

UNITED OVERSEAS BANK (MALAYSIA) BHD
(Company No. 271809K)
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL STATEMENTS
30 SEPTEMBER 2018

Domiciled in Malaysia
Registered Office:
Level 11, Menara UOB
Jalan Raja Laut,
50350 Kuala Lumpur

UNITED OVERSEAS BANK (MALAYSIA) BHD

(Incorporated in Malaysia)

**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

	Notes	Group		Bank	
		30-Sep-18 RM'000	31-Dec-17 RM'000	30-Sep-18 RM'000	31-Dec-17 RM'000
ASSETS					
Cash and short-term funds	11	5,811,084	8,438,916	5,811,084	8,438,916
Securities purchased under resale agreements		4,090,757	1,079,420	4,090,757	1,079,420
Deposits and placements with financial institutions	12	150,000	150,000	150,000	150,000
Financial assets at fair value through profit or loss ("FVTPL")	13	2,582,947	229,455	2,582,947	229,455
Available-for-sale ("AFS") securities	14	-	11,009,527	-	11,009,527
Debt instruments at fair value through other comprehensive income ("FVOCI")	15	15,976,971	-	15,976,971	-
Equity instruments at fair value through other comprehensive income ("FVOCI")	16	114,711	-	114,711	-
Loans, advances and financing	17	80,633,914	77,561,301	80,752,406	77,675,030
Derivative financial assets	18	623,484	592,160	623,484	592,160
Other assets	19	479,284	483,839	485,182	487,326
Statutory deposits with Bank Negara Malaysia		1,867,329	1,802,204	1,867,329	1,802,204
Investment in subsidiaries		-	-	180,020	120,040
Investment in an associate		10,026	9,854	13,522	13,522
Property, plant and equipment		629,338	561,281	255,637	239,757
Deferred tax assets		5,033	88,336	5,033	88,336
Total assets		112,974,878	102,006,293	112,909,083	101,925,693
LIABILITIES					
Deposits from customers	20	88,910,348	83,388,785	88,942,181	83,404,659
Deposits and placements of banks and other financial institutions	21	9,554,524	4,401,690	9,554,544	4,401,720
Bills and acceptances payable		394,709	232,173	394,709	232,173
Derivative financial liabilities	18	409,631	601,266	409,631	601,266
Other liabilities	22	2,256,409	2,437,909	2,255,123	2,436,024
Tax payable		38,207	126,506	36,815	125,433
Deferred tax liabilities		13,758	13,758	-	-
Subordinated bonds	23	1,601,049	1,502,702	1,601,049	1,502,702
Total liabilities		103,178,635	92,704,789	103,194,052	92,703,977

Company No. 271809K

UNITED OVERSEAS BANK (MALAYSIA) BHD

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CONDENSED INTERIM FINANCIAL STATEMENTS

UNAUDITED STATEMENTS OF FINANCIAL POSITION (cont'd.)

AS AT 30 SEPTEMBER 2018

		Group		Bank	
	Notes	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
		RM'000	RM'000	RM'000	RM'000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK					
Share capital		792,555	792,555	792,555	792,555
Reserves		9,003,688	8,508,949	8,922,476	8,429,161
Total equity		9,796,243	9,301,504	9,715,031	9,221,716
TOTAL LIABILITIES AND EQUITY		112,974,878	102,006,293	112,909,083	101,925,693
Commitments and contingencies	33	108,107,334	97,541,595	107,723,545	97,110,150

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

UNITED OVERSEAS BANK (MALAYSIA) BHD

(Incorporated in Malaysia)

**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

Group	Notes	Third Quarter Ended		Nine Months Ended	
		30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Operating revenue	25	1,550,785	1,419,311	4,450,969	4,143,573
Interest income	26	1,314,709	1,211,321	3,737,017	3,534,117
Interest expense	27	(786,999)	(695,906)	(2,201,787)	(2,006,726)
Net interest income		527,710	515,415	1,535,230	1,527,391
Net income from Islamic					
Banking operations	36	11,954	6,451	30,184	15,426
Other operating income	28	204,060	200,760	644,739	593,901
Operating income		743,724	722,626	2,210,153	2,136,718
Other operating expenses	29	(289,924)	(264,683)	(841,258)	(770,155)
Operating profit before allowance for expected credit losses/impairment		453,800	457,943	1,368,895	1,366,563
Allowance for expected credit losses/ impairment on:					
Loans, advances and financing	30	(41,048)	(85,337)	(107,495)	(188,962)
Other financial assets	30	5,143	-	5,317	-
Commitments and contingencies	30	(965)	4,556	(10,080)	2,616
		416,930	377,162	1,256,637	1,180,217
Share of net profit of an associate		59	55	171	167
Profit before taxation		416,989	377,217	1,256,808	1,180,384
Income tax expense		(92,149)	(85,851)	(297,593)	(280,693)
Profit for the period attributable to equity holders of the Bank		324,840	291,366	959,215	899,691
Basic/diluted earnings per share (sen)		69.1	62.0	204.1	191.4

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

UNITED OVERSEAS BANK (MALAYSIA) BHD

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**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS (cont'd.)
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

Bank	Notes	Third Quarter		Nine Months	
		Ended		Ended	
		30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
		RM'000	RM'000	RM'000	RM'000
Operating revenue	25	1,552,289	1,421,072	4,455,134	4,151,125
Interest income	26	1,316,088	1,213,024	3,740,975	3,539,767
Interest expense	27	(787,154)	(695,916)	(2,201,977)	(2,006,766)
Net interest income		528,934	517,108	1,538,998	1,533,001
Net income from Islamic					
Banking operations	36	11,954	6,451	30,184	15,426
Other operating income	28	204,185	200,807	644,946	595,788
Operating income		745,073	724,366	2,214,128	2,144,215
Other operating expenses	29	(291,635)	(266,868)	(847,226)	(776,657)
Operating profit before allowance for expected credit losses/impairment		453,438	457,498	1,366,902	1,367,558
Allowance for expected credit losses/ impairment on:					
Loans, advances and financing	30	(41,041)	(84,936)	(107,744)	(188,512)
Other financial assets	30	5,142	-	5,316	-
Commitments and contingencies	30	(965)	4,556	(10,080)	2,616
Profit before taxation		416,574	377,118	1,254,394	1,181,662
Income tax expense		(91,914)	(83,392)	(296,603)	(277,408)
Profit for the period attributable to equity holders of the Bank		324,660	293,726	957,791	904,254
Basic/diluted earnings per share (sen)		69.1	62.5	203.8	192.4

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

UNITED OVERSEAS BANK (MALAYSIA) BHD
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**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

Group	Third Quarter Ended		Nine Months Ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Profit for the period	324,840	291,366	959,215	899,691
Other comprehensive income				
<u>Items that will be reclassified to income statements:</u>				
Net fair value changes in AFS securities	-	20,246	-	80,570
Net fair value changes in debt instruments at fair value through other comprehensive income	40,244	-	21,942	-
Income tax effect	(9,658)	(4,859)	(5,266)	(19,337)
	30,586	15,387	16,676	61,233
<u>Items that will not be reclassified to income statements:</u>				
Net fair value changes in equity instruments at fair value through other comprehensive income	1,350	-	(25,805)	-
Income tax effect	(324)	-	6,193	-
	1,026	-	(19,612)	-
Total other comprehensive income/(loss) for the period, net of tax	31,612	15,387	(2,936)	61,233
Total comprehensive income for the period attributable to equity holders of the Bank	356,452	306,753	956,279	960,924

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME (cont'd.)
FOR THE PERIOD ENDED 30 SEPTEMBER 2018

	Third Quarter		Nine Months	
	Ended		Ended	
Bank	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
Profit for the period	324,660	293,726	957,791	904,254
Other comprehensive income				
<u>Items that will be reclassified to</u> <u>income statements:</u>				
Net fair value changes in AFS securities	-	20,246	-	80,570
Net fair value changes in debt instruments at fair value through other comprehensive income	40,244	-	21,942	-
Income tax effect	(9,658)	(4,859)	(5,266)	(19,337)
	30,586	15,387	16,676	61,233
<u>Items that will not be reclassified to</u> <u>income statements:</u>				
Net fair value changes in equity instruments at fair value through other comprehensive income	1,350	-	(25,805)	-
Income tax effect	(324)	-	6,193	-
	1,026	-	(19,612)	-
Total other comprehensive income/(loss) for the period, net of tax	31,612	15,387	(2,936)	61,233
Total comprehensive income for the period attributable to equity holders of the Bank	356,272	309,113	954,855	965,487

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

UNITED OVERSEAS BANK (MALAYSIA) BHD

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**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

GROUP	Non-distributable		Distributable		Total	
	Share capital	Revaluation reserves	Fair value through other comprehensive income reserve	Net unrealised reserves on AFS securities		Retained profits
	RM'000	RM'000	RM'000	RM'000	RM'000	
2018						
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)	-	-
At 1 January 2018, as restated	792,555	146,736	101,037	-	8,261,176	9,301,504
Profit for the period	-	-	-	-	959,215	959,215
Other comprehensive loss for the period	-	-	(2,936)	-	-	(2,936)
Total comprehensive (loss)/income for the period	-	-	(2,936)	-	959,215	956,279
Transactions with owners:						
Dividends paid:						
final dividend for the financial year ended 31 December 2017	-	-	-	-	(461,540)	(461,540)
At 30 September 2018	792,555	146,736	98,101	-	8,758,851	9,796,243

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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CONDENSED INTERIM FINANCIAL STATEMENTS**UNAUDITED STATEMENTS OF CHANGES IN EQUITY (cont'd.)****FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

GROUP (cont'd.)	← Non-distributable				Distributable		Total
	Share capital	Share premium	Statutory reserve	Revaluation reserves	Net unrealised reserves on AFS securities	Retained profits	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
At 1 January 2017	470,000	322,555	470,000	146,736	57,029	7,032,664	8,498,984
Profit for the period	-	-	-	-	-	899,691	899,691
Other comprehensive income for the period	-	-	-	-	61,233	-	61,233
Total comprehensive income for the period	-	-	-	-	61,233	899,691	960,924
Transactions with owners/other equity movements:							
Transfer pursuant to Companies Act 2016	322,555	(322,555)	-	-	-	-	-
Transfer to retained earnings	-	-	(470,000)	-	-	470,000	-
Dividends paid:							
final dividend for the financial year ended 31 December 2017	-	-	-	-	-	(385,870)	(385,870)
At 30 September 2017	792,555	-	-	146,736	118,262	8,016,485	9,074,038

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

BANK	←	Non-distributable Fair value through other comprehensive income reserve	→	Distributable Net unrealised reserves on AFS securities	Retained profits	Total
	Share capital	RM'000	RM'000	RM'000	RM'000	RM'000
2018						
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)	-	-	
At 1 January 2018, as restated	792,555	94,135	-	8,335,026	9,221,716	
Profit for the period	-	-	-	957,791	957,791	
Other comprehensive loss for the period	-	(2,936)	-	-	(2,936)	
Total comprehensive (loss)/income for the period	-	(2,936)	-	957,791	954,855	
Transactions with owners:						
Dividends paid:						
final dividend for the financial year ended 31 December 2017	-	-	-	(461,540)	(461,540)	
At 30 September 2018	792,555	91,199	-	8,831,277	9,715,031	

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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CONDENSED INTERIM FINANCIAL STATEMENTS**UNAUDITED STATEMENTS OF CHANGES IN EQUITY (cont'd.)****FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

BANK (cont'd.)	← Non-distributable			Distributable		Total
	Share capital	Share premium	Statutory reserve	Net unrealised reserves on AFS securities	Retained profits	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
At 1 January 2017	470,000	322,555	470,000	50,127	7,097,119	8,409,801
Profit for the period	-	-	-	-	904,254	904,254
Other comprehensive income for the period	-	-	-	61,233	-	61,233
Total comprehensive income for the period	-	-	-	61,233	904,254	965,487
Transactions with owners/other equity movements:						
Transfer pursuant to Companies Act 2016	322,555	(322,555)	-	-	-	-
Transfer to retained earnings	-	-	(470,000)	-	470,000	-
Dividends paid:						
final dividend for the financial year ended 31 December 2017	-	-	-	-	(385,870)	(385,870)
At 30 September 2017	792,555	-	-	111,360	8,085,503	8,989,418

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

	Group		Bank	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Profit before taxation	1,256,808	1,180,384	1,254,394	1,181,662
Adjustments for non-operating and non-cash items	(275,985)	100,638	(370,076)	92,152
Operating profit before working capital changes	980,823	1,281,022	884,318	1,273,814
Changes in working capital:				
Net changes in operating assets	(8,823,328)	(1,650,309)	(8,743,107)	(1,578,098)
Net changes in operating liabilities	10,709,131	3,450,302	10,725,680	3,481,658
Tax expense paid	(301,663)	(265,268)	(300,992)	(260,731)
Net cash generated from operating activities	2,564,963	2,815,747	2,565,899	2,916,643
Net cash used in investing activities	(4,829,601)	(2,956,774)	(4,830,538)	(3,057,670)
Net cash used in financing activities	(363,194)	(385,186)	(363,193)	(385,186)
Net decrease in cash and cash equivalents	(2,627,832)	(526,213)	(2,627,832)	(526,213)
Cash and cash equivalents at beginning of the period	8,588,916	12,394,840	8,588,916	12,394,840
Cash and cash equivalents at end of the period	5,961,084	11,868,627	5,961,084	11,868,627
Analysis of cash and cash equivalents				
Cash and short-term funds	5,811,084	11,518,627	5,811,084	11,518,627
Deposits and placements with financial institutions	150,000	350,000	150,000	350,000
	5,961,084	11,868,627	5,961,084	11,868,627

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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EXPLANATORY NOTES

1. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB").

The unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements of the Group and the Bank for the financial year ended 31 December 2017. The explanatory notes attached to the condensed interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial positions and performance of the Group and the Bank since the financial year ended 31 December 2017.

The significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2017, and modified for the adoption of the following accounting standards applicable for financial periods beginning on or after 1 January 2018:

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014)

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

Amendment to MFRS 4 Insurance Contracts

The adoption of MFRS 9 *Financial Instruments* resulted in change in accounting policies and adjustments to the amounts 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 as of 1 January 2018.

The accounting policies that relates 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 hedge accounting requirements under MFRS 9 *Financial Instruments* has minimal impact to the Group and to the Bank as the standard allow the Group and the Bank to continue applying its existing practice for hedge accounting.

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

(a) Changes in accounting policies

Financial assets - Classification and measurements

Financial assets are classified as follows:

- Amortised cost
- Fair value through other comprehensive income ("FVOCI")
- Fair value through profit and loss, inclusive of held of trading, designated and mandatory ("FVTPL")

The classification and measurements of the financial assets depend on the Group's and Bank's business models and contractual cash flow characteristics of the financial assets. Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows which represent solely payments of principal and interest/profit. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets which are neither held at amortised cost nor at FVOCI will be measured at FVTPL. The following summaries the key changes:

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EXPLANATORY NOTES

1. BASIS OF PREPARATION (cont'd.)

(a) Changes in accounting policies (cont'd.)

- i) Available-for-sales and loans and receivables for financial assets categories were removed.
- ii) New classification categories were introduced:
 - a) FVOCI applies to debt instruments with contractual cash flow characteristic that is solely payments of principal and interest/profit and business models whose objective are to both collect contractual cash flows and selling of financial assets.
 - b) Amortised cost applies to debt instruments with contractual cash flow characteristic that are solely payments of principal and interest/profit and business models whose objective are to hold to collect contractual cash flows.

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

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI (with recycling) and certain loan and financing commitments as well as financial guarantee contracts. The allowance for impairment is 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 origination, in which case, the allowance is based on the probability of default over the expected life of the asset.

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 applied impairment methodology, as described below:

- Stage 1:
Performing loans/financing: When loans and financing are first recognised, the Bank recognises an allowance based on 12 month expected credit loss.
- Stage 2:
Underperforming loans/financing: When loans and financing show significant increase in credit risk, the Bank records an allowance for the lifetime expected credit loss.
- Stage 3:
Impaired loans/financing: the Bank recognises the lifetime expected credit losses for these impaired loans and financing with 100% probability of default.

Hedge accounting

The Group and the Bank applied hedge accounting prospectively. At the date of the initial application, all of the Group's and the Bank's existing hedge relationships were eligible to be treated as continuing hedging relationship, as such, the adoption of the hedge accounting requirements of MFRS 9 had no significant impact on the Group's and the Bank's financial statements.

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(b) Classification and measurement of financial instruments**

The measurement category and the carrying amount of financial assets and liabilities of the Group and of the Bank in accordance with MFRS 139 *Financial Instruments: Recognition and Measurement* and MFRS 9 *Financial Instruments* as at 1 January 2018:

Group	Note	Measurement category		Carrying amount as at 1 January 2018	
		Old (MFRS 139)	New (MFRS 9)	Old (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	77,561,301	77,696,806
Statutory deposits with Bank Negara Malaysia	1	Loans and receivables	Amortised cost	1,802,204	1,802,204
Available-for-sales	2	Available for sales	Debt instruments at fair value through other comprehensive income	10,869,011	10,860,679
Available-for-sales	3	Available for sales	Equity instruments at fair value through other comprehensive income	140,516	140,516
Other assets		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

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(b) Classification and measurement of financial instruments (cont'd.)**

Group	Note	Measurement category		Carrying amount as at 1 January 2018	
		Old (MFRS 139)	New (MFRS 9)	Old (MFRS 139) RM'000	New (MFRS 9) RM'000
Financial Liabilities					
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	2,437,909	2,526,194
Subordinated bonds		Amortised cost	Amortised cost	1,502,702	1,502,702
Bank					
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-sales	2	Available for sales	Debt instruments at fair value through other comprehensive income	10,869,011	10,860,679
Available-for-sales	3	Available for sales	Equity instruments at fair value through other comprehensive income	140,516	140,516

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(b) Classification and measurement of financial instruments (cont'd.)**

Bank	Measurement category		Carrying amount as at 1 January 2018		
	Note	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM'000	New (MFRS 9) RM'000
Financial assets (cont'd.)					
Other assets		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

1 Cash and short term funds, securities purchased under resale agreement, deposits and placement with financial institutions, loans, advances and financing and statutory deposits with Bank Negara Malaysia that have previously been measured as loans and receivables are now measured as amortised cost. The Group and the Bank intend to hold these assets to maturity to collect contractual cash flows.

2 Debt instruments that were previously classified as available for sales and carried at fair value were assessed to have business models of both collecting contractual cash flows and selling financial assets, and accordingly, are classified as fair value through other comprehensive income (with recycling) under MFRS 9.

3 The Group and the Bank have elected to apply fair value through other comprehensive income option for their equity instruments (mainly quoted and unquoted shares) that were previously classified as available for sales. These assets will remain accounted for at fair value through other comprehensive income with no subsequent recycling of realised gains or losses.

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(c) Reconciliation of Statement of Financial Position balances from MFRS 139 to MFRS 9**

The following tables are reconciliations of the carrying amount of the Group's and of the Bank's statement of financial position from MFRS 139 *Financial Instruments: Recognition and Measurement* to the new measurement categories upon adoption to MFRS 9 *Financial Instruments* as at 1 January 2018:

Group	Old (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)
Closing balance under MFRS 9	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
Closing balance under MFRS 9	77,561,301	-	135,505	77,696,806
Available-for-sale ("AFS")				
Opening balance under MFRS 139	11,009,527	-	-	-
To debt instruments at FVOCI	-	(10,869,011)	-	-
To equity instruments at FVOCI	-	(140,516)	-	-
Closing balance under MFRS 9	11,009,527	(11,009,527)	-	-
Debt instruments at fair value through other comprehensive income ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS	-	10,869,011	-	10,869,011
Remeasurement: ECL	-	-	(8,332)	(8,332)
Closing balance under MFRS 9	-	10,869,011	(8,332)	10,860,679
Equity instruments at fair value through other comprehensive income option ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS	-	140,516	-	140,516
Closing balance under MFRS 9	-	140,516	-	140,516

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(c) Reconciliation of Statement of Financial Position balances from MFRS 139 to MFRS 9 (cont'd.)**

Group	Old (MFRS 139)	Reclassification RM'000	Remeasurement RM'000	New (MFRS 9)
	Carrying amount 31 December 2017 RM'000			Carrying amount 1 January 2018 RM'000
Financial assets (con'td.)				
Other assets				
Opening balance under MFRS 139	483,839	-	-	483,839
Remeasurement: ECL	-	-	(2,873)	(2,873)
Closing balance under MFRS 9	483,839	-	(2,873)	480,966
Total changes to financial assets balance	100,525,207	-	88,285	100,613,492
Financial liabilities				
Other liabilities				
Opening balance under MFRS 139	2,437,909	-	-	2,437,909
Remeasurement: ECL	-	-	88,285	88,285
Closing balance under MFRS 9	2,437,909	-	88,285	2,526,194
Total change to financial liabilities balance	2,437,909	-	88,285	2,526,194
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)	-	-
Closing balance under MFRS 9	101,037	(101,037)	-	-
FVOCI reserve - Debt instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	(3,128)	-	(3,128)
Closing balance under MFRS 9	-	(3,128)	-	(3,128)
FVOCI reserve - Equity instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	104,165	-	104,165
Closing balance under MFRS 9	-	104,165	-	104,165
Retained profits				
Opening balance under MFRS 139 and closing balance under MFRS 9	8,261,176	-	-	8,261,176
Total change to reserve and retained profits	8,362,213	-	-	8,362,213

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(c) Reconciliation of Statement of Financial Position balances from MFRS 139 to MFRS 9 (cont'd.)**

Bank	Old (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)
Closing balance under MFRS 9	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
Closing balance under MFRS 9	77,675,030	-	135,505	77,810,535
Available-for-sale ("AFS")				
Opening balance under MFRS 139	11,009,527	-	-	-
To debt instruments at FVOCI	-	(10,869,011)	-	-
To equity instruments at FVOCI	-	(140,516)	-	-
Closing balance under MFRS 9	11,009,527	(11,009,527)	-	-
Debt instruments at fair value through other comprehensive income ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS	-	10,869,011	-	10,869,011
Remeasurement: ECL	-	-	(8,332)	(8,332)
Closing balance under MFRS 9	-	10,869,011	(8,332)	10,860,679
Equity instruments at fair value through other comprehensive income option ("FVOCI")				
Opening balance under MFRS 139	-	-	-	-
From AFS	-	140,516	-	140,516
Closing balance under MFRS 9	-	140,516	-	140,516
Other assets				
Opening balance under MFRS 139	487,326	-	-	487,326
Remeasurement: ECL	-	-	(2,873)	(2,873)
Closing balance under MFRS 9	487,326	-	(2,873)	484,453
Total changes to financial assets balance	100,642,423	-	88,285	100,730,708

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(c) Reconciliation of Statement of Financial Position balances from MFRS 139 to MFRS 9 (cont'd.)**

Bank	Old (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
Closing balance under MFRS 9	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)	-	-
Closing balance under MFRS 9	94,135	(94,135)	-	-
FVOCI reserve - Debt instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	(3,128)	-	(3,128)
Closing balance under MFRS 9	-	(3,128)	-	(3,128)
FVOCI reserve - Equity instruments				
Opening balance under MFRS 139	-	-	-	-
From AFS reserve	-	97,263	-	97,263
Closing balance under MFRS 9	-	97,263	-	97,263
Retained profits				
Opening balance under MFRS 139 and closing balance under MFRS 9	8,335,026	-	-	8,335,026
Total change to reserve and retained profits	8,429,161	-	-	8,429,161

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EXPLANATORY NOTES**1. BASIS OF PREPARATION (cont'd.)****(d) Loss/impairment allowance balance from MFRS 139 to MFRS 9**

The following table reconciles the aggregate opening loss/impairment allowance on loans, advances and financing and debts instruments of the Group and of the Bank under MFRS 139 *Financial Instruments: Recognition and Measurement* and provision for loan commitments and financial guarantee contracts in accordance with *MFRS 137 Provisions, Contingent Liabilities and Contingent Assets* to the allowance for ECL under MFRS 9 *Financial instruments*.

Group	Allowance for impairment under under MFRS 139 RM'000	Remeasurement, net RM'000	ECL allowance under MFRS 9 RM'000
Loans and receivables (MFRS 139)/Financial assets at amortised cost (MFRS 9)			
Cash and short-term funds	-	36,015	36,015
Loans, advances and financing	1,538,092	(135,505)	1,402,587
Other receivables	-	2,873	2,873
Available for sales (MFRS 139)/Debt instruments at FVOCI (MFRS 9)			
Investment securities	39,960	8,332	48,292
Commitments and contingencies	17,111	88,285	105,396
Total	1,595,163	-	1,595,163

Bank	Allowance for impairment under under MFRS 139 RM'000	Remeasurement, net RM'000	ECL allowance under MFRS 9 RM'000
Loans and receivables (MFRS 139)/Financial assets at amortised cost (MFRS 9)			
Cash and short-term funds	-	36,015	36,015
Loans, advances and financing	1,539,000	(135,505)	1,403,495
Other receivables	-	2,873	2,873
Available for sales (MFRS 139)/Debt instruments at FVOCI (MFRS 9)			
Investment securities	39,960	8,332	48,292
Commitments and contingencies	17,111	88,285	105,396
Total	1,596,071	-	1,596,071

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EXPLANATORY NOTES

1. BASIS OF PREPARATION (cont'd.)

The Group and the Bank have not adopted the following MFRS, Amendments to MFRS and Interpretation Committee ("IC") Interpretations that have been issued by the MASB as they are not yet effective:

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 11 (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 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. These pronouncements are expected to have no significant impact to the financial statements of the Group and the Bank.

2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited annual financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The business operations of the Group and the Bank were not materially affected by any seasonal or cyclical factors.

4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows of the Group and the Bank for the financial period ended 30 September 2018.

5. CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial year that have a material effect on the financial results and position of the Group and the Bank for the financial period ended 30 September 2018.

6. DEBT AND EQUITY SECURITIES

On 25 July 2018, the Bank issued RM600 million Basel III compliant Tier 2 subordinated bonds (10 years maturity, non-callable 5 years), which bears interest at the rate of 4.80% per annum. The said subordinated bonds were issued out of the RM8 billion Medium Term Notes ("MTN") programme. Part of the proceed from the issuance was used to redeem the existing bonds of the Bank on 30 August 2018.

7. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses. There was no change in the valuation of property, plant and equipment that was brought forward from the previous audited financial statements for the financial year ended 31 December 2017.

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EXPLANATORY NOTES

8. DIVIDENDS

A final single-tier dividend of 98.2 sen in respect of the financial year ended 31 December 2017 amounting to RM461,540,000 was paid in April 2018.

9. SIGNIFICANT EVENTS SUBSEQUENT TO THE REPORTING DATE

There were no material events subsequent to the end of the reporting date that require disclosure or adjustments to the unaudited condensed interim financial statements.

10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the financial period ended 30 September 2018.

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EXPLANATORY NOTES

11. CASH AND SHORT-TERM FUNDS

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
Cash and balances with banks and other financial institutions	387,594	576,916
Money at call and deposit placements maturing within one month	5,447,379	7,862,000
Less: Allowance for ECL	(23,889)	-
	5,811,084	8,438,916

12. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
Licensed banks	150,000	150,000

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

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
Held-for-trading securities		
At fair value		
Bank Negara Malaysia bills	172,240	-
Malaysian Government treasury bills	-	29,415
Malaysian Government securities	246,709	-
Private debt securities	174,070	-
Negotiable instruments of deposits	1,989,928	200,040
	2,582,947	229,455

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EXPLANATORY NOTES

14. AVAILABLE-FOR-SALE ("AFS") SECURITIES

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	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
	<u>-</u>	<u>10,720,124</u>
Private debt securities of companies incorporated		
In Malaysia		
Quoted corporate bonds	-	188,571
Impairment loss	-	(39,960)
	<u>-</u>	<u>148,611</u>
Quoted securities		
Shares of corporations in Malaysia	-	2,569
	<u>-</u>	<u>2,569</u>
Unquoted securities		
Shares of corporations in Malaysia	-	137,947
	<u>-</u>	<u>137,947</u>
At Cost		
Unquoted securities		
Private debt securities	-	276
	<u>-</u>	<u>276</u>
Total AFS securities	<u>-</u>	<u>11,009,527</u>
Movements in allowance for impairment on private debt securities are as follows:		
Balance as at 31 December	<u>-</u>	<u>(39,960)</u>

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EXPLANATORY NOTES

15. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
At fair value		
Money market instruments		
Bank Negara Malaysia bills	99,957	-
Malaysian Government securities	7,848,092	-
Negotiable instruments of deposits	6,212,304	-
Cagamas bonds	1,259,135	-
Less: Allowance for ECL	(6,436)	-
	<u>15,413,052</u>	<u>-</u>
Private debt securities of companies incorporated		
In Malaysia		
Quoted corporate bonds	612,959	-
Less: Allowance for ECL	(49,316)	-
	<u>563,643</u>	<u>-</u>
Unquoted securities		
Private debt securities	276	-
	<u>276</u>	<u>-</u>
Total debt instruments at FVOCI	<u>15,976,971</u>	<u>-</u>

16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
At fair value		
Quoted securities		
Shares of corporations in Malaysia	2,222	-
Unquoted securities		
Shares of corporations in Malaysia	112,489	-
Total equity instruments at FVOCI	<u>114,711</u>	<u>-</u>

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EXPLANATORY NOTES**17. LOANS, ADVANCES AND FINANCING**

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Overdrafts	3,373,292	3,186,510	3,373,292	3,186,510
Term loans/financing and revolving credits				
- Housing loans/financing	30,546,803	29,291,401	30,546,803	29,291,401
- Syndicated term loans/financing	677,797	544,209	677,797	544,209
- Other term loans/financing	35,531,368	34,922,311	35,651,018	35,036,948
Credit card receivables	2,646,539	2,600,791	2,646,539	2,600,791
Bills receivables	1,079,004	1,178,127	1,079,004	1,178,127
Trust receipts	2,543,213	2,184,802	2,543,213	2,184,802
Claims on customers under acceptance credits	5,685,579	5,270,115	5,685,579	5,270,115
Staff loans	36,919	39,057	36,919	39,057
Others	8,949	12,050	8,949	12,050
	82,129,463	79,229,373	82,249,113	79,344,010
Unearned interest/income	(152,099)	(129,980)	(152,099)	(129,980)
Gross loans, advances and financing	81,977,364	79,099,393	82,097,014	79,214,030
Allowance for ECL/impairment on loans, advances and financing				
- Individual impairment	-	(310,143)	-	(310,143)
- Collective impairment	-	(1,227,949)	-	(1,228,857)
- Allowance for ECL	(1,343,450)	-	(1,344,608)	-
Net loans, advances and financing	80,633,914	77,561,301	80,752,406	77,675,030

(i) Gross loans, advances and financing by residual contractual maturity structure:

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	23,968,013	22,606,194	23,968,013	22,606,194
One year to three years	4,688,987	4,079,050	4,808,637	4,193,687
Three years to five years	4,668,005	4,535,444	4,668,005	4,535,444
Over five years	48,652,359	47,878,705	48,652,359	47,878,705
	81,977,364	79,099,393	82,097,014	79,214,030

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EXPLANATORY NOTES**17. LOANS, ADVANCES AND FINANCING (cont'd.)****(ii) Gross loans, advances and financing by type of customer:**

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Domestic non-banking financial institutions				
- Stockbroking companies	24,109	22,047	24,109	22,047
- Others	627,395	579,005	627,395	579,005
Domestic business enterprises				
- Small medium enterprises	17,523,567	17,074,341	17,523,567	17,074,341
- Others	16,174,304	14,809,905	16,293,954	14,924,542
Individuals	40,536,728	39,333,330	40,536,728	39,333,330
Foreign entities	7,091,261	7,280,765	7,091,261	7,280,765
	81,977,364	79,099,393	82,097,014	79,214,030

(iii) Gross loans, advances and financing by interest/profit rate sensitivity:

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
- Housing loans/financing	36,130	38,422	36,130	38,422
- Other fixed rate loans/financing	9,169,682	8,613,910	9,169,682	8,613,910
Variable rate				
- Base rate/base lending/financing rate-plus	53,388,902	51,846,728	53,388,902	51,846,728
- Cost-plus	18,791,565	17,773,452	18,911,215	17,888,089
- Other variable rates	591,085	826,881	591,085	826,881
	81,977,364	79,099,393	82,097,014	79,214,030

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EXPLANATORY NOTES**17. LOANS, ADVANCES AND FINANCING (cont'd.)****(iv) Gross loans, advances and financing by economic sector:**

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	1,446,945	1,251,997	1,446,945	1,251,997
Mining and quarrying	957,983	1,176,581	957,983	1,176,581
Manufacturing	7,159,597	6,331,060	7,159,597	6,331,060
Electricity, gas and water	239,984	131,078	239,984	131,078
Construction	7,312,540	6,909,577	7,312,540	6,909,577
Wholesale, retail trade, restaurants and hotels	10,272,094	9,970,141	10,272,094	9,970,141
Transport, storage and communication	1,354,410	1,217,056	1,354,410	1,217,056
Finance, insurance and business services	3,156,574	3,099,679	3,156,574	3,099,679
Real estate	4,086,139	4,275,124	4,205,789	4,389,761
Community, social and personal services	134,053	154,374	134,053	154,374
Households				
- purchase of residential properties	31,325,196	30,114,804	31,325,196	30,114,804
- purchase of non residential properties	9,052,424	9,065,647	9,052,424	9,065,647
- others	5,479,425	5,402,275	5,479,425	5,402,275
	81,977,364	79,099,393	82,097,014	79,214,030

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EXPLANATORY NOTES

17. LOANS, ADVANCES AND FINANCING (cont'd.)

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

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
As at 1 January	1,350,419	1,226,347
Classified as credit impaired during the period/year	759,142	907,062
Amount recovered	(242,455)	(378,498)
Reclassified as non credit impaired	(158,429)	(258,288)
Amount written-off	(193,224)	(146,204)
As at 30 September/31 December	<u>1,515,453</u>	<u>1,350,419</u>
Allowance for ECL on credit impaired/individual impairment	(224,451)	(310,143)
Net impaired loans, advances and financing	<u>1,291,002</u>	<u>1,040,276</u>
Ratio of net impaired loans, advances and financing to gross loans, advances and financing less allowance for ECL on credit impaired/individual impairment	<u>1.6%</u>	<u>1.3%</u>

(vi) Credit-impaired loans, advances and financing analysed by economic sectors are as follows:

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
Agriculture, hunting, forestry and fishing	660	11,161
Manufacturing	184,226	140,079
Construction	226,230	138,526
Wholesale, retail trade, restaurants and hotels	185,910	133,802
Transport, storage and communication	134,930	142,836
Finance, insurance and business services	29,242	127,092
Real estate	165,111	121,485
Community, social and personal services	646	737
Households		
- purchase of residential properties	427,851	381,318
- purchase of non residential properties	72,308	60,201
- others	88,339	93,182
	<u>1,515,453</u>	<u>1,350,419</u>

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EXPLANATORY NOTES

17. LOANS, ADVANCES AND FINANCING (cont'd.)

(vii) Credit-impaired loans, advances and financing analysed by geographical distribution are as follows:

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
In Malaysia	1,515,453	1,350,419

(viii) Movements in allowance for impairment on loans, advances and financing are as follows:

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
<u>Collective Impairment</u>				
As at 1 January	1,227,949	1,123,467	1,228,857	1,125,048
Restated for adoption of MFRS9	(1,227,949)	-	(1,228,857)	-
Impairment loss during the period/year	-	104,482	-	103,809
As at 30 September/31 December	-	1,227,949	-	1,228,857

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
<u>Individual Impairment</u>		
As at 1 January	310,143	233,670
Restated for adoption of MFRS 9	(310,143)	-
Impairment loss during the period/year	-	332,656
Amount written back in respect of recoveries	-	(119,569)
Amount written-off	-	(128,265)
Interest/profit recognised on impaired loans/financing	-	(7,016)
Others	-	(1,333)
As at 30 September/31 December	-	310,143

Please refer to Note 24 for the movement in allowance for ECL

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EXPLANATORY NOTES**18. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)**

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 its 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 derivatives are as follows:

	Group and Bank		
	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
As at 30 September 2018			
Foreign exchange contracts			
- forwards	10,006,683	160,835	72,404
- swaps	25,409,390	182,667	126,551
- options	1,100,936	5,107	3,724
Interest rate related contracts			
- swaps	20,672,196	231,440	159,310
- futures	144,839	42	168
Equity related contracts			
- swaps	266,484	17,117	16,992
- options	966,525	16,961	16,961
Commodity related contracts			
- swaps	244,215	6,700	9,017
- futures	147,804	2,615	4,209
- options	201,910	-	295
		623,484	409,631

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EXPLANATORY NOTES**18. DERIVATIVES FINANCIAL ASSETS/(LIABILITIES) (cont'd.)**

	Group and Bank		
	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
As at 31 December 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.

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EXPLANATORY NOTES**19. OTHER ASSETS**

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Other receivables, deposits and prepayments	107,245	121,129	113,005	124,479
Accrued interest/profit receivable	184,543	151,637	184,543	151,637
Amount due from subsidiaries	-	-	138	137
Amount due from ultimate holding com	11,938	6,861	11,938	6,861
Precious metal accounts	177,792	204,212	177,792	204,212
Less: Allowance for ECL	(2,234)	-	(2,234)	-
	479,284	483,839	485,182	487,326

20. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Demand deposits	21,156,368	20,885,858	21,188,201	20,901,732
Savings deposits	3,082,743	1,891,887	3,082,743	1,891,887
Fixed deposits	59,544,375	53,847,599	59,544,375	53,847,599
Others	5,126,862	6,763,441	5,126,862	6,763,441
	88,910,348	83,388,785	88,942,181	83,404,659

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

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
Due within six months	37,914,566	34,109,466	37,914,566	34,109,466
Six months to one year	21,530,710	19,680,142	21,530,710	19,680,142
One year to three years	79,169	56,847	79,169	56,847
Three years to five years	19,930	1,144	19,930	1,144
	59,544,375	53,847,599	59,544,375	53,847,599

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EXPLANATORY NOTES**20. DEPOSITS FROM CUSTOMERS (cont'd.)**

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

	Group		Bank	
	30-Sep-18 RM'000	31-Dec-17 RM'000	30-Sep-18 RM'000	31-Dec-17 RM'000
Business enterprises				
- Subsidiaries	-	-	31,833	15,874
- Related companies	1,051	1,089	1,051	1,089
- Others	33,729,851	33,237,005	33,729,851	33,237,005
Individuals	48,181,836	44,326,247	48,181,836	44,326,247
Others	6,997,610	5,824,444	6,997,610	5,824,444
	88,910,348	83,388,785	88,942,181	83,404,659

21. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	30-Sep-18 RM'000	31-Dec-17 RM'000	30-Sep-18 RM'000	31-Dec-17 RM'000
Licensed banks in Malaysia	1,176,034	422,234	1,176,034	422,234
Bank Negara Malaysia	898,782	1,211,835	898,782	1,211,835
Other financial institutions	7,479,708	2,767,621	7,479,728	2,767,651
	9,554,524	4,401,690	9,554,544	4,401,720

22. OTHER LIABILITIES

	Group		Bank	
	30-Sep-18 RM'000	31-Dec-17 RM'000	30-Sep-18 RM'000	31-Dec-17 RM'000
Allowance for ECL/provision for commitments and contingencies	115,467	17,111	115,467	17,111
Accrued interest/profit payable	602,634	708,543	602,634	708,543
Accruals and provisions for operational expenses	146,013	246,000	144,938	244,169
Other payables and accruals	1,215,862	1,271,944	1,215,651	1,271,890
Deferred income	176,433	194,311	176,433	194,311
	2,256,409	2,437,909	2,255,123	2,436,024

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EXPLANATORY NOTES

23. SUBORDINATED BONDS

	Group and Bank	
	30-Sep-18	31-Dec-17
	RM'000	RM'000
RM500 million subordinated bond 2013/2023, at par (Note (a))	-	500,000
RM1 billion subordinated bond 2015/2025, at par (Note (b))	1,001,816	1,002,702
RM600 million subordinated bond 2018/2028, at par (Note (c))	599,233	-
	1,601,049	1,502,702
Accumulated fair value hedge loss (Note (d))	(1,049)	(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.

- (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.

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EXPLANATORY NOTES

(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 30 September 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 4.65% 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 RM1,653,000 (31 December 2017: RM1,082,000) are recognised in trading and investment income during the period. There is no ineffectiveness recognised for this hedge.

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EXPLANATORY NOTES**24 Movements in allowance for ECL****(a) Other financial assets:****Cash and short-term funds, Debts instruments at FVOCI**

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Individual Impairment RM'000	Total RM'000
As at 31 December 2017	-	-	-	39,960	39,960
Effect of adopting MFRS 9 Financial Instruments	23,278	23,942	39,960	(39,960)	47,220
As at 1 January 2018, restated	23,278	23,942	39,960	-	87,180
<u>Movements with profit or loss impact:</u>					
(i) Transfer to Stage 1	4,547	(34,847)	-	-	(30,300)
(ii) Transferred to Stage 2					
(a) Stage 1 to Stage 2	(2)	20	-	-	18
(iii) New/additional ECL during the period	48,540	31,995	-	-	80,535
(iv) Maturity/settlement/reduction in ECL during the period	(39,253)	(16,159)	-	-	(55,412)
(v) Exchange fluctuation	(74)	(84)	-	-	(158)
<u>Movements without profit or loss impact:</u>					
(i) Other movements	12	-	-	-	12
As at 30 September 2018	37,048	4,867	39,960	-	81,875

(b) Commitments and contingencies

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Individual Impairment RM'000	Total RM'000
As at 31 December 2017	-	-	-	17,111	17,111
Effect of adopting MFRS 9 Financial Instruments	74,010	14,275	17,111	(17,111)	88,285
As at 1 January 2018, restated	74,010	14,275	17,111	-	105,396
<u>Movements with profit or loss impact:</u>					
(i) Transfer to Stage 1	10,092	(15,002)	-	-	(4,910)
(ii) Transferred to Stage 2					
(a) Stage 1 to Stage 2	(16,153)	28,698	-	-	12,545
(b) Stage 3 to Stage 2	-	751	(55)	-	696
(iii) Transferred to Lifetime ECL (credit impaired)					
(a) Stage 1 to Stage 3	(3)	-	32	-	29
(b) Stage 2 to Stage 3	-	(7)	2	-	(5)
(iv) New/additional ECL during the period	109,620	48,973	436	-	159,029
(v) Maturity/settlement/reduction in ECL during the period	(99,350)	(56,066)	(1,968)	-	(157,384)
(vi) Exchange fluctuation	114	(32)	(2)	-	80
<u>Movements without profit or loss impact:</u>					
(i) Other movements	(11)	-	2	-	(9)
As at 30 September 2018	78,319	21,590	15,558	-	115,467

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EXPLANATORY NOTES**24 Movements in allowance for ECL (cont'd.)****(c) Loans, advances and financing**

Group	Stage 1	Stage 2	Stage 3	Collective	Individual	Total
	RM'000	RM'000	RM'000	Impairment RM'000	Impairment RM'000	RM'000
As at 31 December 2017	-	-	-	1,227,949	310,143	1,538,092
Effect of adopting MFRS 9 Financial Instruments	690,008	402,436	310,143	(1,227,949)	(310,143)	(135,505)
As at 1 January 2018, restated	690,008	402,436	310,143	-	-	1,402,587
<u>Movements with profit or loss impact:</u>						
(i) Transfer to Stage 1	20,274	(75,383)	(1,973)	-	-	(57,082)
(ii) Transferred to Stage 2						
(a) Stage 1 to Stage 2	(29,058)	94,445	-	-	-	65,387
(b) Stage 3 to Stage 2	-	31,496	(10,809)	-	-	20,687
(iii) Transferred to Stage 3						
(a) Stage 2 to Stage 3	-	(40,114)	81,626	-	-	41,512
(iv) New/additional ECL during the period	233,641	27,053	108,325	-	-	369,019
(v) Maturity/settlement/reduction in ECL during the period	(211,017)	(24,766)	(87,001)	-	-	(322,784)
(vi) Exchange fluctuation	101	(116)	-	-	-	(15)
<u>Movements without profit or loss impact:</u>						
(i) Written off	-	-	(177,562)	-	-	(177,562)
(ii) Other movements	(1)	-	1,702	-	-	1,701
As at 30 September 2018	703,948	415,051	224,451	-	-	1,343,450
Bank						
As at 31 December 2017	-	-	-	1,228,857	310,143	1,539,000
Effect of adopting MFRS 9 Financial Instruments	690,916	402,436	310,143	(1,228,857)	(310,143)	(135,505)
As at 1 January 2018, restated	690,916	402,436	310,143	-	-	1,403,495
<u>Movements with profit or loss impact:</u>						
(i) Transfer to Stage 1	20,274	(75,383)	(1,973)	-	-	(57,082)
(ii) Transferred to Stage 2						
(a) Stage 1 to Stage 2	(29,058)	94,445	-	-	-	65,387
(b) Stage 3 to Stage 2	-	31,496	(10,809)	-	-	20,687
(iii) Transferred to Stage 3						
(a) Stage 2 to Stage 3	-	(40,114)	81,626	-	-	41,512
(iv) New/additional ECL during the period	233,641	27,053	108,325	-	-	369,019
(v) Maturity/settlement/reduction in ECL during the period	(210,768)	(24,766)	(87,001)	-	-	(322,535)
(vi) Exchange fluctuation	101	(116)	-	-	-	(15)
<u>Movements without profit or loss impact:</u>						
(i) Written off	-	-	(177,562)	-	-	(177,562)
(ii) Other movements	-	-	1,702	-	-	1,702
As at 30 September 2018	705,106	415,051	224,451	-	-	1,344,608

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EXPLANATORY NOTES**25. OPERATING REVENUE**

Operating revenue of the Group and the Bank comprise interest income, commission income, trading and investment income and other income derived from banking operations.

26. INTEREST INCOME

Group	Third Quarter		Nine Months	
	Ended		Ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Interest income from loans, advances and financing	1,049,472	982,102	3,036,984	2,924,433
Interest income from impaired loans, advances and financing	21,495	21,171	60,904	54,110
Money at call and deposit placements with financial institutions	71,031	94,481	204,792	245,325
Financial assets at FVTPL	17,546	14,526	38,055	37,677
FVOCI/AFS securities	150,742	101,937	371,925	280,248
Others	59	10	76	52
	1,310,345	1,214,227	3,712,736	3,541,845
Amortisation of premium less accretion of discount on:				
- financial assets at FVTPL	7,211	(35)	33,961	(154)
- FVOCI/AFS securities	(2,847)	(2,871)	(9,680)	(7,574)
	1,314,709	1,211,321	3,737,017	3,534,117
Bank				
Interest income from loans, advances and financing	1,050,842	983,805	3,040,936	2,930,083
Interest income from impaired loans, advances and financing	21,495	21,171	60,904	54,110
Money at call and deposit placements with financial institutions	71,039	94,481	204,797	245,325
Financial assets at FVTPL	17,546	14,526	38,055	37,677
FVOCI/AFS securities	150,742	101,937	371,925	280,248
Others	60	10	77	52
	1,311,724	1,215,930	3,716,694	3,547,495
Amortisation of premium less accretion of discount on:				
- financial assets at FVTPL	7,211	(35)	33,961	(154)
- FVOCI/AFS securities	(2,847)	(2,871)	(9,680)	(7,574)
	1,316,088	1,213,024	3,740,975	3,539,767

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EXPLANATORY NOTES**27. INTEREST EXPENSE**

Group	Third Quarter		Nine Months	
	Ended		Ended	
	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
Deposits from customers	715,466	644,567	2,020,167	1,870,898
Deposits and placements of banks and other financial institutions	51,486	30,134	117,160	75,084
Subordinated bonds	20,436	16,837	53,972	50,089
Others	(389)	4,368	10,488	10,655
	786,999	695,906	2,201,787	2,006,726
Bank				
Deposits from customers	715,621	644,577	2,020,357	1,870,938
Deposits and placements of banks and other financial institutions	51,486	30,134	117,160	75,084
Subordinated bonds	20,436	16,837	53,972	50,089
Others	(389)	4,368	10,488	10,655
	787,154	695,916	2,201,977	2,006,766

28. OTHER OPERATING INCOME

Group	Third Quarter		Nine Months	
	Ended		Ended	
	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
<u>Fee income</u>				
Commission	61,603	72,728	203,066	211,918
Guarantee fees	15,443	19,689	61,059	59,048
Service charges and fees	61,244	57,728	167,835	159,157
Commitment fees	6,882	7,378	20,740	22,418
Arrangement and participation fees	2,503	10	7,093	1,391
Less: Fee expenses	(15,737)	(14,421)	(46,417)	(47,223)
	131,938	143,112	413,376	406,709

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EXPLANATORY NOTES**28. OTHER OPERATING INCOME (cont'd.)**

Group (cont'd.)	Third Quarter		Nine Months	
	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
<u>Trading and Investment income</u>				
Loss from sale of financial assets at FVTPL	(568)	(3,542)	(735)	(1,357)
Unrealised gain/(loss) on financial assets at FVTPL	1,937	1,721	(3,781)	264
Gain from trading derivatives	16,648	8,152	47,700	40,119
Unrealised (loss)/gain from trading derivatives	(11,377)	5,801	(1,529)	16,502
Unrealised gain/(loss) on fair value hedge	807	35	1,654	(685)
Gain from sale of precious metal	217	652	1,374	919
Unrealised (loss)/gain from sale of precious metal	(3)	(8)	25	24
Gain from sale/recovery of FVOCI/AFS securities	5,706	3,267	9,011	7,289
Gross dividends from:				
- AFS securities unquoted in Malaysia	147	147	655	647
	13,514	16,225	54,374	63,722
<u>Other income</u>				
Foreign exchange gain, net	54,823	37,808	164,186	111,550
Rental income from operating leases	24	33	70	244
Gain/(Loss) on disposal of property, plant and equipment	83	(6)	217	1,215
Loss on liquidation of subsidiaries	(12)	(11)	-	(11)
Others	3,690	3,599	12,516	10,472
	58,608	41,423	176,989	123,470
	204,060	200,760	644,739	593,901

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EXPLANATORY NOTES**28. OTHER OPERATING INCOME (cont'd.)**

Bank	Third Quarter		Nine Months	
	Ended	Ended	Ended	Ended
	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
<u>Fee income</u>				
Commission	61,603	72,728	203,066	211,918
Guarantee fees	15,443	19,689	61,059	59,048
Service charges and fees	61,392	57,792	168,112	159,350
Commitment fees	6,882	7,394	20,740	22,439
Arrangement and participation fees	2,503	10	7,093	1,391
Less: Fee expenses	(15,737)	(14,421)	(46,417)	(47,223)
	132,086	143,192	413,653	406,923
<u>Trading and Investment income</u>				
Loss from sale of financial assets at FVTPL	(568)	(3,542)	(734)	(1,357)
Unrealised gain/(loss) on financial assets at FVTPL	1,937	1,721	(3,781)	264
Gain from trading derivatives	16,648	8,152	47,700	40,119
Unrealised (loss)/gain from trading derivatives	(11,377)	5,801	(1,529)	16,502
Unrealised gain/(loss) on fair value hedge	807	35	1,653	(685)
Gain from sale of precious metal	217	652	1,374	919
Unrealised (loss)/gain from sale of precious metal	(3)	(8)	25	24
Gain from sale/recovery of FVOCI/AFS securities	5,706	3,267	9,011	7,289
Gross dividends from:				
- AFS securities unquoted in Malaysia	147	147	655	647
- an associate	-	-	-	1,921
	13,514	16,225	54,374	65,643

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EXPLANATORY NOTES**28. OTHER OPERATING INCOME (cont'd.)**

	Third Quarter		Nine Months	
	Ended		Ended	
Bank (cont'd.)	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
<u>Other income</u>				
Foreign exchange gain, net	54,824	37,808	164,186	111,550
Gain/(Loss) on disposal of property, plant and equipment	83	(6)	217	1,215
Loss on liquidation of subsidiaries	(12)	(11)	-	(11)
Others	3,690	3,599	12,516	10,468
	58,585	41,390	176,919	123,222
	204,185	200,807	644,946	595,788

29. OTHER OPERATING EXPENSES

	Third Quarter		Nine Months	
	Ended		Ended	
Group	30-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	192,883	179,911	566,533	518,168
Establishment related expenses	54,363	50,117	165,061	153,298
Promotion and marketing related expenses	10,235	8,025	26,379	22,523
General administrative expenses	32,443	26,630	83,285	76,166
	289,924	264,683	841,258	770,155
<u>Personnel expenses</u>				
Wages, salaries and bonus	151,125	139,356	447,266	409,093
Defined contribution plan	23,885	22,183	70,312	64,677
Other employee benefits	17,873	18,372	48,955	44,398
	192,883	179,911	566,533	518,168
<u>Establishment related expenses</u>				
Depreciation of property, plant and equipment	17,359	14,049	47,654	41,894
Information technology costs	13,131	10,955	38,779	36,207
Repair and maintenance	8,492	8,856	32,299	29,884
Rental of premises	3,848	3,779	11,873	11,405
Others	11,533	12,478	34,456	33,908
	54,363	50,117	165,061	153,298

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EXPLANATORY NOTES**29. OTHER OPERATING EXPENSES (cont'd.)**

Group (cont'd.)	Third Quarter		Nine Months	
	Ended 30-Sep-18 RM'000	30-Sep-17 RM'000	Ended 30-Sep-18 RM'000	30-Sep-17 RM'000
<u>Promotion and marketing related expenses</u>				
Advertisement and publicity	10,235	8,025	26,379	22,523
<u>General administrative expenses</u>				
Fees and commissions paid	8,350	7,931	21,627	18,496
Others	24,093	18,699	61,658	57,670
	32,443	26,630	83,285	76,166
Bank				
Personnel expenses	191,650	178,899	562,986	515,243
Establishment related expenses	57,452	53,477	174,825	162,987
Promotion and marketing related expenses	10,225	8,017	26,352	22,487
General administrative expenses	32,308	26,475	83,063	75,940
	291,635	266,868	847,226	776,657
<u>Personnel expenses</u>				
Wages, salaries and bonus	150,102	138,530	444,373	406,690
Defined contribution plan	23,742	22,065	69,906	64,332
Other employee benefits	17,806	18,304	48,707	44,221
	191,650	178,899	562,986	515,243
<u>Establishment related expenses</u>				
Depreciation of property, plant and equipment	15,057	11,952	40,788	35,612
Information technology costs	13,131	10,955	38,779	36,207
Repair and maintenance	8,210	8,638	31,604	29,171
Rental of premises	8,717	8,545	26,302	25,702
Others	12,337	13,387	37,352	36,295
	57,452	53,477	174,825	162,987
<u>Promotion and marketing related expenses</u>				
Advertisement and publicity	10,225	8,017	26,352	22,487
<u>General administrative expenses</u>				
Fees and commissions paid	8,240	7,960	21,440	18,465
Others	24,068	18,515	61,623	57,475
	32,308	26,475	83,063	75,940

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EXPLANATORY NOTES**30. ALLOWANCE FOR EXPECTED CREDIT LOSSES**

Group	Third Quarter		Nine Months		
	Ended		Ended		
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000	
a	Loans, advances and financing				
-	Expected credit loss (non-credit impaired)	23,220	-	26,556	-
-	Expected credit loss (credit impaired)	21,759	-	90,168	-
-	Collective impairment	-	48,312	-	104,514
-	Individual impairment	-	43,740	-	102,413
		44,979	92,052	116,724	206,927
	Credit-impaired loans, advances and financing				
-	written off	9,458	5,200	31,231	18,009
-	recovered	(13,389)	(11,915)	(40,460)	(35,974)
		41,048	85,337	107,495	188,962
b	Other financial assets				
	Placement with banks and other financial institutions, and other assets	(11,438)	-	(12,766)	-
	Debt instruments measured at FVOCI	6,295	-	7,449	-
		(5,143)	-	(5,317)	-
c	Commitments and contingencies				
-	Expected credit loss (non-credit impaired)	1,195	-	11,635	-
-	Expected credit loss (credit impaired)	(230)	(4,556)	(1,555)	(2,616)
		965	(4,556)	10,080	(2,616)
	Bank				
a	Loans, advances and financing				
-	Expected credit loss (non-credit impaired)	23,213	-	26,805	-
-	Expected credit loss (credit impaired)	21,759	-	90,168	-
-	Collective impairment	-	47,911	-	104,064
-	Individual impairment	-	43,740	-	102,413
		44,972	91,651	116,973	206,477
	Credit-impaired loans, advances and financing				
-	written off	9,458	5,200	31,231	18,009
-	recovered	(13,389)	(11,915)	(40,460)	(35,974)
		41,041	84,936	107,744	188,512
b	Other financial assets				
	Placement with banks and other financial institutions, and other assets	(11,437)	-	(12,764)	-
	Debt instruments measured at FVOCI	6,295	-	7,448	-
		(5,142)	-	(5,316)	-
c	Commitments and contingencies				
-	Expected credit loss (non-credit impaired)	1,195	-	11,635	-
-	Expected credit loss (credit impaired)	(230)	(4,556)	(1,555)	(2,616)
		965	(4,556)	10,080	(2,616)

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EXPLANATORY NOTES

31. 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 and the Bank's businesses are organised into the following four segments based on the types of products and services that it provides.

Retail

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, offers 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.

Wholesale Banking ("WB")

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.

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31. SEGMENT INFORMATION (cont'd.)

Operating segments (cont'd.)

Global Markets ("GM")

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.

Others

Other segments include corporate support functions and decisions not attributable to business segments mentioned above and property-related activities.

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31. SEGMENT INFORMATION (cont'd.)

Operating segments (cont'd.)

Group	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
For year period 30 September 2018							
Operating income	1,046,839	841,150	109,864	231,248	2,229,101	(18,948)	2,210,153
Other operating expenses	(530,361)	(178,292)	(41,720)	(109,771)	(860,144)	18,886	(841,258)
Allowance for expected credit losses	(83,809)	(28,696)	-	(11)	(112,516)	258	(112,258)
Share of net profit of an associate	-	-	-	171	171	-	171
Profit before taxation	<u>432,669</u>	<u>634,162</u>	<u>68,144</u>	<u>121,637</u>	<u>1,256,612</u>	<u>196</u>	<u>1,256,808</u>
Income tax expense							<u>(297,593)</u>
							<u>959,215</u>

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EXPLANATORY NOTES

31. SEGMENT INFORMATION (cont'd.)

Operating segments (cont'd.)

Group (cont'd.)	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
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Other information

For year period 30 September 2018

Inter-segment operating income	161,346	205,534	(622,767)	274,835	18,948	(18,948)	-
Depreciation of property, plant and equipment	7,868	2,852	1,358	35,514	47,592	62	47,654

As at 30 September 2018

Gross loans, advances and financing	52,212,099	29,530,395	-	354,520	82,097,014	(119,650)	81,977,364
Deposits from customers	59,740,594	29,173,324	-	28,263	88,942,181	(31,833)	88,910,348

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EXPLANATORY NOTES

31. SEGMENT INFORMATION (cont'd.)

Operating segments (cont'd.)

Group (cont'd.)	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
For period ended 30 September 2017							
Operating income	1,015,624	818,004	128,385	196,924	2,158,937	(22,219)	2,136,718
Other operating expenses	(498,067)	(159,165)	(38,267)	(92,869)	(788,368)	18,213	(770,155)
Allowance for impairment on loans, advances and financing	(72,246)	(116,305)	42	(3)	(188,512)	(450)	(188,962)
Provision for commitments and contingencies-net	-	2,616	-	-	2,616	-	2,616
Share of net profit of an associate	-	-	-	167	167	-	167
Profit before taxation	445,311	545,150	90,160	104,219	1,184,840	(4,456)	1,180,384
Income tax expense							(280,693)
							<u>899,691</u>

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EXPLANATORY NOTES

31. SEGMENT INFORMATION (cont'd.)

Operating segments (cont'd.)

Group (cont'd.)	Retail RM'000	WB RM'000	GM RM'000	Others RM'000	Total segments RM'000	Eliminations RM'000	Total RM'000
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Other information

For period ended 30 September 2017

Inter-segment operating income	125,914	179,402	(516,166)	233,069	22,219	(22,219)	-
Depreciation of property, plant and equipment	5,938	1,906	1,571	32,417	41,832	62	41,894

As at 31 December 2017

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

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EXPLANATORY NOTES**32. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY**

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 ("RWA").

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
	RM'000	RM'000	RM'000	RM'000
<u>Common Equity Tier 1 ("CET1")/</u>				
<u>Tier 1 Capital</u>				
Paid-up share capital	792,555	792,555	792,555	792,555
Retained profits	7,799,636	8,261,176	7,873,486	8,335,026
Other reserves	244,837	247,773	91,199	94,135
Regulatory adjustments applied in the calculation of CET1 Capital	(226,014)	(314,140)	(264,190)	(276,492)
Total CET1/Tier 1 Capital	8,611,014	8,987,364	8,493,050	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	247,932	277,701	265,432	278,408
- Collective impairment provisions	24,661	29,883	15,187	20,470
Regulatory adjustments applied in the calculation of Tier 2 Capital	66,031	70,762	-	(26,712)
Total Tier 2 Capital	1,938,624	1,878,346	1,880,619	1,772,166
Total Capital	10,549,638	10,865,710	10,373,669	10,717,390

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EXPLANATORY NOTES

32. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY (cont'd.)

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

	Group		Bank	
	30-Sep-18	31-Dec-17	30-Sep-18	31-Dec-17
CET1/Tier 1 Capital	14.849%	16.373% *	14.804%	16.484% *
Total Capital	18.192%	19.795% *	18.082%	19.749% *

* The CET1/Tier 1 Capital and Total Capital ratios were before payment of dividend. The CET1/Tier 1 Capital would be 15.532% and 18.954% for the Group and 15.633% and 18.899% for the Bank, respectively, net of proposed dividend.

(b) Analysis of gross RWA in the various categories of risk-weights is as follows:

	Group		Bank	
	30-Sep-18 RM'000	31-Dec-17 RM'000	30-Sep-18 RM'000	31-Dec-17 RM'000
Total RWA for credit risk	51,000,936	48,674,131	50,365,949	48,038,923
Total RWA for market risk	1,610,126	986,262	1,610,126	986,262
Total RWA for operational risk	5,381,038	5,230,645	5,395,346	5,242,469
	57,992,100	54,891,038	57,371,421	54,267,654

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EXPLANATORY NOTES

33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

As at 30 September 2018	Principal amount RM'000	Group Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	2,972,641	2,914,001	2,338,501
Transaction-related contingent items	6,163,565	3,096,060	2,133,767
Short-term self-liquidating trade-related contingencies	460,256	96,814	58,796
Foreign exchange related contracts			
- less than one year	36,097,275	745,659	196,344
- more than one year to less than five years	419,734	24,773	12,030
Interest rate related contracts			
- less than one year	5,063,414	102,503	36,476
- more than one year to less than five years	15,308,700	725,797	465,908
- five years and above	444,921	59,052	45,230
Equity related contracts			
- less than one year	362,412	18,999	16,147
- more than one year to less than five years	870,597	39,858	11,898
Commodity related contracts			
- less than one year	381,272	31,236	7,825
- more than one year to less than five years	212,657	47,311	27,682
Undrawn credit facility			
- less than one year	16,560,261	1,141,971	553,014
- more than one year	11,032,343	6,069,894	3,793,444
- unconditionally cancellable	11,757,286	6,050,373	641,867
Total	108,107,334	21,164,301	10,338,929

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EXPLANATORY NOTES

33. COMMITMENTS AND CONTINGENCIES (cont'd.)

As at 31 December 2017	Principal amount RM'000	Group Credit equivalent amount RM'000	Risk weighted amount RM'000
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			
- less 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			
- less 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			
- less 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			
- less 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			
- less than one year	14,516,980	1,113,380	572,860
- more than one year	11,697,356	6,597,870	4,202,984
- unconditionally cancellable	11,572,661	5,944,262	670,702
Total	97,541,595	21,655,751	10,778,409

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EXPLANATORY NOTES**33. COMMITMENTS AND CONTINGENCIES (cont'd.)**

As at 30 September 2018	Principal amount RM'000	Bank Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	2,972,641	2,914,001	2,338,501
Transaction-related contingent items	6,163,565	3,096,060	2,133,767
Short-term self-liquidating trade-related contingencies	460,256	96,814	58,796
Foreign exchange related contracts			
- less than one year	36,097,275	745,659	196,344
- more than one year to less than five years	419,734	24,773	12,030
Interest rate related contracts			
- less than one year	5,063,414	102,503	36,476
- more than one year to less than five years	15,308,700	725,797	465,908
- five years and above	444,921	59,052	45,230
Equity related contracts			
- less than one year	362,412	18,999	16,147
- more than one year to less than five years	870,597	39,858	11,898
Commodity related contracts			
- less than one year	381,272	31,236	7,825
- more than one year to less than five years	212,657	47,311	27,682
Undrawn credit facility			
- less than one year	16,176,472	758,182	169,224
- more than one year	11,032,343	6,069,894	3,793,444
- unconditionally cancellable	11,757,286	6,050,372	641,868
Total	107,723,545	20,780,511	9,955,140

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33. COMMITMENTS AND CONTINGENCIES (cont'd.)

As at 31 December 2017	Principal amount RM'000	Bank	Risk weighted amount RM'000
		Credit equivalent amount RM'000	
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			
- less 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			
- less 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			
- less 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			
- less 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			
- less than one year	14,085,535	681,934	141,414
- more than one year	11,697,356	6,597,870	4,202,984
- unconditionally cancellable	11,572,661	5,944,262	670,702
Total	97,110,150	21,224,305	10,346,963

Disclosure of the principal amount and credit equivalent of the commitments and contingencies are as per BNM's Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3).

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EXPLANATORY NOTES

34. PERFORMANCE REVIEW

For the nine months ended 30 September 2018, the Group recorded a profit before taxation of RM1,256.8 million, an increase of 6.5% or RM76.4 million compared to same period last year. The increase in profit was mainly from higher operating income and lower allowance for expected credit losses, partially offset by higher other operating expenses.

Total operating income increased by 3.4% or RM73.4 million to RM2,210.2 million contributed by other operating income, net income from Islamic Banking operations and net interest income. Other operating income grew 8.6% or RM50.8 million to RM644.7 million mainly due to increase in fee income and foreign exchange gain, partly offset by lower trading and investment income. Net income from Islamic Banking business was at RM30.2 million.

Expenses increased by 9.2% or RM71.1 million to RM841.3 million driven by higher staff expenses and establishment related expenses. Cost to income ratio stood at 38.1%, moderately higher year on year as we continued to invest in people, infrastructure and technology to support our future growth.

Total allowance for expected credit losses / impairment decreased by 39.8% or RM74.1 million mainly due to lower expected credit loss on loans, advances and financing, offset by higher expected credit loss on commitments and contingencies.

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EXPLANATORY NOTES

35. PROSPECTS FOR 2018

The global economy is expected to stay on a positive growth path in 2018 albeit there are risks materialising. There are signs that global growth has become less synchronised. The United States is growing strongly supported by procyclical fiscal expansion, but in other advanced economies, there are signs of slowing in the euro area and Japan. Emerging Asia continues to show broad-based expansions but risks have emerged with signs of moderation in China which will be exacerbated by the trade disputes, pressures from rising US interest rates and tightening of financial market conditions. Asia's fundamentals remain firm and resilient to recent turbulence in emerging markets. However if the ongoing trade tensions were to escalate further, this would have a negative effect on global growth.

Malaysia's gross domestic product is projected to expand by 4.8% in 2018. Domestic demand continues to be in the driver's seat, with private consumption as the main anchor and some support from investments and net exports. Malaysia's economic fundamentals remain sound. The country benefits from a diversified economic structure, improved external position, resilient institutions, favourable demographics, significant natural resources, strategic geographical location, and robust macro policies. The ongoing efforts to improve transparency and accountability will help improve Malaysia's governance scores and strengthen investor confidence over time. Malaysia will continue to benefit from various regional and multilateral initiatives which are catalysts for further development, trade and investment in the region. Over the medium term, Malaysia's economy continues to look attractive given its improving fundamentals and ongoing policy reforms to stimulate economic growth through labor, capital and technology.

Amid the challenging economic outlook, we continue to invest in people, technology and infrastructure to enhance productivity, product capabilities and customer experience across all touchpoints.

The Group is expected to achieve satisfactory set of result in 2018.

UNITED OVERSEAS BANK (MALAYSIA) BHD
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36. ISLAMIC BANKING OPERATIONS

**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

	Note	30-Sep-18 RM'000	31-Dec-17 RM'000
Assets			
Cash and short-term funds	a	1,449,312	179,447
Debt instruments at fair value through other comprehensive income ("FVOCI")	b	129,783	-
Available-for-sale ("AFS") securities	b	-	30,126
Financing, advances and others	c	2,184,914	842,096
Other assets	d	1,683	297
Derivative financial assets		21	-
Statutory deposits with Bank Negara Malaysia		48,800	7,920
Plant and equipment		59	71
Deferred tax assets		90	145
Total assets		3,814,662	1,060,102
Liabilities and Islamic Banking funds			
Deposits from customers	f	2,567,849	600,379
Deposits and placements of banks and other financial institutions	g	765,703	4,711
Bills and acceptances payable		262	74
Other liabilities	h	25,294	5,449
Tax Payable		1,501	88
Total liabilities		3,360,609	610,701
Capital fund		450,000	450,000
Reserves		4,053	(599)
Islamic Banking funds	i	454,053	449,401
Total liabilities and Islamic Banking funds		3,814,662	1,060,102
Commitments and contingencies	o	1,192,921	693,549

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

UNITED OVERSEAS BANK (MALAYSIA) BHD
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36 ISLAMIC BANKING OPERATIONS (cont'd.)

CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2018

	Note	Third quarter		Nine months ended	
		30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Income derived from depositors' funds	j	17,136	5,488	38,812	14,692
Income derived from investment of Islamic Banking funds	k	18,634	5,335	43,126	12,550
Allowance for expected credit loss/ impairment on financing, advance and others	m	(3,884)	160	(9,422)	(3,706)
Total attributable income		31,886	10,983	72,516	23,536
Income attributable to depositors	l	(23,816)	(4,371)	(51,754)	(11,815)
Total net income		8,070	6,612	20,762	11,721
Other operating expenses	n	(4,585)	(4,073)	(14,682)	(10,732)
Profit before taxation		3,485	2,539	6,080	989
Income tax income		(840)	(15)	(1,458)	(41)
Profit after taxation		2,645	2,524	4,622	948
Other comprehensive income:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Net loss on revaluation of AFS securities		-	69	-	301
Net fair value changes in debt instruments at fair value through other comprehensive income		69	-	40	-
Income tax effect		(17)	(17)	(10)	(72)
Total other comprehensive income for the period, net of tax		52	52	30	229
Total comprehensive profit for the period		2,697	2,576	4,652	1,177

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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36. ISLAMIC BANKING OPERATIONS (cont'd.)

**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN ISLAMIC BANKING FUNDS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

	Capital fund RM'000	Fair value through other comprehensive RM'000	Net unrealised reserves on AFS securities RM'000	Accumulated profit/ (losses) RM'000	Total RM'000
2018					
At 1 January 2018	450,000	-	(81)	(518)	449,401
As previously stated					
Effect of adopting MFRS 9 <i>Financial instruments</i>	-	(81)	81	-	-
At 1 January 2018, as restated	450,000	(81)	-	(518)	449,401
Profit for the period	-	-	-	4,622	4,622
Other comprehensive loss	-	30	-	-	30
Total comprehensive income	-	30	-	4,622	4,652
At 30 September 2018	450,000	(51)	-	4,104	454,053

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36. ISLAMIC BANKING OPERATIONS (cont'd.)

**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN ISLAMIC BANKING FUNDS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

	Capital fund RM'000	Net unrealised reserves on AFS securities RM'000	Accumulated losses RM'000	Total RM'000
2017				
At 1 January 2017	450,000	(353)	(406)	449,241
Loss for the period	-	-	(112)	(112)
Other comprehensive income	-	272	-	272
Total comprehensive income	-	272	(112)	160
At 31 December 2017	450,000	(81)	(518)	449,401

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

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UNITED OVERSEAS BANK (MALAYSIA) BHD
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36. ISLAMIC BANKING OPERATIONS (cont'd.)

**CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

	30-Sep-18	30-Sep-17
	RM'000	RM'000
Profit before taxation	6,080	989
Adjustments for non-operating and non-cash items	11,688	2,380
Operating profit before working capital changes	17,768	3,369
Changes in working capital:		
Net changes in operating assets	(1,398,212)	(322,859)
Net changes in operating liabilities	2,748,495	137,120
Net cash generated/(used in) from operating activities	1,368,051	(182,370)
Net cash generated from investing activities	(98,186)	1,420
Net increase/(decrease) in cash and cash equivalents	1,269,865	(180,950)
Cash and cash equivalents at beginning of the period	179,447	763,688
Cash and cash equivalents at end of the period	1,449,312	582,738
Analysis of cash and cash equivalents		
Cash and short term funds	1,449,312	582,738

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the year ended 31 December 2017.

Company No. 271809K

UNITED OVERSEAS BANK (MALAYSIA) BHD
(Incorporated in Malaysia)

36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

a. Cash and short-term funds

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Cash and balances with banks and other financial institutions	34,022	17,447
Money at call and deposit placements maturing within one month	1,416,000	162,000
Less: Allowances for impairment losses	(710)	-
	<u>1,449,312</u>	<u>179,447</u>

b. Debt Instruments at Fair Value Through Other Comprehensive Income ("FVOCI")/ Available-for-sale ("AFS") securities

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Money market instruments		
Government Islamic investment	30,042	30,126
Malaysia Government treasury bills	99,937	-
Less: Allowance for ECL	(196)	-
Total FVOCI/ AFS	<u>129,783</u>	<u>30,126</u>

UNITED OVERSEAS BANK (MALAYSIA) BHD
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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

c. Financing, advances and others

(i) Financing by type of Shariah contract:

	30-Sep-18	31-Dec-17
	RM'000	RM'000

Tawarrug

Term financing and revolving credits

- Housing financing	1,107,343	381,834
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- Others term financing	1,053,689	453,810
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Trust receipt	530	-
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Claim on customers under acceptance credits	38,579	15,508
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Gross financing, advances and others	2,200,141	851,152
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Allowance for ECL/ impairment on financing,
advances and others

- Individual impairment	-	(201)
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- Collective impairment	-	(8,855)
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- Allowance for ECL	(15,227)	-
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Net financing, advances and others	2,184,914	842,096
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(ii) Gross financing, advances and others by maturity structure:

	30-Sep-18	31-Dec-17
	RM'000	RM'000

Maturing within one year	164,289	80,884
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One year to three years	52,588	2,847
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Three years to five years	153,464	98,974
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Over five years	1,829,800	668,447
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	2,200,141	851,152
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UNITED OVERSEAS BANK (MALAYSIA) BHD
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36. ISLAMIC BANKING OPERATIONS (cont'd.)

EXPLANATORY NOTES

c. Financing, advances and others (cont'd.)

(iii) Gross financing, advances and others by type of customers:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Domestic business enterprises		
- Small medium enterprises	465,741	284,427
- Others	486,212	120,005
Individuals	1,164,212	417,428
Foreign entities	83,976	29,292
	<u>2,200,141</u>	<u>851,152</u>

(iv) Gross financing, advances and others by profit rate sensitivity:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Fixed rate		
- Other fixed rate financing	38,579	15,508
Variable rates:		
- Base rate/base financing rate-plus	1,721,012	674,884
- Cost-plus	440,550	160,760
	<u>2,200,141</u>	<u>851,152</u>

UNITED OVERSEAS BANK (MALAYSIA) BHD
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36. ISLAMIC BANKING OPERATIONS (cont'd.)

EXPLANATORY NOTES

c. Financing, advances and others (cont'd.)

(v) Gross financing, advances and others by economic sectors:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Agriculture	25,519	-
Manufacturing	154,189	82,408
Electricity, gas and water	62,994	-
Construction	193,522	45,777
Wholesale, retail trade, restaurants and hotels	304,076	122,798
Transport, storage and communication	21,828	25,884
Finance, insurance and business services	95,468	61,589
Real estate	89,709	63,285
Community, social and personal services	4,648	2,691
Households		
- purchase of residential properties	1,113,953	386,280
- purchase of non residential properties	89,418	31,923
- others	44,817	28,516
	<u>2,200,141</u>	<u>851,152</u>

(vi) Movements in impaired financing, advances and others are as follows:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
As at 1 January	703	-
Classified as impaired during the period	7,095	703
Amount recovered	(6)	-
Reclassified as non credit impaired	(849)	-
As at 30 September	<u>6,943</u>	<u>703</u>
Allowance for ECL on credit impaired/ individual impairment	<u>(920)</u>	<u>(201)</u>
Net impaired financing, advances and others	<u>6,023</u>	<u>502</u>
Ratio of net impaired financing, advances and others to gross financing, advances and others less allowance for ECL on credit impaired/ individual impairment	<u>0.3%</u>	<u>0.1%</u>

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36. ISLAMIC BANKING OPERATIONS (cont'd.)

EXPLANATORY NOTES

c. FINANCING, ADVANCES AND OTHERS (cont'd.)

(vii) Impaired financing, advances and others analysed by economic sectors are as follows:

	30-Sep-18	31-Dec-17
Households:		
- purchase of residential properties	<u>6,943</u>	<u>703</u>

(viii) Impaired financing, advances and others analysed by geographical distribution are as follows:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
In Malaysia	<u>6,943</u>	<u>703</u>

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36. ISLAMIC BANKING OPERATIONS (cont'd.)

EXPLANATORY NOTES

c. Financing, advances and others (cont'd.)

(ix) Movements in allowance for impairment on financing, advances and others are as follows:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
<u>Collective impairment</u>		
As at 1 January	8,855	80
Restated for adoption for MFRS 9	(8,855)	
Impairment loss made during the period	-	8,775
As at 31 December	<u>-</u>	<u>8,855</u>
	30-Sep-18	31-Dec-17
	RM'000	RM'000
<u>Individual Impairment</u>		
As at 1 January	201	-
Restated for adoption for MFRS 9	(201)	
Impairment loss during the period/year	-	204
Profit recognised on impaired financing	-	(3)
As at 31 December	<u>-</u>	<u>201</u>
d. Other assets		
	30-Sep-18	31-Dec-17
	RM'000	RM'000
Other receivables, deposits and prepayments	29	-
Profit receivables	1,662	297
Less: Allowance for ECL	(8)	-
	<u>1,683</u>	<u>297</u>

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

e. Movements in loss allowance for expected credit loss

(a) Other financial assets:

Cash and Short term funds and Debt instruments at FVOCI

	12 months ECL RM'000	Lifetime (not credit impaired) ECL RM'000	Lifetime (credit impaired) ECL RM'000	Total RM'000
As at 31 December 2017	-	-		228
Effect of adopting MFRS 9 <i>Financial Instruments</i>	118	110	-	-
As at 1 January 2018, restated	118	110	-	228
<u>Movements with P&L impact:</u>				
(i) Additional ECL during the period	1,366	622	-	1,988
(ii) Maturity/settlement/reduction in ECL during the period	(684)	(617)	-	(1,301)
As at 30 September 2018	800	115	-	915

(b) Contingent Liabilities and Commitments

	12 months ECL RM'000	Lifetime (not credit impaired) ECL RM'000	Lifetime (credit impaired) ECL RM'000	Total RM'000
As at 31 December 2017	-	-	-	2,216
Effect of adopting MFRS 9 <i>Financial Instruments</i>	2,207	9	-	-
As at 1 January 2018, restated	2,207	9	-	2,216
<u>Movements with P&L impact:</u>				
(i) Transfer to 12-months ECL				
(a) Stage 2 to Stage 1	19	(25)	-	(6)
(ii) Transferred to Lifetime ECL (not credit impaired)				
(a) Stage 1 to Stage 2	(3)	72	-	69
(i) Additional ECL during the period	8,662	454	-	9,116
(ii) Maturity/settlement/reduction in ECL during the period	(9,112)	(20)	-	(9,132)
As at 30 September 2018	1,773	490	-	2,263

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36. ISLAMIC BANKING OPERATIONS (cont'd.)**EXPLANATORY NOTES****Movements in loss allowance for expected credit loss (cont'd.)****(c) Financing, advances and others**

	12 months ECL RM'000	Lifetime (not credit impaired) ECL RM'000	Lifetime (credit impaired) ECL RM'000	Collective Impairment RM'000	Individual Impairment RM'000	Total RM'000
As at 31 December 2017	-	-	-	8,855	201	9,056
Effect of adopting MFRS 9						
<i>Financial Instruments</i>	4,678	1,733	201	(8,855)	(201)	(2,444)
As at 1 January 2018, restated	4,678	1,733	201	-	-	6,612
<u>Movements with P&L impact:</u>						
(i) Transfer to 12-month ECL						
(a) Stage 2 to Stage 1	142	(3,074)	-	-	-	(2,932)
(ii) Transferred to Lifetime ECL (not credit impaired)						
(a) Stage 1 to Stage 2	(201)	6,340	-	-	-	6,139
(iii) Transferred to Lifetime ECL (credit impaired)						
(b) Stage 2 to Stage 3	-	(2,176)	942	-	-	(1,234)
(vi) New/additional ECL during the period	49,587	3,828	-	-	-	53,415
(v) Maturity/settlement/reduction in ECL during the period	(46,173)	(378)	(223)	-	-	(46,774)
As at 30 September 2018	8,033	6,273	920	-	-	15,226

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

f. Deposits from customers

(i) By type of deposits:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
<u>Non-Mudharabah fund</u>		
Demand deposits		
- Qard	193,469	92,395
Savings deposits		
- Qard	13,981	7,911
Fixed deposits		
- Tawarruq	2,185,890	496,423
Other deposits		
- Tawarruq	174,509	3,650
	<u>2,567,849</u>	<u>600,379</u>

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

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Due within six months	1,654,932	409,129
Six months to one year	512,957	87,294
Three years to five years	18,001	-
	<u>2,185,890</u>	<u>496,423</u>

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

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Business enterprises	874,093	453,782
Individuals	468,526	78,143
Others	1,225,230	68,454
	<u>2,567,849</u>	<u>600,379</u>

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UNITED OVERSEAS BANK (MALAYSIA) BHD
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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

g. Deposits and placements of banks and other financial institutions

	30-Sep-18	31-Dec-17
	RM'000	RM'000
<u>Non-Mudharabah fund</u>		
Other financial institutions	765,703	4,711
	<u>765,703</u>	<u>4,711</u>

h. Other liabilities

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Allowance for ECL	2,263	-
Accrued profit payable	21,143	4,281
Accruals and provisions for operational expenses	1,888	1,168
	<u>25,294</u>	<u>5,449</u>

i. Islamic Banking funds

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Capital fund	450,000	450,000
Net unrealised reserves on AFS securities	(51)	(81)
Retained profits/ (Accumulated losses)	4,104	(518)
	<u>454,053</u>	<u>449,401</u>

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

j. Income derived from depositors' funds

	Third quarter ended		Nine months ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
<u>Finance income and hibah</u>				
Financing, advances and others	10,936	2,957	23,963	6,846
Money at call and deposit placements with financial institutions	6,200	2,531	14,849	7,846
	17,136	5,488	38,812	14,692

k. Income derived from investment of Islamic Banking funds

	Third quarter ended		Nine months ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
<u>Finance income and hibah</u>				
Financing, advances and others	13,844	1,409	31,072	1,857
Money at call and deposit placements with financial institutions	1,285	2,089	3,940	7,330
AFS securities	754	232	1,208	688
	15,883	3,730	36,220	9,875
<u>Other operating income</u>				
Trading income	57	35	244	650
Commision income	1,424	803	3,984	1,020
Fee income	1,265	765	2,667	1,001
Others	5	2	11	4
	18,634	5,335	43,126	12,550

l. Income attributable to depositors

	Third quarter ended		Nine months ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Income attributable to depositors from non-mudharabah fund	23,816	4,371	51,754	11,815

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

m. Allowance for expected credit losses

	Third quarter ended		Nine months ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
a Financing, advances and others				
- Expected credit losses (non-credit impaired)	2,061	-	7,897	-
- Expected credit losses (credit impaired)	647	-	791	-
- Individual impairment	-	-	-	-
- Collective impairment	-	(160)	-	3,706
	2,708	(160)	8,688	3,706
b Other financial assets:				
Placement with banks and other financial institutions, and other assets	282	-	491	-
Debt instruments measured at FVOCI	47	-	196	-
	329	-	687	-
c Commitments and contingencies	847	-	47	-
Total	3,884	(160)	9,422	3,706

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

n. Other operating expenses

	Third quarter ended		Nine Months Ended ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Personnel expenses	216	594	1,189	1,189
Establishment related expenses	160	65	382	153
Promotion and marketing related expenses	2	-	12	2
General administrative expenses	4,207	3,414	13,099	9,388
	4,585	4,073	14,682	10,732
Personnel expenses				
- Wages, salaries and bonus	185	346	943	814
- Defined contribution plan	30	56	150	163
- Other employee benefits	1	192	96	212
	216	594	1,189	1,189
Establishment related expenses				
- Depreciation of property, plant and equipment	4	4	12	12
- Repair and maintenance	1	1	3	5
- Rental of premises	3	3	9	9
- Information technology costs	57	20	136	43
- Others	95	80	222	127
	160	108	382	196
Promotion and marketing related expenses				
- Advertisement and publicity	2	-	12	2
General administrative expenses				
- Fees and commissions paid	114	78	282	211
- Management fee	4,080	3,306	12,732	9,045
- Others	13	30	85	132
	4,207	3,414	13,099	9,388

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

o. Commitments and contingencies

The off-balance sheet exposures and their related counterparty credit risk are as follows:

	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
As at 30 September 2018			
Direct credit substitutes	9,333	9,333	5,273
Transaction-related contingent items	21,013	10,507	9,557
Foreign exchange related contracts			
- less than one year	1,448	43	24
Undrawn credit facility			
- less than one year	134,059	380	171
- more than one year	1,026,827	578,468	137,972
Total	1,192,921	598,779	152,997
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
As at 31 December 2017			
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

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36. ISLAMIC BANKING OPERATIONS (cont'd.)
EXPLANATORY NOTES

p. Capital management and capital adequacy

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

	30-Sep-18	31-Dec-17
	RM'000	RM'000
<u>Common Equity Tier 1 ("CET1")/Tier 1 Capital</u>		
Capital fund	450,000	450,000
Accumulated losses	(518)	(518)
Other reserves	(50)	(81)
Regulatory adjustments applied in the calculation of CET1 Capital	(95)	(144)
Total CET1/Tier 1 Capital	449,337	449,257
<u>Tier 2 Capital</u>		
Financing loss provision		
- Surplus eligible provisions over expected losses	6,374	1,523
- Collective impairment provisions and regulatory reserves	20	2
Total Tier 2 Capital	6,394	1,525
Total Capital	455,731	450,782

(a) The capital adequacy ratios are as follows:

	30-Sep-18	31-Dec-17
CET1/Tier 1 Capital	39.204%	73.643%
Total Capital	39.762%	73.893%

(b) Analysis of gross risk-weighted assets ("RWA") in the various categories of risk-weights is as follows:

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Total RWA for credit risk	1,109,439	583,283
Total RWA for operational risk	36,710	26,768
	1,146,149	610,051