fair value could not be reliably measured. The private debt security was acquired for long-term investment purpose.

The fair values of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs. The Group and the Bank assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant.

(f) Fair values of financial instruments carried at cost or amortised cost

For cash and short-term funds, securities purchased under resale agreements, deposits and placements with/of banks and other financial institutions, deposits from customers with short-term or no stated maturity, as well as interest and other short-term receivables and payables, fair values are expected to approximate the carrying amounts in the statements of financial position due to their short-term maturity.

26. Operating Revenue

Operating revenue of the Group and the Bank comprise interest/financing income, fee income, investment income/(loss) and other income derived from banking operations.

27. Interest Income

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest income from loans, advances and financing	4,090,115	3,900,236	4,095,466	3,907,184
Interest income from impaired loans, advances and financing	83,536	76,285	83,536	76,285
Money at call and deposit placements with financial institutions	276,505	333,310	276,510	333,310
Financial assets at FVTPL	54,687	47,534	54,687	47,534
AFS securities	-	379,740	-	379,740
Debt instruments at FVOCI	521,751	-	521,751	-
Debt instrument at amortised cost	5,292	-	5,292	-
Others	176	77	176	77
	5,032,062	4,737,182	5,037,418	4,744,130
Amortisation of premium less accretion of discount on:				
- Financial assets at FVTPL	44,178	(158)	44,178	(158)
- AFS securities	-	(10,672)	-	(10,672)
- Debt instruments at FVOCI	(12,932)	-	(12,932)	-
	5,063,308	4,726,352	5,068,664	4,733,300

28. Interest Expense

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deposits from customers	2,737,441	2,516,887	2,737,803	2,516,937
Deposits and placements of banks and other financial institutions	176,797	101,040	176,797	101,040
Subordinated bonds	72,504	67,003	72,504	67,003
Others	6,723	18,898	6,723	18,898
	2,993,465	2,703,828	2,993,827	2,703,878

29. Other Operating Income

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fee income				
- Commission	317,360	310,678	317,360	310,678
- Guarantee fees	83,159	77,472	83,159	77,472
- Service charges and fees	226,160	220,082	226,529	220,339
Less: Fee expenses	(63,145)	(61,806)	(63,145)	(61,806)
	163,015	158,276	163,384	158,533
- Commitment fee	27,584	29,753	27,584	29,775
- Arrangement and participation fees	11,470	8,125	11,470	8,125
	602,588	584,304	602,957	584,583

29. Other Operating Income (Continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trading and investment income				
- Loss from sale of financial assets at FVTPL	(283)	(1,073)	(283)	(1,073)
- Unrealised (loss)/gain on financial assets at FVTPL	(2,409)	600	(2,409)	600
- Gain from trading derivatives	77,388	65,939	77,388	65,939
- Unrealised loss from trading derivatives	(31,322)	(539)	(31,322)	(539)
- Unrealised gain on fair value hedge (Note 21)	620	1,082	620	1,082
- Gain from sale of precious metals	1,395	1,071	1,395	1,071
- Unrealised gain from revaluation of precious metals	213	20	213	20
- Gain from sale of AFS securities	-	12,327	-	12,327
- Gain from sale of debt instruments at FVOCI	10,282	-	10,282	-
- Gross dividends from:				
- AFS securities quoted in Malaysia	-	813	-	813
- Equity instruments at FVOCI	822	-	822	-
- An associate (Note 15)	-	-	-	1,921
	56,706	80,240	56,706	82,161
Other income				
- Foreign exchange gain, net	213,844	170,024	213,844	170,024
- Rental income from operating leases	93	279	-	-
- Gain on disposal of property, plant and equipment	255	1,215	255	1,215
- Loss on dissolution of subsidiaries	-	-	-	(11)
- Others	16,071	14,130	16,071	14,136
	230,263	185,648	230,170	185,364
	889,557	850,192	889,833	852,108

30. Other Operating Expenses

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Personnel expenses	792,353	713,851	787,230	709,721
Establishment related expenses	229,352	207,778	241,715	220,886
Promotion and marketing related expenses	34,795	32,898	34,743	32,848
General administrative expenses	109,346	124,217	108,755	123,722
	1,165,846	1,078,744	1,172,443	1,087,177
Personnel expenses				
- Wages, salaries and bonus	622,827	559,713	618,681	556,318
- Defined contribution plan	98,206	88,401	97,618	87,914
- Other employee benefits	71,320	65,737	70,931	65,489
	792,353	713,851	787,230	709,721

30. Other Operating Expenses (Continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Establishment related expenses				
- Depreciation of property, plant and equipment (Note 16)	68,260	56,530	57,610	48,127
- Information technology costs	54,631	51,199	54,631	51,199
- Repair and maintenance	41,936	39,318	40,993	38,173
- Rental of premises	15,969	15,223	35,134	34,286
- Others	48,556	45,508	53,347	49,101
	229,352	207,778	241,715	220,886
Promotion and marketing related expenses				
- Advertising and publicity	34,795	32,898	34,743	32,848
General administrative expenses				
- Fees and commissions paid	28,854	35,207	28,307	34,873
- Auditors' remuneration				
- Statutory audit	3,314	544	3,288	524
- Assurance related services	103	167	103	167
- Others	88	251	88	71
	3,505	962	3,479	762
- Others	76,987	88,048	76,969	88,087
	109,346	124,217	108,755	123,722

31. Chief Executive Officer, Non-Executive Directors and Shariah Committee Members' Remuneration

Remuneration in aggregate paid for the financial year is as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
Chief Executive Officer		
- Salary and other remuneration	1,570	1,542
- Bonus	1,737	1,504
- Benefits-in-kind	2,219	2,737
Non-executive directors		
- Fees	879	757
Shariah Committee members	322	322
	6,727	6,862

31. Chief Executive Officer, Non-Executive Directors and Shariah Committee Members' Remuneration (Continued)

The number of directors of the Group and the Bank whose total remuneration paid during the financial year fell within the following bands are analysed below:

	Number of directors	
	2018	2017
Chief Executive Officer		
RM1 to RM6,000,000	1	1
Non-executive directors		
RM1 to RM100,000	-	1
RM100,001 to RM200,000	5	5

The total remuneration (including benefits-in-kind) of the directors of the Bank is as follows:

	Remuneration received from the Bank				
	Salary RM'000	Fees RM'000	Bonus RM'000	Benefits-in-kind RM'000	Total RM'000
2018					
Chief Executive Officer					
Wong Kim Choong	1,570	-	1,737	2,219	5,526
Non-executive directors					
Wee Cho Yaw	-	124	-	-	124
Ong Yew Huat	-	248	-	-	248
Dato' Jeffrey Ng Tiong Lip	-	160	-	-	160
Fatimah Binti Merican	-	175	-	-	175
Robert Kwan Koh Wah (retired on 2 October 2017)	-	172	-	-	172
	1,570	879	1,737	2,219	6,405
2017					
Chief Executive Officer					
Wong Kim Choong	1,542	-	1,504	2,737	5,783
Non-executive directors					
Wee Cho Yaw	-	100	-	-	100
Ong Yew Huat	-	200	-	-	200
Dato' Jeffrey Ng Tiong Lip	-	140	-	-	140
Fatimah Binti Merican	-	149	-	-	149
Robert Kwan Koh Wah (retired on 2 October 2017)	-	142	-	-	142
Datuk Abu Huraira Bin Abu Yazid (retired on 3 February 2016)	-	26	-	-	26
	1,542	757	1,504	2,737	6,540

32. Allowance for Impairment on Loans, Advances and, Financing and Other Financial Assets

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Allowance for impairment on loans, advances and financing:				
Stage 1 ECL	107,387	-	107,752	-
Stage 2 ECL	(40,267)	-	(40,267)	-
Stage 3 ECL	117,298	-	117,298	-
Individual impairment				
- made in the financial year	-	332,656	-	332,656
- written back in the financial year	-	(119,569)	-	(119,569)
Collective impairment				
- made in the financial year, net	-	104,482	-	103,809
Impaired loans, advances and financing				
- written off	39,289	26,264	39,289	26,264
- recovered	(54,987)	(51,768)	(54,987)	(51,768)
	168,720	292,065	169,085	291,392

	Group and Bank	
	2018 RM'000	2017 RM'000
Write-back of impairment for other financial assets		
Stage 1 ECL	(4,012)	-
Stage 2 ECL	(554)	-
	(4,566)	-

33. Income Tax Expense

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income tax				
- Malaysian income tax in respect of current financial year	409,632	434,125	407,176	431,719
- (Over)/under provision in prior financial years	(8,041)	2,828	(7,491)	667
	401,591	436,953	399,685	432,386
Deferred tax (Note 17)				
- Relating to origination and reversal of temporary differences	(11,581)	(57,109)	(11,847)	(56,313)
- Under/(over) provision in prior financial years	590	132	(26)	132
	(10,991)	(56,977)	(11,873)	(56,181)
	390,600	379,976	387,812	376,205

33. Income Tax Expense (Continued)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit before taxation	1,626,135	1,524,358	1,625,380	1,529,982
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	390,272	365,846	390,091	367,196
Effects of income not subject to tax	(337)	(484)	(258)	(484)
Effects of expenses not deductible for tax purposes	8,172	11,707	5,496	8,694
Effects of share of an associate's post-tax profit included in Group's profit before taxation	(56)	(53)	-	-
(Over)/under provision of tax expense in prior years	(8,041)	2,828	(7,491)	667
Under/(over) provision of deferred tax in prior years	590	132	(26)	132
Tax expense for the year	390,600	379,976	387,812	376,205

34. Earnings Per Share

The basic/diluted earnings per ordinary share of the Group has been calculated based on the profit for the year attributable to ordinary shareholders of the Group of RM1,235,535,000 (2017: RM1,144,382,000) and on the number of issued and fully paid ordinary shares during the year of 470,000,000 (2017: 470,000,000).

35. Dividends

	Group and Bank 2018		Group and Bank 2017	
	Net dividend per share sen	Amount of dividend, net of tax RM'000	Net dividend per share sen	Amount of dividend, net of tax RM'000
Final dividend recognised during the year in respect of the previous financial year	98.2	461,540	82.1	385,870
Proposed final dividend for the current financial year	105.3	494,910	98.2	461,540

At the forthcoming Annual General Meeting, a final single-tier dividend of 105.3 sen in respect of the financial year ended 31 December 2018 on 470,000,000 issued and fully paid ordinary shares, amounting to dividend payable of RM494,910,000, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders and Bank Negara Malaysia, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2019.

36. Significant Related Party Transactions and Balances

(a) Related parties and relationships

The related parties of and their relationship with the Bank (other than those disclosed in Notes 14 and 15) are as follows:

Related parties	Relationship
United Overseas Bank Limited	Ultimate holding company
Chung Khiaw (Malaysia) Berhad	Holding company
Chung Khiaw Realty Limited	Fellow subsidiary
UOB Centre of Excellence (M) Sdn Bhd	Fellow subsidiary
UOB Asset Management (Malaysia) Berhad	Fellow subsidiary
UOB Bullion and Futures Limited	Fellow subsidiary
United Overseas Bank (Thai) Public Company Limited	Fellow subsidiary

(b) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank include non-executive directors of the Bank and certain members of senior management of the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These significant related party transactions were carried out on commercial terms and at market rates. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

2018	Ultimate holding company RM'000	Holding company RM'000	Subsidiaries RM'000	An associate RM'000	Key management personnel RM'000	Fellow subsidiaries RM'000
Income						
- Interest on placements, loans and advances	1,334	-	5,356	-	173	-
- Service charge income	4,382	24	369	-	-	11
	5,716	24	5,725	-	173	11
Expenditure						
- Interest on deposits	125,033	-	362	682	917	266
- Interest on subordinated bonds	15,084	-	-	-	-	-
- Rental expense	-	-	19,165	-	-	342
- Other expenses	52,260	-	6,319	-	-	275
	192,377	-	25,846	682	917	883
Assets						
- Cash and short-term funds	58,986	-	-	-	-	1,413
- Deposits and placements with financial institutions	-	-	-	-	-	8,799
- Loans, advances and financing	-	-	122,670	-	4,478	-
- Other assets	-	119	138	-	-	-
	58,986	119	122,808	-	4,478	10,212

36. Significant Related Party Transactions and Balances (Continued)

	Ultimate holding company RM'000	Holding company RM'000	Subsidiaries RM'000	An associate RM'000	Key management personnel RM'000	Fellow subsidiaries RM'000
2018 (Continued)						
Liabilities						
- Deposits from customers	-	-	21,929	20,762	28,765	1,054
- Deposits and placements of banks and other financial institutions	6,472,788	-	20	-	-	518
- Other liabilities	58,486	-	-	-	-	-
	6,531,274	-	21,949	20,762	28,765	1,572
2017						
Income						
- Interest on placements, loans and advances	797	-	6,948	-	113	-
- Commitment fee	-	-	22	-	-	-
- Dividend income	-	-	-	1,921	-	-
- Service charge income	36	30	257	-	-	34
	833	30	7,227	1,921	113	34
Expenditure						
- Interest on deposits	59,993	-	50	552	746	1,203
- Interest on subordinated bonds	22,750	-	-	-	-	-
- Rental expense	-	-	19,063	-	-	711
- Other expenses	49,147	-	5,120	-	-	-
	131,890	-	24,233	552	746	1,914
Assets						
- Cash and short-term funds	69,532	-	-	-	-	1,314
- Deposits and placements with financial institutions	-	-	-	-	-	10,537
- Loans, advances and financing	-	-	114,637	-	3,503	-
- Other assets	110,465	95	137	-	-	-
	179,997	95	114,774	-	3,503	11,851
Liabilities						
- Deposits from customers	-	-	15,874	20,153	27,310	1,089
- Deposits and placements of banks and other financial institutions	2,758,072	-	30	-	-	6,862
- Other liabilities	28,364	-	-	-	-	-
- Subordinated bonds	500,000	-	-	-	-	-
	3,286,436	-	15,904	20,153	27,310	7,951

36. Significant Related Party Transactions and Balances (Continued)

The remuneration of key management personnel included in the income statements was as follows:

	Group and Bank	
	2018 RM'000	2017 RM'000
Short-term employee benefits	28,192	23,604
Post employment benefits: defined contribution plan	3,485	2,999
Share-based payment*	5,043	5,957
	36,720	32,560

* In prior financial years, key management personnel of the Bank were granted options to subscribe in shares of the ultimate holding company under the Restricted Shares Plan. As at 31 December 2018, the number of options held by key management personnel were 274,010 (2017: 276,135).

37. Commitments and Contingencies

Group	Principal amount RM'000	Credit equivalent amount RM'000	Risk-weighted amount RM'000
2018			
Direct credit substitutes	3,189,451	3,124,810	2,346,211
Transaction-related contingent items	6,192,218	3,104,378	2,184,179
Short-term self-liquidating trade-related contingencies	420,884	92,276	49,619
Foreign exchange related contracts			
- not more than one year	25,089,263	432,896	134,002
- more than one year to less than five years	604,766	39,997	21,641
Interest rate related contracts			
- not more than one year	7,938,700	41,229	20,365
- more than one year to less than five years	16,739,543	818,849	486,248
- five years and above	444,858	62,165	47,091
Equity related contracts			
- not more than one year	368,736	21,318	19,472
- more than one year to less than five years	592,241	24,477	3,863
Commodity related contracts			
- not more than one year	491,782	70,992	14,754
- more than one year to less than five years	142,850	16,031	2,818
Undrawn credit facility			
- not more than one year	15,979,669	790,026	163,696
- more than one year	11,436,035	6,463,900	4,894,091
- unconditionally cancellable	11,668,659	5,738,926	643,341
Other commitments	659,498	382,572	382,572
Total	101,959,153	21,224,842	11,413,963

37. Commitments and Contingencies (Continued)

Group	Principal amount RM'000	Credit equivalent amount RM'000	Risk-weighted amount RM'000
2017			
Direct credit substitutes	3,202,391	3,155,460	2,260,927
Transaction-related contingent items	6,037,933	3,034,380	2,139,796
Short-term self-liquidating trade-related contingencies	524,618	115,387	93,389
Foreign exchange related contracts			
- not more than one year	24,198,577	635,018	159,262
- more than one year to less than five years	204,645	11,512	11,065
Interest rate related contracts			
- not more than one year	7,689,651	152,398	63,654
- more than one year to less than five years	15,526,922	746,707	542,178
- five years and above	58,084	4,447	2,815
Equity related contracts			
- not more than one year	464,921	22,890	18,337
- more than one year to less than five years	1,093,643	43,746	7,730
Commodity related contracts			
- not more than one year	215,980	23,231	9,396
- more than one year to less than five years	537,233	55,063	23,314
Undrawn credit facility			
- not more than one year	13,937,185	669,272	128,752
- more than one year	11,697,356	6,597,870	4,202,984
- unconditionally cancellable	11,572,661	5,944,262	670,702
Other commitments	579,795	444,108	444,108
Total	97,541,595	21,655,751	10,778,409

Bank			
2018			
Direct credit substitutes	3,189,451	3,124,810	2,346,211
Transaction-related contingent items	6,192,218	3,104,378	2,184,179
Short-term self-liquidating trade-related contingencies	420,884	92,276	49,619
Foreign exchange related contracts			
- not more than one year	25,089,263	432,896	134,002
- more than one year to less than five years	604,766	39,997	21,641
Interest rate related contracts			
- not more than one year	7,938,700	41,229	20,365
- more than one year to less than five years	16,739,543	818,849	486,248
- five years and above	444,858	62,165	47,091
Equity related contracts			
- not more than one year	368,736	21,318	19,472
- more than one year to less than five years	592,241	24,477	3,863

37. Commitments and Contingencies (Continued)

Bank (Continued)	Principal amount RM'000	Credit equivalent amount RM'000	Risk-weighted amount RM'000
2018			
Commodity related contracts			
- not more than one year	491,782	70,992	14,754
- more than one year to less than five years	142,850	16,031	2,818
Undrawn credit facility			
- not more than one year	15,979,669	790,026	163,696
- more than one year	11,436,035	6,463,900	4,894,091
- unconditionally cancellable	11,668,659	5,738,926	643,341
Other commitments	288,715	11,790	11,790
Total	101,588,370	20,854,060	11,043,181

Bank			
2017			
Direct credit substitutes	3,202,391	3,155,460	2,260,927
Transaction-related contingent items	6,037,933	3,034,380	2,139,796
Short-term self-liquidating trade-related contingencies	524,618	115,387	93,389
Foreign exchange related contracts			
- not more than one year	24,198,577	635,018	159,262
- more than one year to less than five years	204,645	11,512	11,065
Interest rate related contracts			
- not more than one year	7,689,651	152,398	63,654
- more than one year to less than five years	15,526,922	746,707	542,178
- five years and above	58,084	4,447	2,815
Equity related contracts			
- not more than one year	464,921	22,890	18,337
- more than one year to less than five years	1,093,643	43,746	7,730
Commodity related contracts			
- not more than one year	215,980	23,231	9,396
- more than one year to less than five years	537,233	55,063	23,314
Undrawn credit facility			
- not more than one year	13,937,185	669,272	128,752
- more than one year	11,697,356	6,597,870	4,202,984
- unconditionally cancellable	11,572,661	5,944,262	670,702
Other commitments	148,350	12,662	12,662
Total	97,110,150	21,224,305	10,346,963

38. Capital Commitments

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Capital expenditure for property, plant and equipment				
- authorised and contracted for	388,381	449,939	11,790	12,662

39. Lease Commitments

The Group and the Bank have non-cancellable long-term lease commitments in respect of related premises and equipment on hire, all of which are classified as operating leases.

A summary of the non-cancellable long term commitments, net of sub-leases is as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Future minimum rental payments				
- Not later than one year	10,940	12,987	29,751	32,101
- Later than one year and not later than five years	8,486	12,701	8,486	12,701
	19,426	25,688	38,237	44,802

40. Financial Risk Management

The Group's and the Bank's business activities involve the use of financial instruments, including derivatives. These activities expose the Group and the Bank to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk and liquidity risk.

The Group's and the Bank's financial risks are centrally managed by the various specialist committees within the delegated authority by the Board of Directors. These various specialist committees formulate and review policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals endorsed by these committees are subject to approval by the Executive Committee ("EXCO") and/or Board of Directors. The Risk Management Division assumes the independent oversight of risks undertaken by the Group and the Bank, and takes the lead in the formulation and approval of risk policies, controls and processes. The Product Control Department of Risk Management Division enforces Global Market Division's compliance with trading policies and limits. This is further enhanced by the periodic risk assessment audit carried out by the Group's and the Bank's Internal Audit Division.

The main financial risks that the Group and the Bank are exposed to and how they are being managed are set out below:

40.1 Credit Risk

Credit risk is the risk of loss arising from any failure by a customer or counterparty to meet its financial obligations when such obligations fall due.

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(a) Credit risk management

The EXCO is delegated the authority by the Board of Directors to oversee all credit matters. It also oversees the implementation of the Bank's Basel II Internal Ratings-Based Approach ("IRBA") framework and the respective IRBA models and risk estimates.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The process includes monthly review of all impaired and special mention loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked and analysed by business and product lines. Significant trends are reported to the Credit Working Group and EXCO.

Maximum exposure to credit risk

Group	2018 RM'000	2017 RM'000
Cash and short-term funds	3,924,715	8,438,916
Deposits and placements with financial institutions	800,000	150,000
Securities purchased under resale agreements	4,603,059	1,079,420
Financial assets at FVTPL	1,811,633	229,455
AFS securities	-	11,009,527
Debt instruments at FVOCI	15,852,301	-
Debt instruments at amortised cost	228,315	-
Loans, advances and financing	81,913,278	77,561,301
Derivative financial assets	376,496	592,160
Other assets	651,888	325,391
Statutory deposits with BNM	2,016,869	1,802,204
Total gross financial assets	112,178,554	101,188,374
Financial assets not subject to credit risk	926,829	880,183
	113,105,383	102,068,557
Commitments and contingencies	101,959,153	97,541,595

Bank	2018 RM'000	2017 RM'000
Cash and short-term funds	3,924,715	8,438,916
Deposits and placements with financial institutions	800,000	150,000
Securities purchased under resale agreements	4,603,059	1,079,420
Financial assets at FVTPL	1,811,633	229,455
AFS securities	-	11,009,527
Debt instruments at FVOCI	15,852,301	-
Debt instruments at amortised cost	228,315	-
Loans, advances and financing	82,034,675	77,675,030
Derivative financial assets	376,496	592,160
Other assets	652,099	325,391
Statutory deposits with BNM	2,016,869	1,802,204
Total gross financial assets	112,300,162	101,302,103
Financial assets not subject to credit risk	682,552	685,854
	112,982,714	101,987,957
Commitments and contingencies	101,588,370	97,110,150

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(a) Credit risk management (Continued)

Maximum exposure to credit risk (Continued)

As a fundamental credit principle, the Group and the Bank generally do not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

In extending credit facilities to small and medium enterprises, personal guarantees are often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors.

Corporate guarantees are often obtained when the customer's credit worthiness is not sufficient to justify an extension of credit.

Master agreements such as International Swaps and Derivatives Association agreements and Credit Support Annex are established with active counterparties to manage credit risk arising from foreign exchange and derivative activities. Such agreements allow the Group and the Bank to cash-settle transactions in the event of counterparty default, resulting in a single net claim against or in favour of the counterparty.

(b) Expected credit loss measurement

(i) Definition of default and cure

The Group and the Bank classify a loan or advance or financing as credit-impaired when there is objective evidence that the loan or advance or financing is credit-impaired.

The details of the default definition is as disclosed in Note 2.4(g)(iii).

(ii) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"), defined as follows:

- The PD represents the likelihood of a borrower or obligor defaulting on its financial obligation (as per definition of default above), either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Group and the Bank expect to be owed at the time of default, over the next 12 months or over the remaining lifetime of the obligation.
- LGD represents the Group's and the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. The discount rate used in the ECL calculation is the original effective interest rate or effective profit rate or an approximation thereof.

<u>Information incorporated in the ECL models</u>

The assessment of significant increase in credit risk ("SICR") and the calculation of ECL both incorporate forward-looking information. The Group and the Bank use external and internal information to generate a "base case" and "downturn" scenario which considers forecast economic variables, based on assigned probability weights determined by the Group and the Bank. The Group and the Bank have performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The macroeconomic variables ("MEV") considered include gross domestic product ("GDP"), consumer price index ("CPI"), base lending rates ("BLR"), property price index ("PPI"), and unemployment rates.

The MEV data is obtained from Bank Negara Malaysia and in-house economist, which GDP forecast range from -3.03% to 5.17%; CPI forecast range from -0.50% to 3.20%; BLR range from 5.31% to 6.81%; PPI forecast range from -5.00% to 4.50%; and unemployment rates range from 3.20% to 4.20%.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period since the adoption of MFRS 9 on 1 January 2018.

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(b) Expected credit loss measurement (Continued)

(iii) Significant increase in credit risk

The Group and the Bank continuously monitor all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Group and the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Group and the Bank consider an exposure to have significantly increased in credit risk when an instrument triggered the quantitative, qualitative or backstop criteria.

(iv) Grouping of financial assets measured on a collective basis

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank apply the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Asset classes where the Group and the Bank calculate ECL on an individual basis includes all Stage 3 financial assets.

Asset classes where the Group and the Bank calculate ECL on a collective basis includes all Stages 1 and 2 financial assets. Subsequently, Stages 1 and 2 financial assets are further disaggregated based on wholesale banking, business banking and personal financial services portfolios.

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(c) Credit risk concentration by economic sectors of the Group and the Bank:

The following table sets out the credit risk concentration by economic sectors of the Group and the Bank:

Group 2018	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Financial assets at FVTPL RM'000	Debt instruments at FVOCI RM'000	Debt instruments at amortised cost RM'000	Loans, advances and financing RM'000	Derivative financial assets, statutory deposits and other assets RM'000	Allowance for expected credit loss RM'000	Total RM'000	Commitments and contingencies RM'000	Allowance for expected credit loss RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	1,550,623	-	(19,273)	1,531,350	1,073,934	(877)
Mining and quarrying	-	-	-	-	827,392	-	(8,238)	819,154	480,313	(184)
Manufacturing	-	-	-	-	7,032,638	-	(152,787)	6,879,851	9,207,232	(16,332)
Electricity, gas and water	-	-	-	236,875	241,989	-	(7,978)	470,886	296,213	(119)
Construction	-	-	49,366	-	7,061,239	-	(184,310)	6,926,295	15,754,972	(42,233)
Wholesale, retail trade, restaurants and hotels	-	-	-	-	11,103,719	-	(223,917)	10,879,802	9,619,098	(16,998)
Transport, storage and communication	-	-	-	-	1,396,309	-	(62,090)	1,334,219	2,120,432	(14,090)
Finance, insurance and business services	9,354,895	1,811,633	15,797,563	-	3,317,014	3,047,932	(112,619)	33,216,418	47,709,679	(4,664)
Real estate	-	-	49,626	-	4,067,240	-	(68,103)	4,048,763	1,947,230	(4,392)
Community, social and personal services	-	-	-	-	162,448	-	(3,345)	159,103	63,150	(1,373)
Households										
- purchase of residential properties	-	-	-	-	31,851,983	-	(414,455)	31,437,528	-	-
- purchase of non-residential properties	-	-	-	-	9,046,495	-	(114,913)	8,931,582	-	-
- others	-	-	-	-	5,626,427	-	(82,824)	5,543,603	12,937,578	(45,534)
Others	-	-	-	-	-	-	-	-	749,322	(1,733)
Other assets not subject to credit risk	-	-	-	-	-	926,829	-	926,829	-	-
	9,354,895	1,811,633	15,896,555	236,875	83,285,516	3,974,761	(1,454,852)	113,105,383	101,959,153	(148,529)

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(c) **Credit risk concentration by economic sectors of the Group and the Bank (Continued):**

The following table sets out the credit risk concentration by economic sectors of the Group and the Bank (Continued):

Group 2017	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Financial assets at FVTPL RM'000	AFS securities RM'000	Loans, advances and financing RM'000	Individual impairment and collective impairment RM'000	Derivative financial assets, statutory deposits and other assets RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	1,251,997	(35,474)	-	1,216,523	1,290,367
Mining and quarrying	-	-	-	1,176,581	(2,814)	-	1,173,767	566,721
Manufacturing	-	-	-	6,331,060	(237,646)	-	6,093,414	7,976,499
Electricity, gas and water	-	-	-	131,078	(5,354)	-	125,724	304,053
Construction	-	-	50,400	6,909,577	(260,535)	-	6,699,442	16,139,944
Wholesale, retail trade, restaurants and hotels	-	-	-	9,970,141	(258,618)	-	9,711,523	10,242,342
Transport, storage and communication	-	-	-	1,217,056	(69,847)	-	1,147,209	872,835
Finance, insurance and business services	9,668,336	229,455	10,949,181	3,099,679	(184,892)	2,719,755	26,481,514	43,398,683
Real estate	-	-	49,906	4,275,124	(135,086)	-	4,189,944	1,539,875
Community, social and personal services	-	-	-	154,374	(3,002)	-	151,372	48,895
Households								
- purchase of residential properties	-	-	-	30,114,804	(197,106)	-	29,917,698	-
- purchase of non-residential properties	-	-	-	9,065,647	(50,197)	-	9,015,450	-
- others	-	-	-	5,402,275	(137,481)	-	5,264,794	5,468,465
Others	-	-	-	-	-	-	-	9,692,916
Other assets not subject to credit risk	-	-	-	-	-	880,183	880,183	-
	9,668,336	229,455	11,049,487	79,099,393	(1,578,052)	3,599,938	102,068,557	97,541,595

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(c) Credit risk concentration by economic sectors of the Group and the Bank (Continued):

The following table sets out the credit risk concentration by economic sectors of the Group and the Bank (Continued):

Bank 2018	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Financial assets at FVTPL RM'000	Debt instruments at FVOCI RM'000	Debt instruments at amortised cost RM'000	Loans, advances and financing RM'000	Derivative financial assets, statutory deposits and other assets RM'000	Allowance for expected credit loss RM'000	Total RM'000	Commitments and contingencies RM'000	Allowance for expected credit loss RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	1,550,623	-	(19,273)	1,531,350	1,073,934	(877)
Mining and quarrying	-	-	-	-	827,392	-	(8,238)	819,154	480,313	(184)
Manufacturing	-	-	-	-	7,032,638	-	(152,787)	6,879,851	9,207,232	(16,332)
Electricity, gas and water	-	-	-	236,875	241,989	-	(7,978)	470,886	296,213	(119)
Construction	-	-	49,366	-	7,061,239	-	(184,310)	6,926,295	15,754,972	(42,233)
Wholesale, retail trade, restaurants and hotels	-	-	-	-	11,103,719	-	(223,917)	10,879,802	9,619,098	(16,998)
Transport, storage and communication	-	-	-	-	1,396,309	-	(62,090)	1,334,219	2,120,432	(14,090)
Finance, insurance and business services	9,354,895	1,811,633	15,797,563	-	3,317,014	3,048,143	(112,619)	33,216,629	47,709,679	(4,664)
Real estate	-	-	49,626	-	4,189,910	-	(69,376)	4,170,160	1,576,447	(4,392)
Community, social and personal services	-	-	-	-	162,448	-	(3,345)	159,103	63,150	(1,373)
Households										
- purchase of residential properties	-	-	-	-	31,851,983	-	(414,455)	31,437,528	-	-
- purchase of non-residential properties	-	-	-	-	9,046,495	-	(114,913)	8,931,582	-	-
- others	-	-	-	-	5,626,427	-	(82,824)	5,543,603	12,937,578	(45,534)
Others	-	-	-	-	-	-	-	-	749,322	(1,733)
Other assets not subject to credit risk	-	-	-	-	-	682,552	-	682,552	-	-
	9,354,895	1,811,633	15,896,555	236,875	83,408,186	3,730,695	(1,456,125)	112,982,714	101,588,370	(148,529)

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(c) Credit risk concentration by economic sectors of the Group and the Bank (Continued):

The following table sets out the credit risk concentration by economic sectors of the Group and the Bank (Continued):

Bank 2017	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Financial assets at FVTPL RM'000	AFS securities RM'000	Loans, advances and financing RM'000	Individual impairment and collective impairment RM'000	Derivative financial assets, statutory deposits and other assets RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	1,251,997	(35,474)	-	1,216,523	1,290,367
Mining and quarrying	-	-	-	1,176,581	(2,814)	-	1,173,767	566,721
Manufacturing	-	-	-	6,331,060	(237,646)	-	6,093,414	7,976,499
Electricity, gas and water	-	-	-	131,078	(5,354)	-	125,724	304,053
Construction	-	-	50,400	6,909,577	(260,535)	-	6,699,442	16,139,944
Wholesale, retail trade, restaurants and hotels	-	-	-	9,970,141	(258,618)	-	9,711,523	10,242,342
Transport, storage and communication	-	-	-	1,217,056	(69,847)	-	1,147,209	872,835
Finance, insurance and business services	9,668,336	229,455	10,949,181	3,099,679	(184,892)	2,719,755	26,481,514	43,398,683
Real estate	-	-	49,906	4,389,761	(135,994)	-	4,303,673	1,108,480
Community, social and personal services	-	-	-	154,374	(3,002)	-	151,372	48,895
Households								
- purchase of residential properties	-	-	-	30,114,804	(197,106)	-	29,917,698	-
- purchase of non-residential properties	-	-	-	9,065,647	(50,197)	-	9,015,450	-
- others	-	-	-	5,402,275	(137,481)	-	5,264,794	5,468,465
Others	-	-	-	-	-	-	-	9,692,866
Other assets not subject to credit risk	-	-	-	-	-	685,854	685,854	-
	9,668,336	229,455	11,049,487	79,214,030	(1,578,960)	3,405,609	101,987,957	97,110,150

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(d) Effects of holding collaterals

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically. The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Group and the Bank are cash, marketable securities, real estate, equipment, inventory and receivables. Policies and processes are in place to control, monitor and report concentration risk to particular types of collateral.

The credit risk of financial assets of the Group and the Bank is mitigated by the collaterals held against the financial assets.

(i) Effects of holding collaterals on credit-impaired loans, advances and financing

All credit-impaired loans, advances and financing are subject to impairment review as at the current and previous financial year end. The collateral mitigates credit risk and would reduce the extent of allowance for expected credit losses for the assets subject to impairment review.

Group and Bank	Financial effect RM'000	Maximum exposure to credit risk RM'000	Unsecured portion of credit exposure RM'000
2018			
Credit-impaired loans, advances and financing	1,136,632	1,433,152	296,520
2017			
Impaired loans, advances and financing	1,014,910	1,350,419	335,509

For credit-impaired loans, advances and financing, allowances for expected credit losses as at the date of the statements of financial position would have been higher by approximately RM1,136,632,000 (2017: RM1,014,910,000) without the collaterals held.

(ii) Repossessed collaterals

These are assets obtained by taking possession of collaterals held as security against loans, advances and financing.

Repossessed collaterals are sold as soon as practicable. Repossessed collaterals are recognised in other assets on the statements of financial position. The Group and the Bank do not occupy repossessed properties for its business use.

For the financial years ended 31 December 2018 and 2017, there were no repossessed collaterals.

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(e) Credit exposure analysed by geography

Group	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
2018			
Cash and short-term funds	3,566,870	357,845	3,924,715
Deposits and placements with financial institutions	800,000	-	800,000
Securities purchased under resale agreements	4,603,059	-	4,603,059
Financial assets at FVTPL	1,811,633	-	1,811,633
Debt instruments at FVOCI	15,852,301	-	15,852,301
Debt instruments at amortised cost	228,315	-	228,315
Loans, advances and financing	74,876,438	7,036,840	81,913,278
Derivative financial assets	311,462	65,034	376,496
Other assets	616,679	35,209	651,888
Statutory deposits with BNM	2,016,869	-	2,016,869
Financial assets not subject to credit risk	926,829	-	926,829
	105,610,455	7,494,928	113,105,383
Commitments and contingencies	91,424,653	10,534,500	101,959,153
2017			
Cash and short-term funds	7,970,457	468,459	8,438,916
Deposits and placements with financial institutions	150,000	-	150,000
Securities purchased under resale agreements	1,079,420	-	1,079,420
Financial assets at FVTPL	229,455	-	229,455
AFS securities	11,009,527	-	11,009,527
Loans, advances and financing	70,280,536	7,280,765	77,561,301
Derivative financial assets	511,835	80,325	592,160
Other assets	314,853	10,538	325,391
Statutory deposits with BNM	1,802,204	-	1,802,204
Financial assets not subject to credit risk	880,183	-	880,183
	94,228,470	7,840,087	102,068,557
Commitments and contingencies	87,021,866	10,519,679	97,541,545

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(e) Credit exposure analysed by geography (Continued)

Bank	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
2018			
Cash and short-term funds	3,566,870	357,845	3,924,715
Deposits and placements with financial institutions	800,000	-	800,000
Securities purchased under resale agreements	4,603,059	-	4,603,059
Financial assets at FVTPL	1,811,633	-	1,811,633
Debt instruments at FVOCI	15,852,301	-	15,852,301
Debt instruments at amortised cost	228,315	-	228,315
Loans, advances and financing	74,997,835	7,036,840	82,034,675
Derivative financial assets	311,462	65,034	376,496
Other assets	616,890	35,209	652,099
Statutory deposits with BNM	2,016,869	-	2,016,869
Financial assets not subject to credit risk	682,552	-	682,552
	105,487,786	7,494,928	112,982,714
Commitments and contingencies	91,053,870	10,534,500	101,588,370
2017			
Cash and short-term funds	7,970,457	468,459	8,438,916
Deposits and placements with financial institutions	150,000	-	150,000
Securities purchased under resale agreements	1,079,420	-	1,079,420
Financial assets at FVTPL	229,455	-	229,455
AFS securities	11,009,527	-	11,009,527
Loans, advances and financing	70,394,265	7,280,765	77,675,030
Derivative financial assets	511,835	80,325	592,160
Other assets	314,853	10,538	325,391
Statutory deposits with BNM	1,802,204	-	1,802,204
Financial assets not subject to credit risk	685,854	-	685,854
	94,147,870	7,840,087	101,987,957
Commitments and contingencies	86,590,471	10,519,679	97,110,150

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(f) Credit quality of financial assets and financial liabilities

The tables below show credit quality of the Group's and the Bank's financial assets and financial liabilities, based on the following risk grades:

Risk grades	Description
Pass	Indicates that timely repayment of the outstanding credit facility is not in doubt. Repayment is prompt and the credit facility does not exhibit any potential weakness in repayment capability, business, cash flow or financial position of the borrower or obligor.
Special mention	Indicates that the credit facility exhibits potential weaknesses that, if not corrected in a timely manner, may adversely affect repayment by the borrower or obligor at a future date, and warrant close attention by the Group and the Bank.
Substandard	Indicates that the credit facility exhibits definable weaknesses, either in respect of the business, cash flow or financial position of the borrower or obligor that may jeopardise repayment on existing terms.
Doubtful	Indicates that the outstanding credit facility exhibits more severe weaknesses than those in a "substandard" credit facility, such that the prospect of full recovery of the outstanding credit facility is questionable and the prospect of a loss is high, but the exact amount remains undeterminable as yet.
Loss	Indicates that the outstanding credit facility is not collectable, and little or nothing can be done to recover the outstanding amount from any collateral or from the assets of the borrower or obligor generally.

Gross loans, advances and financing

	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	RM'000
Group					
Pass	76,632,980	4,255,725	-	80,888,705	76,961,559
Special mention	-	963,659	-	963,659	787,415
Substandard	-	-	1,205,639	1,205,639	1,016,050
Doubtful	-	-	82,294	82,294	98,719
Loss	-	-	145,219	145,219	235,650
	76,632,980	5,219,384	1,433,152	83,285,516	79,099,393
Bank					
Pass	76,755,650	4,255,725	-	81,011,375	77,076,196
Special mention	-	963,659	-	963,659	787,415
Substandard	-	-	1,205,639	1,205,639	1,016,050
Doubtful	-	-	82,294	82,294	98,719
Loss	-	-	145,219	145,219	235,650
	76,755,650	5,219,384	1,433,152	83,408,186	79,214,030

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(f) Credit quality of financial assets and financial liabilities (Continued)

Group and Bank	2018 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds				
Pass	3,951,836	-	-	3,951,836
Special mention	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
	3,951,836	-	-	3,951,836
Debt instruments at FVOCI				
Investment grade	15,847,190	-	-	15,847,190
Non-investment grade	-	-	49,365	49,365
	15,847,190	-	49,365	15,896,555
Debt instruments at amortised cost				
Investment grade	-	-	-	-
Non-investment grade	236,875	-	-	236,875
	236,875	-	-	236,875

Irrevocable commitment and contingencies

	2018 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Group				
Pass	41,554,217	1,401,293	-	42,955,510
Special mention	-	381,851	-	381,851
Substandard	-	-	1,424	1,424
Doubtful	-	-	55	55
Loss	-	-	15,356	15,356
	41,554,217	1,783,144	16,835	43,354,196
Bank				
Pass	41,183,434	1,401,293	-	42,584,727
Special mention	-	381,851	-	381,851
Substandard	-	-	1,424	1,424
Doubtful	-	-	55	55
Loss	-	-	15,356	15,356
	41,183,434	1,783,144	16,835	42,983,413

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(g) Expected credit loss allowance

Movements in gross carrying amount between stages for loans, advances and financing are as follows:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Group				
Gross carrying amount as at 1 January 2018	72,403,611	5,345,363	1,350,419	79,099,393
Transferred to Stage 1	4,001,004	(3,939,368)	(61,636)	-
Transferred to Stage 2	(5,523,729)	5,774,867	(251,138)	-
Transferred to Stage 3	(49,964)	(894,528)	944,492	-
Net increase/(decrease)	5,802,058	(1,066,950)	(313,407)	4,421,701
Write off	-	-	(235,578)	(235,578)
Balance as at 31 December	76,632,980	5,219,384	1,433,152	83,285,516
Bank				
Gross carrying amount as at 1 January 2018	72,518,248	5,345,363	1,350,419	79,214,030
Transferred to Stage 1	4,001,004	(3,939,368)	(61,636)	-
Transferred to Stage 2	(5,523,729)	5,774,867	(251,138)	-
Transferred to Stage 3	(49,964)	(894,528)	944,492	-
Net increase/(decrease)	5,810,091	(1,066,950)	(313,407)	4,429,734
Write off	-	-	(235,578)	(235,578)
Balance as at 31 December	76,755,650	5,219,384	1,433,152	83,408,186

Movements in gross carrying amount between stages for irrevocable commitment and contingencies are as follows:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Group				
Gross carrying amount as at 1 January 2018	38,151,702	3,343,350	18,904	41,513,956
Transferred to Stage 1	1,930,783	(1,930,783)	-	-
Transferred to Stage 2	(2,959,033)	2,959,033	-	-
Net increase/(decrease)	4,430,765	(2,588,456)	(2,069)	1,840,240
Balance as at 31 December	41,554,217	1,783,144	16,835	43,354,196

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(g) Expected credit loss allowance (Continued)

Movements in gross carrying amount between stages for irrevocable commitment and contingencies are as follows (Continued):

Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	37,720,307	3,343,350	18,904	41,082,561
Transferred to Stage 1	1,930,783	(1,930,783)	-	-
Transferred to Stage 2	(2,959,033)	2,959,033	-	-
Net increase/(decrease)	4,491,377	(2,588,456)	(2,069)	1,900,852
Balance as at 31 December	41,183,434	1,783,144	16,835	42,983,413

Movement in gross carrying amount between stages for cash and short-term funds is as follows:

No transfer between stages occurred for the Group's and the Bank's cash and short-term funds during the financial year. Gross balances in Stage 1 as at 31 December 2018 was RM3,951,836,000.

Movement in gross carrying amount between stages for the Group's and the Bank's debt instruments at FVOCI is as follows:

No transfer between stages occurred for debt instruments at FVOCI during the financial year. Gross balances in Stage 1 as at 31 December 2018 was RM15,847,190,000. Gross balances in Stage 3 as at 31 December 2018 was RM49,365,000.

Movement in gross carrying amount between stages for the Group's and the Bank's debt instruments at amortised cost is as follows:

No transfer between stages occurred for the Group's and the Bank's debt instruments at amortised cost during the financial year. Gross balances in Stage 1 as at 31 December 2018 was RM236,875,000.

(h) Ageing analysis of past due but not impaired and impaired assets (policy prior to 1 January 2018)

	2017	
Group and Bank	Past due but not impaired RM'000	Impaired RM'000
Current	-	64,251
Within 90 days	3,214,363	136,817
Over 90 to 180 days	-	208,739
Over 180 days	-	940,612
	3,214,363	1,350,419

40. Financial Risk Management (Continued)

40.1 Credit Risk (Continued)

(i) Past due but not impaired and impaired assets analysed by industry (policy prior to 1 January 2018)

	2017		
Group and Bank	Past due but not impaired RM'000	Impaired RM'000	Individual impairment RM'000
Agriculture, hunting, forestry and fishing	1,784	11,161	-
Mining and quarrying	2,013	-	-
Manufacturing	341,447	140,079	58,480
Electricity, gas and water	1,983	-	-
Construction	484,167	138,526	29,415
Wholesale, retail trade, restaurants and hotels	469,093	133,802	26,529
Transport, storage and communication	7,866	142,836	37,439
Finance, insurance and business services	35,406	127,092	106,999
Real estate	226,457	121,485	1,984
Community, social and personal services	2,721	737	13
Households			
- purchase of residential properties	1,084,720	381,318	27,549
- purchase of non-residential properties	376,784	60,201	4,643
- others	179,922	93,182	17,092
	3,214,363	1,350,419	310,143

40.2 Market Risk

(i) Foreign exchange risk

Foreign exchange risk is the risk to earnings and economic value of foreign currency assets, liabilities and financial derivatives caused by fluctuations in foreign exchange rates.

The Group's and the Bank's foreign exchange exposures arise mainly from their foreign exchange position-taking, proprietary business and customer facilitation business. To mitigate foreign exchange risk, the Group and the Bank predominately use foreign currency outright forward and swap contracts to hedge their foreign exchange exposures.

Foreign exchange risk is managed through policies which are approved by Board of Directors ("Board") while the market risk limits approved by the EXCO. The limits are independently monitored by Market Risk Management Department of Risk Management Division.

The Group and the Bank have performed foreign currency sensitivity analysis by using Value-at-Risk ("VaR") as demonstrated in Note 40.2(iii).

40. Financial Risk Management (Continued)

40.2 Market Risk

(ii) Interest/profit rate risk

Interest/profit rate risk is the impact to earnings and economic value of the Group and the Bank due to fluctuations in interest/profit rates.

Banking book interest rate/rate of return exposure arises from the differences in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall banking book interest/rate of return risk management process which is conducted in accordance with the Bank's policies as approved by the Board.

The economic value of equity ("EVE") sensitivity at 100 and 200 basis points parallel interest/profit rate shocks were negative RM139 million and RM262 million (2017: negative RM20 million and RM32 million), respectively. This is computed on the banking book for major currencies (Ringgit Malaysia and US Dollar). The reported figures are based on the worst case of an upward and downward parallel movement of the yield curve. The repricing profile of loans/financing and deposits that do not have maturity dates are generally based on the earliest possible repricing dates taking into account the notice period to be served to customers.

(iii) VaR

The Group and the Bank adopt a daily VaR to estimate market risk within a 99% confidence interval using the historical simulation method. This methodology does not make assumptions on the distribution of returns and the correlations between risk classes. The method assumes that possible future changes in market rates may be implied by observed historical market movements. The level of VaR is dependent on the exposures, as well as market prices and volatilities. The Group and the Bank run market risk stress to complement the market risk historical simulation VaR. The table below shows the VaR profile by risk classes.

	Year end RM'000	High RM'000	Low RM'000	Average RM'000
2018				
Interest/profit rate	3,677	10,470	1,998	3,978
Foreign exchange	3,572	6,818	1,162	3,128
Commodities	61	458	6	146
Total diversified VaR	5,082	10,463	3,306	5,572
2017				
Interest/profit rate	2,447	16,774	1,430	6,197
Foreign exchange	4,052	9,935	151	4,797
Commodities	410	1,971	25	573
Total diversified VaR	4,198	16,848	1,254	7,745

41. Liquidity Risk

Liquidity risk is the risk that the Group and the Bank are unable to meet its financial obligations as and when they fall due, such as upon maturity of deposits and disbursement of loans, advances and financing.

The Group and the Bank manage liquidity risk in accordance with the liquidity framework approved by the Asset and Liability Committee ("ALCO") which is also adequate to meet the requirements under Bank Negara Malaysia's Liquidity Coverage Ratio. This framework comprises policies, controls and limits. These controls and policies include setting of cash flow mismatch limits, monitoring of liquidity early warning indicators, stress test analysis of cash flows in liquidity crisis

41. Liquidity Risk (Continued)

scenarios and establishment of a comprehensive contingency funding plan. The Group and the Bank are also required by the respective local regulator to maintain cash and other high quality liquid assets as a buffer against unforeseen liquidity requirements. The main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets.

The following table shows the contractual undiscounted cash flows of the Group's and the Bank's assets and liabilities based on remaining contractual maturities. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Bank has a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 3 months" time band) but has historically provided a stable source of long-term funding for the Bank.

Group	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2018						
Assets						
Cash and short-term funds	3,926,796	-	-	-	-	3,926,796
Deposits and placements with financial institutions	802,093	-	-	-	-	802,093
Securities purchased under resale agreements	4,251,181	393,223	-	-	-	4,644,404
Financial assets at FVTPL	1,813,221	-	-	-	-	1,813,221
Debt instruments at FVOCI	5,861,364	543,286	1,046,293	9,035,754	1,673,664	18,160,361
Equity instruments at FVOCI	114,721	-	-	-	-	114,721
Debt instruments at amortised cost	-	-	67,125	46,000	123,750	236,875
Loans, advances and financing	17,642,637	8,142,943	4,300,840	26,593,718	62,695,268	119,375,406
Other assets	295,226	-	-	-	-	295,226
Derivative financial assets	146,703	32,265	33,120	156,283	8,125	376,496
Statutory deposits with BNM	-	-	-	-	2,016,869	2,016,869
	34,853,942	9,111,717	5,447,378	35,831,755	66,517,676	151,762,468
Liabilities						
Deposits from customers	51,970,274	9,670	13,159,709	24,825,434	87	89,965,174
Deposits and placements of banks and other financial institutions	7,548,193	930,399	5,566	44,524	729,919	9,258,601
Bills and acceptances payable	414,255	-	-	-	-	414,255
Other liabilities	331,286	292,805	21,616	271,913	1,746	919,366
Derivative financial liabilities	232,875	42,244	20,705	97,016	7,106	399,946
Subordinated bonds	14,518	23,059	37,723	1,167,176	715,200	1,957,676
	60,511,401	1,298,177	13,245,319	26,406,063	1,454,058	102,915,018
Net maturity mismatches	(25,657,459)	7,813,540	(7,797,941)	9,425,692	65,063,618	
Off-balance sheet liabilities						
Credit and commitments	28,692,614	5,368,707	6,061,155	30,141,484	6,571,692	76,835,652
Derivatives	52,996	(18,972)	12,088	(35,362)	769	11,519
Net maturity mismatches	28,745,610	5,349,735	6,073,243	30,106,122	6,572,461	76,847,171

41. Liquidity Risk (Continued)

Group (Continued)	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2017						
Assets						
Cash and short-term funds	8,455,622	-	-	-	-	8,455,622
Deposits and placements with financial institutions	151,293	-	-	-	-	151,293
Securities purchased under resale agreements	1,089,133	-	-	-	-	1,089,133
Financial assets at FVTPL	231,139	-	-	-	-	231,139
AFS securities	4,276,943	124,311	568,042	6,053,524	706,001	11,728,821
Loans, advances and financing	19,861,212	3,622,093	4,178,059	24,992,403	57,787,486	110,441,253
Other assets	204,212	-	-	-	-	204,212
Derivative financial assets	267,130	174,778	64,938	3,085	82,229	592,160
Statutory deposits with BNM	-	-	-	-	1,802,204	1,802,204
	34,536,684	3,921,182	4,811,039	31,049,012	60,377,920	134,695,837
Liabilities						
Deposits from customers	52,203,795	12,289,500	20,375,796	61,886	-	84,930,977
Deposits and placements of banks and other financial institutions	3,280,773	9,117	18,234	145,873	957,508	4,411,505
Bills and acceptances payable	232,173	-	-	-	-	232,173
Other liabilities	318,598	68,981	54,903	571,256	-	1,013,738
Derivative financial liabilities	314,520	131,152	82,690	20,237	52,667	601,266
Subordinated bonds	11,375	23,059	534,816	1,069,642	-	1,638,892
	56,361,234	12,521,809	21,066,439	1,868,894	1,010,175	92,828,551
Net maturity mismatches	(21,824,550)	(8,600,627)	(16,255,400)	29,180,118	59,367,745	
Off-balance sheet liabilities						
Credit and commitments	27,534,573	3,976,551	6,963,295	29,596,658	6,195,860	74,266,937
Derivatives	50,071	4,490	57,412	22,598	261	134,832
Net maturity mismatches	27,584,644	3,981,041	7,020,707	29,619,256	6,196,121	74,401,769

41. Liquidity Risk (Continued)

Bank	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2018						
Assets						
Cash and short-term funds	3,926,796	-	-	-	-	3,926,796
Deposits and placements with financial institutions	802,093	-	-	-	-	802,093
Securities purchased under resale agreements	4,251,181	393,223	-	-	-	4,644,404
Financial assets at FVTPL	1,813,221	-	-	-	-	1,813,221
Debt instruments at FVOCI	5,861,364	543,286	1,046,293	9,035,754	1,673,664	18,160,361
Equity instruments at FVOCI	114,721	-	-	-	-	114,721
Debt instruments at amortised cost	-	-	67,125	46,000	123,750	236,875
Loans, advances and financing	17,642,637	8,142,943	4,300,840	26,593,718	62,816,665	119,496,803
Other assets	295,226	-	-	-	-	295,226
Derivative financial assets	146,703	32,265	33,120	156,283	8,125	376,496
Statutory deposits with BNM	-	-	-	-	2,016,869	2,016,869
	34,853,942	9,111,717	5,447,378	35,831,755	66,639,073	151,883,865
Liabilities						
Deposits from customers	51,992,203	9,670	13,159,709	24,825,434	87	89,987,103
Deposits and placements of banks and other financial institutions	7,548,193	930,399	5,566	44,524	729,919	9,258,601
Bills and acceptances payable	414,255	-	-	-	-	414,255
Other liabilities	331,286	292,805	21,616	271,913	1,746	919,366
Derivative financial liabilities	232,875	42,244	20,705	97,016	7,106	399,946
Subordinated bonds	14,518	23,059	37,723	1,167,176	715,200	1,957,676
	60,533,330	1,298,177	13,245,319	26,406,063	1,454,058	102,936,947
Net maturity mismatches	(25,679,388)	7,813,540	(7,797,941)	9,425,692	65,185,015	
Off-balance sheet liabilities						
Credit and commitments	28,692,614	5,368,707	6,061,155	30,141,484	6,201,309	76,465,270
Derivatives	52,996	(18,972)	12,088	(35,362)	769	11,519
Net maturity mismatches	28,745,610	5,349,735	6,073,243	30,106,122	6,202,078	76,476,789

41. Liquidity Risk (Continued)

Bank (Continued)	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2017						
Assets						
Cash and short-term funds	8,455,622	-	-	-	-	8,455,622
Deposits and placements with financial institutions	151,293	-	-	-	-	151,293
Securities purchased under resale agreements	1,089,133	-	-	-	-	1,089,133
Financial assets at FVTPL	231,139	-	-	-	-	231,139
AFS securities	4,276,943	124,311	568,042	6,053,524	706,001	11,728,821
Loans, advances and financing	19,974,941	3,622,093	4,178,059	24,992,403	57,787,486	110,554,982
Other assets	204,212	-	-	-	-	204,212
Derivative financial assets	267,130	174,778	64,938	3,085	82,229	592,160
Statutory deposits with BNM	-	-	-	-	1,802,204	1,802,204
	34,650,413	3,921,182	4,811,039	31,049,012	60,377,920	134,809,566
Liabilities						
Deposits from customers	52,219,669	12,289,500	20,375,796	61,886	-	84,946,851
Deposits and placements of banks and other financial institutions	3,280,803	9,117	18,234	145,873	957,508	4,411,535
Bills and acceptances payable	232,173	-	-	-	-	232,173
Other liabilities	318,598	68,981	54,903	571,256	-	1,013,738
Derivative financial liabilities	314,520	131,152	82,690	20,237	52,667	601,266
Subordinated bonds	11,375	23,059	534,816	1,069,642	-	1,638,892
	56,377,138	12,521,809	21,066,439	1,868,894	1,010,175	92,844,455
Net maturity mismatches	(21,726,725)	(8,600,627)	(16,255,400)	29,180,118	59,367,745	
Off-balance sheet liabilities						
Credit and commitments	27,534,573	3,976,551	6,963,295	29,165,213	6,195,860	73,835,492
Derivatives	50,071	4,490	57,412	22,598	261	134,832
Net maturity mismatches	27,584,644	3,981,041	7,020,707	29,187,811	6,196,121	73,970,324

The Group and the Bank are subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Note 37. These have been incorporated in the net off-balance sheet positions for the financial years ended 31 December 2018 and 2017. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group and the Bank expect many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

42. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of when the Group's and the Bank's assets and liabilities are expected to be recovered or settled.

Group	Within 12 months RM'000	After 12 months RM'000	Total RM'000
2018			
Assets			
Cash and short-term funds	3,924,715	-	3,924,715
Deposits and placements with financial institutions	800,000	-	800,000
Securities purchased under resale agreements	4,603,059	-	4,603,059
Financial assets at FVTPL	1,601,304	210,329	1,811,633
Debt instruments at FVOCI	6,855,309	8,996,992	15,852,301
Equity instruments at FVOCI	114,445	-	114,445
Debt instruments at amortised cost	64,699	163,616	228,315
Loans, advances and financing	26,462,814	55,450,464	81,913,278
Derivative financial assets	212,088	164,408	376,496
Other assets	642,510	9,378	651,888
Statutory deposits with BNM	-	2,016,869	2,016,869
Investment in an associate	-	10,087	10,087
Property, plant and equipment	-	699,459	699,459
Deferred tax assets	-	102,838	102,838
Total assets	45,280,943	67,824,440	113,105,383
Liabilities			
Deposits from customers	88,472,479	260,619	88,733,098
Deposits and placements of banks and other financial institutions	8,439,995	774,443	9,214,438
Bills and acceptances payable	414,255	-	414,255
Derivative financial liabilities	295,825	104,122	399,947
Other liabilities	2,237,315	311,092	2,548,407
Tax payable	62,140	-	62,140
Subordinated bonds	-	1,602,082	1,602,082
Deferred tax liabilities	-	20,559	20,559
Total liabilities	99,922,009	3,072,917	102,994,926
Net mismatch	(54,641,066)	64,751,523	10,110,457

42. Maturity Analysis of Assets and Liabilities (Continued)

Group (Continued)	Within 12 months RM'000	After 12 months RM'000	Total RM'000
2017			
Assets			
Cash and short-term funds	8,438,916	-	8,438,916
Deposits and placements with financial institutions	150,000	-	150,000
Securities purchased under resale agreements	1,079,420	-	1,079,420
Financial assets at FVTPL	229,455	-	229,455
AFS securities	4,663,246	6,346,281	11,009,527
Loans, advances and financing	24,293,341	53,267,960	77,561,301
Derivative financial assets	506,846	85,314	592,160
Other assets	537,222	8,881	546,103
Statutory deposits with BNM	-	1,802,204	1,802,204
Investment in an associate	-	9,854	9,854
Property, plant and equipment	-	561,281	561,281
Deferred tax assets	-	88,336	88,336
Total assets	39,898,446	62,170,111	102,068,557
Liabilities			
Deposits from customers	83,330,794	57,991	83,388,785
Deposits and placements of banks and other financial institutions	3,298,309	1,103,381	4,401,690
Bills and acceptances payable	232,173	-	232,173
Derivative financial liabilities	528,362	72,904	601,266
Other liabilities	2,329,510	170,663	2,500,173
Tax payable	126,506	-	126,506
Subordinated bonds	-	1,502,702	1,502,702
Deferred tax liabilities	-	13,758	13,758
Total liabilities	89,845,654	2,921,399	92,767,053
Net mismatch	(49,947,208)	59,248,712	9,301,504

42. Maturity Analysis of Assets and Liabilities (Continued)

Bank	Within 12 months RM'000	After 12 months RM'000	Total RM'000
2018			
Assets			
Cash and short-term funds	3,924,715	-	3,924,715
Deposits and placements with financial institutions	800,000	-	800,000
Securities purchased under resale agreements	4,603,059	-	4,603,059
Financial assets at FVTPL	1,601,304	210,329	1,811,633
Debt instruments at FVOCI	6,855,309	8,996,992	15,852,301
Equity instruments at FVOCI	114,445	-	114,445
Debt instruments at amortised cost	64,699	163,616	228,315
Loans, advances and financing	26,462,814	55,571,861	82,034,675
Derivative financial assets	212,088	164,408	376,496
Other assets	642,721	9,378	652,099
Statutory deposits with BNM	-	2,016,869	2,016,869
Investment in subsidiaries	-	185,020	185,020
Investment in an associate	-	13,522	13,522
Property, plant and equipment	-	266,727	266,727
Deferred tax assets	-	102,838	102,838
Total assets	45,281,154	67,701,560	112,982,714
Liabilities			
Deposits from customers	88,494,409	260,618	88,755,027
Deposits and placements of banks and other financial institutions	8,440,015	774,443	9,214,458
Bills and acceptances payable	414,255	-	414,255
Derivative financial liabilities	295,825	104,122	399,947
Other liabilities	2,235,526	311,092	2,546,618
Tax payable	60,908	-	60,908
Subordinated bonds	-	1,602,082	1,602,082
Total liabilities	99,940,938	3,052,357	102,993,295
Net mismatch	(54,659,784)	64,649,203	9,989,419

42. Maturity Analysis of Assets and Liabilities (Continued)

Bank (Continued)	Within 12 months RM'000	After 12 months RM'000	Total RM'000
2017			
Assets			
Cash and short-term funds	8,438,916	-	8,438,916
Deposits and placements with financial institutions	150,000	-	150,000
Securities purchased under resale agreements	1,079,420	-	1,079,420
Financial assets at FVTPL	229,455	-	229,455
AFS securities	4,663,246	6,346,281	11,009,527
Loans, advances and financing	24,293,341	53,381,689	77,675,030
Derivative financial assets	506,846	85,314	592,160
Other assets	540,709	8,881	549,590
Statutory deposits with BNM	-	1,802,204	1,802,204
Investment in subsidiaries	-	120,040	120,040
Investment in an associate	-	13,522	13,522
Property, plant and equipment	-	239,757	239,757
Deferred tax assets	-	88,336	88,336
Total assets	39,901,933	62,086,024	101,987,957
Liabilities			
Deposits from customers	83,346,668	57,991	83,404,659
Deposits and placements of banks and other financial institutions	3,298,339	1,103,381	4,401,720
Bills and acceptances payable	232,173	-	232,173
Derivative financial liabilities	528,362	72,904	601,266
Other liabilities	2,327,625	170,663	2,498,288
Tax payable	125,433	-	125,433
Subordinated bonds	-	1,502,702	1,502,702
Total liabilities	89,858,600	2,907,641	92,766,241
Net mismatch	(49,956,667)	59,178,383	9,221,716

43. Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

Group and Bank	Gross amount recognised as financial assets/ liabilities RM'000	Gross amount offset in the statements of financial position RM'000	Amount presented in the statements of financial position RM'000	Amount not set-off in the statements of financial position Cash collateral received/ pledged RM'000	Net amount RM'000
2018					
Financial assets					
Derivative financial assets	376,496	-	376,496	(48,251)	328,245
Financial liabilities					
Derivative financial liabilities	399,947	-	399,947	(103,693)	296,254
2017					
Financial assets					
Derivative financial assets	592,160	-	592,160	(129,669)	462,491
Financial liabilities					
Derivative financial liabilities	601,266	-	601,266	(62,264)	539,002

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase agreements included in the amount not set-off in the statements of financial position relate to transactions where:

(i) the counterparty has an offsetting exposure with the Group and the Bank and a master netting or similar arrangements is in place with a right to set-off only in the event of default, insolvency or bankruptcy; and

(ii) cash and securities are received or cash pledged in respect of the transaction described above.

44. Segment Information

Operating Segments

The following segment information has been prepared in accordance with MFRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and assess its performance.

The Group's businesses are organised into the following four segments based on the types of products and services that it provides:

<u>Retail</u>
The Retail segment covers Personal Financial Services, Business and Private Banking. Personal Financial Services serves the individual customers, offers a wide range of products and services, including deposits, loans, credit and debit cards, insurance products, and also provides an extended range of financial services, including wealth management to wealthy and affluent customers. Private Banking caters to high net worth individuals and accredited investors, offering a wide range of products and services, including deposits, loans, credit and debit cards, insurance products, and also provides financial advisory on an extended range of financial services, including wealth management products. Business Banking serves small enterprises, offers a range of products and services, including deposits, loans, trade, foreign exchange and insurance products.

<u>Wholesale Banking ("WB")</u>
The WB segment encompasses Commercial Banking, Corporate Banking, Financial Institutions Group ("FIG"), Multinational Corporates ("MNC"), Investment Banking and Transaction Banking. Commercial Banking serves the medium and large enterprises, while Corporate Banking serves large local corporations, government-linked companies and agencies. FIG serves financial institutions as well as non-bank financial institutions. Commercial Banking, Corporate Banking, MNC and FIG provide customers with a broad range of products and services that include current accounts, deposits, lending, asset finance, ship finance, trade finance, structured finance, cash management and cross-border payments. Investment Banking provides services that include principal advisor, lead manager and facility agent for the arrangement of both syndicated loans and Private Debt Securities. Transaction Banking provides trade finance and cash management services.

<u>Global Markets ("GM")</u>
The GM segment provides a comprehensive range of treasury products and services, including foreign exchange, money market, fixed income, derivatives, commodities, gold products, as well as an array of structured products. It is a player in Malaysian Ringgit treasury instruments in the region. It also engages in proprietary investment activities and management of excess liquidity and capital funds.

<u>Others</u>
Other segments include corporate support functions and decisions not attributable to business segments mentioned above and property-related activities.

44. Segment Information (Continued)

Operating Segments (Continued)

Group 2018	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
Operating income	1,432,533	1,156,650	142,397	294,483	3,026,063	(25,858)	3,000,205
Other operating expenses	(726,771)	(253,490)	(57,610)	(153,750)	(1,191,621)	25,775	(1,165,846)
Allowance for expected credit losses	(86,408)	(121,194)	-	(54)	(207,656)	369	(207,287)
Impairment loss on property, plant and equipment	-	-	-	(1,170)	(1,170)	-	(1,170)
Share of net profit of an associate	-	-	-	233	233	-	233
Profit before taxation	619,354	781,966	84,787	139,742	1,625,849	286	1,626,135
Income tax expense							(390,600)
							1,235,535

Other information	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
Gross loans, advances and financing	52,897,727	30,152,862	-	357,597	83,408,186	(122,670)	83,285,516
Deposits from customers	59,691,754	29,021,283	30,000	11,990	88,755,027	(21,929)	88,733,098
Inter-segment operating income/(expense)	243,353	280,112	(851,012)	353,405	25,858	(25,858)	-
Depreciation of property, plant and equipment	10,867	3,862	1,827	51,621	68,177	83	68,260

44. Segment Information (Continued)

Operating Segments (Continued)

Group (Continued)	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
2017							
Operating income	1,392,711	1,103,208	162,924	265,985	2,924,828	(28,434)	2,896,394
Other operating expenses	(689,756)	(221,070)	(54,177)	(138,159)	(1,103,162)	24,418	(1,078,744)
Allowance for impairment on loans, advances and financing	(137,505)	(153,912)	42	(17)	(291,392)	(673)	(292,065)
Impairment loss on property, plant and equipment	-	-	-	(4,791)	(4,791)	-	(4,791)
Write-back of commitments and contingencies	-	3,343	-	-	3,343	-	3,343
Share of net profit of an associate	-	-	-	221	221	-	221
Profit before taxation	565,450	731,569	108,789	123,239	1,529,047	(4,689)	1,524,358
Income tax expense							(379,976)
							1,144,382
Other information							
Gross loans, advances and financing	50,968,770	27,913,741	-	331,519	79,214,030	(114,637)	79,099,393
Deposits from customers	55,295,680	28,087,061	1,776	20,142	83,404,659	(15,874)	83,388,785
Inter-segment operating income/(expense)	171,698	246,853	(709,422)	319,316	28,445	(28,445)	-
Depreciation of property, plant and equipment	8,270	2,678	2,036	43,463	56,447	83	56,530

44. Segment Information (Continued)

Operating Segments (Continued)

	Group	
	2018 RM'000	2017 RM'000
<u>Reconciliation of profit before taxation</u>		
Segment profit	**1,625,849**	**1,529,047**
<u>Eliminations</u>		
Interest income		
- Interest income from loans, advances and financing	(5,718)	(7,963)
Interest expense		
- Deposits from customers	5,712	5,898
Fee income		
- Service charges and fees	(2,275)	(920)
- Commitment fee	-	(22)
Dividend income	-	(1,921)
Other income		
- Rental income from operating leases	(23,577)	(23,517)
- Loss on dissolution of subsidiaries	-	11
	(25,858)	(28,434)
Allowance for impairment on loans, advances and financing		
- Collective impairment	369	(673)
Personnel expenses		
- Other employee benefits	-	-
Establishment related expenses		
- Depreciation of property, plant and equipment	(83)	(83)
- Rental of premises	19,165	19,063
- Others	6,684	5,369
Promotion and marketing related expenses		
- Advertising and publicity	4	6
General administrative expenses		
- Others	5	63
	25,775	24,418
Profit before taxation	1,626,135	1,524,358

45. Capital Management and Capital Adequacy

The Group's and the Bank's capital management objective is to maintain an optimal level of capital. Policies are set to ensure that the capital maintained is adequate to support business growth, taking into consideration regulatory requirements, the underlying risk of the Group's and the Bank's business and other factors such as rating targets. The policies endorsed by the Board of Directors are overseen by senior management.

The Group and the Bank compute capital adequacy ratios in accordance with BNM's guidelines. Total risk-weighted assets are computed based on the Internal Rating Based Approach ("IRBA") for Credit Risk, Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk.

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Common Equity Tier 1 ("CET1")/Tier 1 Capital				
Paid-up share capital	792,555	792,555	792,555	792,555
Retained profits	9,035,171	8,261,176	9,111,054	8,335,026
Other reserves	282,731	247,773	85,810	94,135
Regulatory adjustments applied in the calculation of CET1 Capital	(349,705)	(314,140)	(365,064)	(276,492)
Total CET1/Tier 1 Capital	9,760,752	8,987,364	9,624,355	8,945,224
Tier 2 Capital				
Tier 2 Capital instruments	1,600,000	1,500,000	1,600,000	1,500,000
Loan/financing loss provision				
- Surplus eligible provisions over expected losses	304,310	277,701	305,066	278,408
- General provisions	26,553	29,883	16,505	20,470
Regulatory adjustments applied in the calculation of Tier 2 Capital	85,437	70,762	-	(26,712)
Total Tier 2 Capital	2,016,300	1,878,346	1,921,571	1,772,166
Total Capital	11,777,052	10,865,710	11,545,926	10,717,390

45. Capital Management and Capital Adequacy (Continued)

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

	Group		Bank	
	2018	2017	2018	2017
CET1/Tier 1 Capital	16.200%	16.373%	16.151%	16.484%
Total Capital	19.547%	19.795%	19.376%	19.749%
CET1/Tier 1 Capital (net of proposed dividends)	15.379%	15.532%	15.321%	15.633%
Total Capital (net of proposed dividends)	18.725%	18.954%	18.546%	18.899%

The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) issued on 2 February 2018 and Basel II – Risk-Weighted Assets issued on 2 February 2018.

(b) **Analysis of gross risk-weighted assets ("RWA") in the various categories of risk weights is as follows:**

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Total RWA for credit risk	52,842,515	48,674,131	52,164,645	48,038,923
Total RWA for market risk	1,975,548	986,262	1,975,548	986,262
Total RWA for operational risk	5,433,208	5,230,645	5,448,326	5,242,469
	60,251,271	54,891,038	59,588,519	54,267,654

46. Credit Exposure Arising from Credit Transactions with Connected Parties

	Group and Bank	
	2018	2017
Outstanding credit exposures with connected parties (RM'000)	1,224,402	1,524,980
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	1.468%	1.925%
Percentage of outstanding credit exposures to connected parties which is impaired or in default	0.000%	0.000%

The credit exposures above are derived based on BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

47. Islamic Banking Operations

Statement of financial position
As at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	a	2,709,957	179,447
AFS securities	b	-	30,126
Debt instruments at fair value through other comprehensive income ("FVOCI")	c	179,662	-
Financing, advances and others	d	2,702,218	842,096
Other assets	e	2,656	297
Derivative financial assets	f	50	-
Statutory deposits with BNM		58,500	7,920
Plant and equipment		54	71
Deferred tax assets		4,140	145
Total assets		5,657,237	1,060,102
Liabilities and Islamic Banking funds			
Deposits from customers	g	4,635,848	600,379
Investment accounts due to a designated financial institution	h	99,946	-
Deposits and placements of banks and other financial institutions	i	419,903	4,711
Bills and acceptances payable		318	74
Derivative financial liabilities	f	467	-
Other liabilities	j	52,491	5,449
Tax payable		2,748	88
Total liabilities		5,211,721	610,701
Capital fund		450,000	450,000
Reserves		(4,484)	(599)
Islamic Banking funds	k	445,516	449,401
Total liabilities and Islamic Banking funds		5,657,237	1,060,102
Commitments and contingencies	s	1,373,030	693,549

The notes on pages 200 to 218 are integral part of the financial statements.

47. Islamic Banking Operations (Continued)

Statement of comprehensive income
For the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Income derived from depositors' funds	l	68,226	20,299
Income derived from investment of Islamic Banking funds	m	66,770	19,839
Income derived from investment of investment account funds	n	11	-
(Allowance for)/write-back of expected credit losses/impairment on			
Financing, advances and others	o	(24,269)	(8,979)
Other financial assets	o	(1,090)	-
Commitment and contingencies		14	-
Total attributable income		109,662	31,159
Income attributable to depositors	p	(94,193)	(16,460)
Income attributable to an investment account holder	q	(9)	-
Total net income		15,460	14,699
Other operating expenses	r	(20,778)	(14,786)
Loss for the year before taxation		(5,318)	(87)
Income tax		1,358	(25)
Loss for the year after taxation		(3,960)	(112)
Other comprehensive income:			
Items that will be reclassified subsequently to income statements:			
Net fair value changes in AFS securities		-	358
Net fair value changes in debt instruments at fair value through other comprehensive income		99	-
Income tax effect		(24)	(86)
Total other comprehensive income for the year, net of tax		75	272
Total comprehensive (loss)/income for the year		(3,885)	160

Net income from Islamic Banking operations as reported in the income statements of the Group and Bank is derived as follows:

	2018 RM'000	2017 RM'000
Income derived from depositors' funds	68,226	20,299
Income derived from investment of Islamic Banking funds	66,770	19,839
Income derived from investment of investment account funds	11	-
Income attributable to depositors	(94,193)	(16,460)
Income attributable to an investment account holder	(9)	-
Net income from Islamic Banking operations reported in the income statements of the Group and Bank	40,805	23,678

47. Islamic Banking Operations (Continued)

Statement of changes in Islamic Banking funds
For the financial year ended 31 December 2018

	Capital fund RM'000	Fair value through other comprehensive income reserve RM'000	Net unrealised deficit on AFS securities RM'000	Accumulated losses RM'000	Total RM'000
2018					
Balance as at 1 January 2018					
As previously stated	450,000	-	(81)	(518)	449,401
Effect of adopting MFRS 9					
Financial Instruments	-	(81)	81	-	-
Balance as at 1 January 2018, as restated	450,000	(81)	-	(518)	449,401
Loss for the year	-	-	-	(3,960)	(3,960)
Other comprehensive income	-	75	-	-	75
Total comprehensive loss	-	75	-	(3,960)	(3,885)
Balance as at 31 December 2018	450,000	(6)	-	(4,478)	445,516
2017					
Balance as at 1 January 2017	450,000	-	(353)	(406)	449,241
Loss for the year	-	-	-	(112)	(112)
Other comprehensive income	-	-	272	-	272
Total comprehensive loss	-		272	(112)	160
Balance as at 31 December 2017	450,000	-	(81)	(518)	449,401

47. Islamic Banking Operations (Continued)

Statement of cash flows
For the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Loss before taxation		(5,318)	(87)
Adjustments for:			
Profit income from debt instruments at FVOCI	m	(4,019)	-
Profit income from AFS securities	m	-	(919)
Allowance for expected credit losses/impairment on:			
Financing, advances and others	o	24,269	8,979
Other financial assets	o	1,090	-
Commitment and contingencies	j	(14)	-
Depreciation of plant and equipment	r	17	17
Trading income	m	(333)	(775)
Operating income before working capital changes		15,692	7,215
Increase in operating assets:			
Financing, advances and others		(1,884,391)	(746,440)
Derivative financial assets		(50)	-
Statutory deposits with BNM		(50,580)	(7,910)
Other assets		(2,072)	-
		(1,937,093)	(754,350)
Increase in operating liabilities:			
Deposits from customers		4,035,469	153,279
Investment accounts due to designated financial institution		99,946	-
Deposits and placements of banks and other financial institutions		415,192	4,491
Derivative financial liabilities		467	-
Other liabilities		47,056	2,774
Bills and acceptances payable		244	74
		4,598,374	160,618
Net cash generated from/(used in) operating activities		2,676,973	(586,517)
Cash flows from investing activities			
Profit income from debt instruments at FVOCI		3,836	-
Profit income from AFS securities		-	1,391
Net purchase of debt instruments at FVOCI		(149,203)	-
Net sale of AFS securities		-	895
Net cash (used in)/generated from investing activities		(145,367)	2,286
Net increase/(decrease) in cash and cash equivalents		2,531,606	(584,231)
Cash and cash equivalents at beginning of the year		179,447	763,678
Cash and cash equivalents at end of the year		2,711,053	179,447
Analysis of cash and cash equivalents			
Cash and short-term funds	a	2,711,053	179,447
Less: Allowance for ECL	a	(1,096)	-
		2,709,957	179,447

47. Islamic Banking Operations (Continued)

(a) Cash and Short-Term Funds

	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	150,053	17,447
Money at call and deposit placements maturing within one month	2,561,000	162,000
	2,711,053	179,447
Less: Allowance for ECL	(1,096)	-
	2,709,957	179,447

Movements in the allowances for ECL on cash and short-term funds are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	228	-	-	228
At 1 January 2018, as restated	228	-	-	228
Allowances made for the financial year	3,282	-	-	3,282
Maturity/settlement/repayment	(2,414)	-	-	(2,414)
	868	-	-	868
At 31 December 2018	1,096	-	-	1,096

(b) Available-For-Sale ("AFS") Securities

	2018 RM'000	2017 RM'000
Money market instruments		
Government Islamic investments	-	30,126

(c) Debt Instruments at Fair Value Through Other Comprehensive Income ("FVOCI")

	2018 RM'000	2017 RM'000
Money market instruments		
Government Islamic investments	30,012	-
Malaysian Government treasury bills	149,869	-
Less: Allowance for ECL	(219)	-
	179,662	-

47. Islamic Banking Operations (Continued)

(c) Debt Instruments at Fair Value Through Other Comprehensive Income ("FVOCI") (Continued)

Movements in the allowances for ECL on debt instruments at FVOCI are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	-	-	-	-
At 1 January 2018, as restated	-	-	-	-
Allowances made for the financial year	219	-	-	219
	219	-	-	219
At 31 December 2018	219	-	-	219

(d) Financing, Advances and Others

(i) Financing by type of Shariah contract:

	2018 RM'000	2017 RM'000
Tawarruq		
Term financing and revolving credits		
- Housing financing	1,324,968	381,834
- Others term financing	1,359,194	453,810
Claim on customers under acceptance credits	48,844	15,508
Gross financing, advances and others	2,733,006	851,152
Allowance for expected credit losses/impairment on financing, advances and others		
Stage 1 - 12 month ECL	(13,706)	-
Stage 2 - Lifetime ECL non credit-impaired	(15,449)	-
Stage 3 - Lifetime ECL credit-impaired	(1,633)	-
- Individual impairment	-	(201)
- Collective impairment	-	(8,855)
Net financing, advances and others	2,702,218	842,096

Included in financing, advances and others are specific business ventures funded by the Restricted Specific Investment Account ("RSIA") arrangement between Islamic Banking and Conventional Banking. The Conventional Banking, being RSIA depositor, is exposed to the risk and rewards of the business venture and accounts for the expected credit loss ("ECL") allowances arising theron. As at 31 December 2018, the gross exposure and expected credit loss relating to RSIA financing amounted to RM75,000,000 and RM54,036 respectively.

47. Islamic Banking Operations (Continued)

(d) Financing, Advances and Others (Continued)

(ii) Gross financing, advances and others by maturity structure:

	2018 RM'000	2017 RM'000
Maturing within one year	323,581	80,884
One year to three years	85,954	2,847
Three years to five years	103,904	98,974
Over five years	2,219,567	668,447
	2,733,006	851,152

(iii) Gross financing, advances and others by type of customers:

	2018 RM'000	2017 RM'000
Domestic business enterprises		
- Small medium enterprises	560,316	284,427
- Others	691,434	120,005
Individuals	1,386,740	417,427
Foreign entities	94,516	29,293
	2,733,006	851,152

(iv) Gross financing, advances and others by profit rate sensitivity:

	2018 RM'000	2017 RM'000
Fixed rate		
- Other fixed rate financing	48,847	15,508
Variable rate		
- Base rate/base financing rate-plus	1,986,861	674,884
- Cost-plus	697,298	160,760
	2,733,006	851,152

(v) Gross financing, advances and others by economic sectors:

	2018 RM'000	2017 RM'000
Agriculture	125,525	-
Manufacturing	206,940	82,408
Electricity, gas and water	63,294	-
Construction	198,404	45,777
Wholesale, retail trade, restaurants and hotels	383,295	122,798
Transport, storage and communication	31,454	25,884
Finance, insurance and business services	98,464	61,589
Real estate	138,790	63,285
Community, social and personal services	5,579	2,691
Households		
- purchase of residential properties	1,331,417	386,280
- purchase of non-residential properties	99,973	31,923
- others	49,871	28,517
	2,733,006	851,152

47. Islamic Banking Operations (Continued)

(d) Financing, Advances and Others (Continued)

(vi) Movements in the allowances for ECL on financing, advances and others are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	4,678	1,733	201	6,612
At 1 January 2018, as restated	4,678	1,733	201	6,612
Transferred to Stage 1	349	(4,481)	-	(4,132)
Transferred to Stage 2	(1,054)	17,132	-	16,078
Transferred to Stage 3	-	(2,301)	2,130	(171)
Allowances made for the financial year	66,530	3,613	49	70,192
Maturity/settlement/repayment	(56,801)	(251)	(596)	(57,648)
Exchange differences	2	2	-	4
	9,026	13,714	1,583	24,323
Amount written-off	-	-	-	-
Other movements	2	2	(151)	(147)
At 31 December 2018	13,706	15,449	1,633	30,788

(vii) Movements in impaired financing, advances and others are as follows:

	2018 RM'000	2017 RM'000
At 1 January	703	-
Classified as impaired during the financial year	12,862	703
Amount recovered	(6)	-
Reclassified as non credit-impaired	(855)	-
At 31 December	12,704	703
Allowance for ECL	(1,633)	-
Individual impairment	-	(201)
Net impaired financing, advances and others	11,071	502
Ratio of net impaired financing, advances and others to gross financing, advances and others less allowance for ECL on credit-impaired/ individual impairment provision	0.4%	0.1%

47. Islamic Banking Operations (Continued)

(d) Financing, Advances and Others (Continued)

(viii) Movements in allowances for losses on financing, advances and others are as follows:

	2018 RM'000	2017 RM'000
Collective impairment		
At 1 January		
- as previously stated	8,855	80
- effect of adopting MFRS 9	(8,855)	-
Impairment loss during the financial year	-	8,775
At 31 December	-	8,855
Individual impairment		
At 1 January		
- as previously stated	201	-
- effect of adopting MFRS 9	(201)	-
Impairment loss during the financial year	-	204
Profit recognised on impaired financing, advances and others during the financial year	-	(3)
At 31 December	-	201

(ix) Credit-impaired financing, advances and others analysed by economic sectors are as follows:

	2018 RM'000	2017 RM'000
Wholesale, retail trade, restaurants and hotels	2,119	-
Households:		
- purchase of residential properties	10,585	703
	12,704	703

(x) Credit-impaired financing, advances and others analysed by geographical distribution are as follows:

	2018 RM'000	2017 RM'000
In Malaysia	12,704	703

(e) Other Assets

	2018 RM'000	2017 RM'000
Other receivables, deposits and prepayments	462	-
Profit receivable	2,197	297
Less: Allowance for ECL	(3)	-
	2,656	297

47. Islamic Banking Operations (Continued)

(e) Other Assets (Continued)

Movements in the allowances for ECL on other assets are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	-	-	-	-
At 1 January 2018, as restated	-	-	-	-
Allowances made for the financial year	7	2	-	9
Maturity/settlement/repayment	(5)	(1)	-	(6)
	2	1	-	3
At 31 December 2018	2	1	-	3

(f) **Financial Derivatives**

Financial derivatives are instruments whose values change in response to the change in one or more "underlying", such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Bank customise derivatives to meet specific needs of their customers. The Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. While the Bank also enter into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases for customers, these other contracts are not designated as hedge relationships and are measured at fair value through profit or loss.

The fair value of the derivatives are as follow:

	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
2018			
Foreign exchange contracts			
- forwards	113,442	50	467

47. Islamic Banking Operations (Continued)

(g) Deposits From Customers

(i) By type of deposits:

	2018 RM'000	2017 RM'000
Non-mudharabah fund		
Demand deposits		
- Qard	106,229	92,395
Savings deposits		
- Qard	11,860	7,911
Fixed deposits		
- Tawarruq	4,500,309	496,423
Other deposits		
- Tawarruq	17,450	3,650
	4,635,848	600,379

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

	2018 RM'000	2017 RM'000
Due within six months	2,353,657	409,129
Six months to one year	1,984,818	87,294
Three years to five years	161,834	-
	4,500,309	496,423

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

	2018 RM'000	2017 RM'000
Business enterprises	997,912	453,782
Individuals	1,043,184	78,143
Others	2,594,752	68,454
	4,635,848	600,379

(h) Investment Accounts due to a Designated Financial Institution

	2018 RM'000	2017 RM'000
Mudharabah RSIA		
Licensed bank	100,000	-
Amount receivable from Conventional Banking	(54)	-
	99,946	-

47. Islamic Banking Operations (Continued)

(i) Deposits and placements of banks and other financial institutions

	2018 RM'000	2017 RM'000
Non-mudharabah fund		
Other financial institutions	419,903	4,711

(j) Other Liabilities

	2018 RM'000	2017 RM'000
Allowance for ECL for commitment and contingencies	2,202	-
Accrued profit payable	47,410	4,281
Accruals and provisions for operational expenses	2,879	1,168
	52,491	5,449

Movements in the allowances for ECL on commitments and contingencies are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL non credit-impaired RM'000	Stage 3 Lifetime ECL credit-impaired RM'000	Total ECL RM'000
At 1 January 2018				
- as previously stated	-	-	-	-
- effect of adopting MFRS 9	2,207	9	-	2,216
At 1 January 2018, as restated	2,207	9	-	2,216
Transferred to Stage 1	19	(27)	-	(8)
Transferred to Stage 2	(24)	200	-	176
Allowances made for the financial year	20,062	3,536	-	23,598
Maturity/settlement/repayment	(20,267)	(3,513)	-	(23,780)
	(210)	196	-	(14)
At 31 December 2018	1,997	205	-	2,202

(k) Islamic Banking Funds

	2018 RM'000	2017 RM'000
Capital fund	450,000	450,000
Net unrealised deficit on AFS securities	-	(81)
Fair value through other comprehensie income reserve	(6)	-
Accumulated losses	(4,478)	(518)
	445,516	449,401

47. Islamic Banking Operations (Continued)

(l) Income Derived From Depositors' Funds

	2018 RM'000	2017 RM'000
<u>Finance income and hibah</u>		
Financing, advances and others	37,909	10,825
Money at call and deposit placements with financial institutions	30,317	9,474
	68,226	20,299

(m) Income Derived From Investment of Islamic Banking Funds

	2018 RM'000	2017 RM'000
<u>Finance income and hibah</u>		
Financing, advances and others	47,976	5,453
Money at call and deposit placements with financial institutions	5,591	8,557
Debt instruments at FVOCI	4,019	-
AFS securities	-	919
	57,586	14,929
<u>Other operating income</u>		
Trading income	333	775
Commission income	5,247	2,845
Fee income	3,588	1,284
Others	16	6
	66,770	19,839

(n) Income Derived From Investment of Investment Account Funds

	2018 RM'000	2017 RM'000
Financing, advances and others	9	-
Money at call and deposit placements with financial institutions	2	-
	11	-

47. Islamic Banking Operations (Continued)

(o) Allowance for Impairment on Financing, Advances and Others and Other Financial Assets

	2018 RM'000	2017 RM'000
Allowance for impairment on financing, advances and others		
Stage 1 ECL	9,026	-
Stage 2 ECL	13,714	-
Stage 3 ECL	1,583	-
Individual impairment		
- made in the financial year	-	204
Collective impairment		
- made in the financial year, net	-	8,775
Recovery from RSIA holder*	(54)	-
	24,269	8,979

* The RSIA holder is the Conventional Banking (Note d(i))

	2018 RM'000	2017 RM'000
Other financial assets		
Stage 1 ECL	1,089	-
Stage 2 ECL	1	-
	1,090	-

(p) Income Attributable to Depositors

	2018 RM'000	2017 RM'000
Income attributable to depositors from non-mudharabah fund	94,193	16,460

(q) Income Attributable to Investment Account Holders

	2018 RM'000	2017 RM'000
Income attributable to depositors from mudharabah fund	9	-

47. Islamic Banking Operations (Continued)

(r) Other Operating Expenses

	2018 RM'000	2017 RM'000
Personnel expenses	1,725	1,865
Establishment related expenses	563	224
Promotion and marketing related expenses	261	202
General administrative expenses	18,229	12,495
	20,778	14,786
Personnel expenses		
- Wages, salaries and bonus	1,287	1,385
- Defined contribution plan	204	254
- Other employee benefits	234	226
	1,725	1,865
Establishment related expenses		
- Depreciation of plant and equipment	17	17
- Repair and maintenance	2	6
- Rental of premises	12	12
- Information technology costs	217	-
- Others	315	189
	563	224
Promotion and marketing related expenses		
- Advertisement and publicity	261	202
General administrative expenses		
- Fees and commissions paid	381	289
- Management fee	17,747	12,085
- Others	101	121
	18,229	12,495

47. Islamic Banking Operations (Continued)

(s) Commitments and Contingencies

The off-balance sheet exposures and their related counterparty credit risk are as follows:

2018	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	11,092	11,092	5,833
Transaction-related contingent items	31,974	15,987	14,260
Short-term self-liquidating trade-related contigencies	1,717	343	71
Foreign exchange related contracts			
- less than one year	113,442	1,745	422
Undrawn credit facility			
- less than one year	162,598	280	126
- more than one year	1,052,207	582,650	114,732
Total	1,373,030	612,097	135,444

2017	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	7,134	7,134	4,522
Transaction-related contingent items	11,096	5,548	6,343
Undrawn credit facility			
- less than one year	84,534	750	838
- more than one year	590,785	371,644	167,159
Total	693,549	385,076	178,862

(t) Capital Management and Capital Adequacy

The capital adequacy ratios of Islamic Banking Window are computed in accordance with the BNM Capital Adequacy Framework for Islamic Banking (Capital Components) and Basel II - Risk-Weighted Assets Framework for Islamic Banking.

	2018 RM'000	2017 RM'000
Common Equity Tier 1 ("CET1")/Tier 1 Capital		
Capital fund	450,000	450,000
Accumulated losses	(4,478)	(518)
Other reserves	(6)	(81)
Regulatory adjustments applied in the calculation of CET1 Capital	(4,156)	(144)
Total CET1/Tier 1 Capital	441,360	449,257
Tier 2 Capital		
Financing loss provision		
- Surplus eligible provisions over expected losses	8,136	1,523
- General provisions	247	2
Total Tier 2 Capital	8,383	1,525
Total Capital	449,743	450,782

47. Islamic Banking Operations (Continued)

(t) Capital Management and Capital Adequacy (Continued)

(a) The capital adequacy ratios are as follows:

	2018	2017
Before the effects of RSIA		
CET1/Tier 1 Capital	30.386%	73.643%
Total Capital	30.977%	73.893%
After the effects of RSIA		
CET1/Tier 1 Capital	31.099%	73.643%
Total Capital	31.689%	73.893%

In accordance with BNM's Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ("PSIA") as Risk Absorbent, the credit and market risks of the assets funded by the RSIA which qualify as risk absorbent are excluded from the total capital ratio calculation. As at 31 December 2018, credit risks related to RSIA assets excluded from the total capital ratio calculation amounted to RM33,283,000 (2017: Nil).

(b) Analysis of gross RWA in the various categories of risk-weights is as follows:

	2018 RM'000	2017 RM'000
Total RWA for credit risk	1,375,717	583,283
Total RWA for market risk	159	-
Total RWA for operational risk	43,348	26,768
	1,419,224	610,051

47. Islamic Banking Operations (Continued)

(u) Liquidity Risk

The following table shows the contractual undiscounted cash flows of the Islamic Banking Window's assets and liabilities based on remaining contractual maturities. The contractual maturity profile often does not reflect the actual behavioural patterns.

2018	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	2,711,941	-	-	-	-	2,711,941
Debt instruments at FVOCI	-	179,662	-	-	-	179,662
Financing, advances and others	456,500	107,888	129,063	820,473	2,679,922	4,193,846
Statutory deposits with BNM	-	-	-	-	58,500	58,500
	3,168,441	287,550	129,063	820,473	2,738,422	7,143,949
Liabilities						
Deposits from customers	1,916,617	621,516	2,062,627	197,111	-	4,797,871
Investment accounts due to a designated financial institution	100,384	-	-	-	-	100,384
Deposits and placements of banks and other financial institutions	19,903	-	-	432,467	-	452,370
Bills and acceptances payable	318	-	-	-	-	318
	2,037,223	621,516	2,062,627	629,578	-	5,350,943
Net maturity mismatches	1,131,218	(333,966)	(1,933,564)	190,896	2,738,422	
Off-balance sheet liabilities						
Credit and commitments	121,739	300	8,320	252,241	990,430	1,373,030
Net maturity mismatches	121,739	300	8,320	252,241	990,430	1,373,030
2017						
Assets						
Cash and short-term funds	179,583	-	-	-	-	179,583
AFS securities	-	-	-	32,983	-	32,983
Financing, advances and others	124,612	29,396	51,839	288,061	740,880	1,234,788
Statutory deposits with BNM	-	-	-	-	7,920	7,920
	304,195	29,396	51,839	321,044	748,800	1,455,274
Liabilities						
Deposits from customers	428,745	86,763	89,874	-	-	605,382
Deposits and placements of banks and other financial institutions	4,711	-	-	-	-	4,711
Bills and acceptances payable	74	-	-	-	-	74
	433,530	86,763	89,874	-	-	610,167
Net maturity mismatches	(129,335)	(57,367)	(38,035)	321,044	748,800	
Off-balance sheet liabilities						
Credit and commitments	-	1,000	10,464	129,488	552,596	693,549
Net maturity mismatches	-	1,000	10,464	129,488	552,596	693,549

47. Islamic Banking Operations (Continued)

(v) Mudharabah Restricted Specific Investment Account

(i) Movement in the Mudharabah Restricted Specific Investment Account

	2018 RM'000	2017 RM'000
As at 1 January	-	-
Funding inflows/(outflows)		
New placement during the year	100,000	-
Profit to fund provider	(9)	-
Income from investment	11	-
Share of profit		
Profit distributed to mudarib	(2)	-
Amount receivable from Conventional Banking	(54)	-
As at 31 December	99,946	-
Investment assets		
Financing and advances	74,946	-
Interbank placement	25,000	-
	99,946	-

(ii) Profit sharing ratio and rate of return

	Average profit sharing ratio (Depositor: Islamic Banking operations)		Average rate of return (%)	
	2018	2017	2018	2017
Up to 1 year	80:20	-	4.25	-

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