Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Financial Statements
31 December 2014

BOARD OF DIRECTORS

Mr Mo Fumin, *Non-Independent Non-Executive Director and Chairman*

Mr Yuan Bin, *Non-Independent Executive Director*

YBhg Dato' Leong Khee Seong, *Independent Non-Executive Director*

Mr Ong Ah Tin @ Ong Chee Kwee, *Independent Non-Executive Director*

Ms Lan Li, *Non-Independent Non-Executive Director*

Mr Hong Guilu, *Non-Independent Non-Executive Director*

PROFILE OF DIRECTORS

Mr Mo Fumin

Age 60. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors. Attended all the six Board meetings held in the financial year. Appointed to the Board on 13 February 2014. Holds a PhD in Economics from Peking University, China.

Mr Mo Fumin has been with Industrial and Commercial Bank of China Limited ("ICBC") Group for the past 24 years holding various positions such as General Manager ("GM"), ICBC (Almaty) (March 1998 - April 2001), Deputy GM, Corporate Banking Department (April 2001 - June 2002), Deputy GM, Corporate Banking & Investment Banking Department (June 2002 - January 2007), GM, Corporate Banking Department (January 2007 - May 2013). Mr Mo Fumin currently also serves as the Chairman of ICBC (Moscow).

Mr Mo Fumin has no conflict of interest with the Bank and has no family relationship with any other Director.

Mr Yuan Bin

Age 45. Chinese. Non-Independent Executive Director. Appointed to the Board on 28 May 2014. Attended four Board meetings held in the financial year since his appointment. Holds a Master and Doctorate degree from Nankai University, Tianjin, China.

Mr Yuan Bin started his career with ICBC in 1991. He was entrusted with several strategic positions, ranging from Deputy GM of International Department (1997 - 1998) and Deputy GM of Human Resource (1998 - 2000) of Tianjin Branch, Branch Manager of Tianjin XiQing Branch Office (2000 - 2003), Head of International Settlement Division and Deputy GM of International Department at ICBC Head Office (2003 - 2007). He was appointed as President Director of PT Bank ICBC Indonesia in September 2007 before assuming his current position as Chief Executive Officer/Managing Director of the Bank in May 2014.

Mr Yuan Bin has no conflict of interest with the Bank and has no family relationship with any other Director. He is also a member of the Nominating Committee of the Bank.

YBhg Dato' Leong Khee Seong

Age 76. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Engineer by profession with B.E. (Chemical Engineering) from the University of New South Wales, Australia.

YBhg Dato' Leong Khee Seong served the Malaysian Government as the Minister of Primary Industries (1976 - 1986) and was a member of Parliament (1974 - 1990). He was a former Chairman of the Group of 14 ASEAN Economic Cooperation and Integration (1986 - 1987) and General Trade Agreement on Tariffs and Trade's Negotiating Committee on Tropical Products (1986 - 1990). He was formerly an Independent Non-Executive Director of Sin Chew Media Corporation (2004 - 2007), AirAsia Berhad (2004 - 2013) and TSH Resource Berhad (2005 - 2014) as well as a Non-Independent Executive Director cum Executive Chairman of Nanyang Press Holdings Berhad (2007 - 2009). He is currently the Chancellor of HELP University Malaysia (April 2012 - current).

YBhg Dato' Leong Khee Seong has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman of the Audit Committee and Nominating Committee and a member of the Board Risk Management Committee and Remuneration Committee of the Bank.

PROFILE OF DIRECTORS *(continued)*

Mr Ong Ah Tin @ Ong Chee Kwee

Age 64. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Holds a Bachelor of Arts in Economics from the University of Malaya and Diploma in Banking from Institute of Bankers, London.

Mr Ong Ah Tin started his banking career with Citibank Malaysia (then known as First National City Bank) as a Management Trainee in 1973 and held various positions in Operations, Credits and Marketing until August 1988 when he left as the Vice President of Credit Risks Management Department. In 1988, he joined Malaysian French Bank as an Assistant General Manager until 1994, thereafter he joined OUB Finance Berhad as Director/General Manager. After the merger of OUB Finance Berhad with its parent bank, Overseas Union Bank (M) Berhad in 1997, he was assigned to Overseas Union Bank (M) Berhad as Head of Enterprise Banking until 2002. Following that, he joined Alliance Finance Berhad as Acting CEO to manage the finance company's operations and to undertake the merger of Alliance Finance Berhad with its parent bank, Alliance Bank Berhad. Upon the successful completion of the merger in 2004, he was assigned as a Senior General Manager and Head of Consumers Banking of Alliance Bank Berhad until August 2005, when he retired from the banking industry. Mr Ong Ah Tin served as an Independent Non-Executive Director of Hock Sin Leong Group Berhad from April 2006 to December 2006.

Mr Ong Ah Tin has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman for the Risk Management Committee and Remuneration Committee, as well as being a member of the Audit Committee and Nominating Committee of the Bank.

Ms Lan Li

Age 51. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2012. Attended five out of the six Board meetings held in the financial year. Holds a PhD in Economics and Bachelor of Finance from Tianjin University of Finance Economics, China and Master of Finance from Nankai University, China.

Ms Lan Li has served various roles within ICBC Group ranging from Manager, Accounting and Settlement Department of ICBC's Frankfurt Office (July 1999 - August 2002), General Manager, International Banking Department and President of Ronghui Branch, Tianjin Regional Headquarters (August 2002 - October 2004), Vice Head of Internal Audit (October 2004 - May 2005), Deputy Head, Tianjin Regional Headquarters (June 2005 - December 2010) to Vice Head of Internal Auditing (December 2010 - July 2011). She has been a Director of Accredited Non-Executive Directors Management Division of Corporate Strategy and Investor Relations of ICBC since July 2011 and also serves as a Non-Independent Non-Executive Director of ICBC (Thailand) (2011 - current), ICBC (London) (2012 - current) and ICBC (USA) (2012 - current). Ms Lan Li currently also acts as a Supervisor of ICBC-AXA Assurance Co., Ltd (China) (January 2015 - current).

Ms Lan Li has no conflict of interest with the Bank and has no family relationship with any other Director. She is a member of the Audit Committee, Nominating Committee and Remuneration Committee of the Bank.

Mr Hong Guilu

Age 48. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2012. Attended all the six Board meetings held in the financial year. Holds a Bachelor of Engineering and Master of Economics (Industrial Economics) from Harbin Institute of Technology, China and People's University of China, respectively, and Master of Accounting from George Washington University, United States.

Prior to joining ICBC Group, Mr Hong Guilu was appointed as Manager, State Property Administration Bureau of Ministry of Finance (July 1993 - June 2000) and Deputy Director, Board of Supervisors of Agricultural Bank of China (July 2000 - June 2003). He was appointed Director, Board of Supervisors of ICBC in July 2003 prior to his appointment as Director of Accredited Non-Executive Directors Management Division of Corporate Strategy and Investor Relations of ICBC in December 2005 until current. Mr Hong Guilu also serves as a Non-Independent Non-Executive Director of ICBC (Almaty) and ICBC (Moscow) since 2011.

Mr Hong Guilu has no conflict of interest with the Bank and has no family relationship with any other Director. He is a member of the Risk Management Committee, Nominating Committee and Remuneration Committee of the Bank.

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

The Bank recorded a net profit of RM19.2 million for the financial year ended 31 December 2014. The total operating income of the Bank rose by RM24.4 million or 39.9% as a result of an increase of net interest income by RM23.1 million. Operating expenses rose by RM9.7 million or 21.9% following the human capital expansion of the Bank.

The Bank's total assets stood at RM4.0 billion, a decrease of RM1.0 billion or 19.2% over the previous financial year. The decrease was mainly due to lower short term funds as well as deposits and placements with banks and other financial institutions by RM1.3 billion or 42.4% compared to previous financial year. However, it was partially offset with loan growth of RM0.4 billion despite intense competition. The total liabilities of the Bank decreased by RM1.0 billion or 21.1% to RM3.7 billion. The decrease mainly resulted from a decrease in deposits and placements of bank and other financial institutions by RM1.6 billion.

The Bank will continue to grow its core lending business and to maintain a healthy liquidity position. The Bank will strive to deliver satisfatory results in 2015 through higher sales productivity and greater operational efficiency.

OUTLOOK FOR 2015

The global economy in 2015 will continue to be challenging, with economic growth in most advanced economies expected to remain weak. The soft commodity prices and the divergence in terms of the monetary policies due to uneven growth prospect in the major economies may further compound the difficult external environment.

In the domestic front, Malaysia recorded a fairly strong GDP growth at 6% in 2014 (2013: 4.7%) driven mainly by the continued strength in domestic consumption and supported by the growth in external demands. Malaysia benefited from the moderate recovery in the major economies, net exports for the year has turned positive in contributing to the improved economic growth after several years of negative contribution. However, export growth for 2015 will most probably be moderated amid softer commodity prices and expected lower external demands due to the expected slow down in most major economies. Bank Negara Malaysia has projected a moderate GDP growth for 2015 at 4.5% - 5.5%. In addition, the pro-active measure currently undertaken by Government for 2015, which includes the progressive implementation of the Economic Transformation Programme to spur the investment growth, as well as the shift from Sales and Services Tax to Goods & Services Tax are in line with its Vision 2020.

Against the backdrop of a strong economy and financial ties between China and Malaysia, the Bank is committed to bridge the economy and financial needs of the investors and traders from both countries. The Bank would also aim to expand its targeted markets and achieve a leadership position in its niche segment, by leveraging on the Bank's IT infrastructure and multiple distribution networks of ICBC worldwide.

During the year, with the widened branch network covering the strategic geographical location of Malaysia, the Bank will continue to expand its customer base and enhance its financial products and services to better serve the needs of its customers. In addition, the Bank will continue to pursue a series of branding exercise to further promote the wide acceptance of retail financial products in domestic market, while at the same time deepening the relationships with its valued clients and customers. The Bank remains committed to its objective of becoming one of the preferred banks in Malaysia.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") of Industrial and Commercial Bank of China (Malaysia) Berhad ("the Bank") recognises the importance of adopting good corporate governance in discharging its responsibilities for value creation and safeguarding interests of the shareholders and stakeholders while promoting high standard of integrity, transparency and accountability.

The Board has endeavoured to ensure that the Bank's internal processes and systems are in compliance with Bank Negara Malaysia's ("BNM") Guidelines on Corporate Governance for Licensed Institutions ("CG Guidelines") and other relevant best practices of corporate governance.

Board Composition

Currently, the Board comprises six members, with one Non-Independent Non-Executive Chairman, one Non-Independent Executive Director, two Independent Non-Executive Directors and two Non-Independent Non-Executive Directors. A brief profile of each member of the Board is presented on pages 2 and 3 of this financial statements.

The Independent Directors account for one-third of the Board composition, in compliance with BNM's CG Guidelines in terms of minimum number of independent director. They are not involved in the day-to-day management of the Bank nor do they participate in any business dealings of the Bank. This is to ascertain their independency in carrying out their roles and responsibilities as independent non-executive directors.

The Non-Independent Non-Executive Directors of the Bank continue to proactively engage with the Senior Management to ensure that various concerns and issues relevant to the management and oversight of the business and operations of the Bank which are Group related are properly addressed.

Duties and Responsibilities of the Board

The Board governs the business and affairs of the Bank with close collaboration with the Senior Management. The Board exercises all such powers conferred by the Articles of Association and Shareholder's Mandate as well as in accordance to the Terms of Reference of the Board. The Shareholder's Mandate is reviewed on annual basis.

To ensure effectiveness in discharging its duties and responsibilities, the Board delegates its specific authorities to the relevant Board committees namely Audit Committee ("AC"), Board Risk Management Committee ("BRMC"), Nominating Committee ("NC") and Remuneration Committee ("RC") as expressly stipulated in the terms of references of the respective Board committees.

The Board assumes the following key duties and responsibilities:

(a) Business Strategy, Direction and Operation

The Board plays a pivotal role in reviewing the Bank's strategies, business plans, financial objective and budget, risk strategy and appetites, and determining the effectiveness of risk and capital management framework of the Bank.

The Board ensures that clear objectives and policies are established, within which the Senior Management of the Bank is to operate. These include strategic planning, credit management and control, assets and liabilities management, effective oversight of data management and management information system of the Bank.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Duties and Responsibilities of the Board *(continued)*

In 2014, following the appointment of Mr Yuan Bin as the new Chief Executive Officer/Managing Director ("CEO/MD") of the Bank end of May 2014, the Senior Management Committee under his leadership has initiated a 5-year Business Plan (2014-2018) encompassing strategies, action plans and financial objectives for pursuing by the Bank in the next few years. The Board has reviewed and approved the same for implementation in December 2014.

A performance assessment methodology for Senior Management has also been approved by the Board in 2014, through which the performance of the Senior Management in carrying out the strategies and policies will be systematically and objectively reviewed and assessed by the Board on a yearly basis.

(b) Risk Management, Internal Control and Governance Processes

The Board has the responsibilities to review and ensure the effectiveness and comprehensiveness of risk management policies, processes and infrastructure to identify, measure, monitor and control all risk categories in key areas of the Bank's operation and the maintenance of a sound internal control system.

The Board reviews the risk management capabilities periodically to support the business expansion and ensure the adequacy of the operations of the Bank within the Bank's defined risk appetite and tolerance level, and framework of laws and policies. Also, more importantly to exercise the oversight function on the overall Anti-Money Laundering/Counter Financing Terrorism ("AML/CFT") measures undertaken by the Bank.

Risk management has been the collective responsibility of the Board, Senior Management and every employee of the Bank. Each individual is expected to promote self-regulation and be accountable for his/her own activities as well as to maintain ethical principles and behaviour in the daily business conducts. The state of compliance with laws, regulations and internal policies and procedures are reported to AC, BRMC and the Board on quarterly basis.

The Board governs the adequacy and integrity of the Bank's internal control system. With the support of the AC and Internal Auditors, the Board ensures that there is an effective and efficient framework for reporting internal controls and regulatory non compliance or breaches.

Roles of the Chairman and CEO/MD

Mr Mo Fumin, the Non-Independent Non-Executive Chairman, manages the affairs of the Board with a view to ensure that the Board functions effectively and meets its obligations and responsibilities. He ensures all Members have the opportunity to express their views, opinions and ideas for proper decision making of the Board.

At the highest executive level, Mr Yuan Bin, who currently holds the CEO/MD position, assumes the overall responsibilities for the execution of the Bank's strategies and plans in line with the Board's direction, oversees the overall operation and drives the businesses and performance towards achieving the Bank's vision and goals. In carrying out his tasks, the CEO/MD is supported by a Senior Management Committee which comprises of CEO/MD as the Chairman, Deputy CEOs, Deputy Chief Compliance Officer and Assistance CEO.

Director's Appointment and Re-election

(a) Appointment of Directors

The NC is guided by BNM's CG Guidelines to ensure the Board members have the appropriate fitness and propriety to properly discharge their prudential responsibilities on appointment and during the course of their appointment. A fit and proper assessment is carried out for each Director and identified key Management in accordance to the Fit and Proper Policy of the Bank.

As for the re-appointment of the existing Directors, the NC refers to the results of the individual assessments conducted via the Board Performance Evaluation besides their on-going interactions with the Directors.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Director's Appointment and Re-election *(continued)*

The application for the appointment or re-appointment of Directors will be submitted to BNM for consideration once the same is approved by the Board.

(b) Re-election of Directors

All Directors, except for MD, are subject to retirement by rotation. Pursuant to Article 73 of the Articles of Association, at least one-third of the Board is subject to retirement by rotation at each Annual General Meeting. Retiring directors can offer themselves for re-election.

Board Performance Evaluation

The Bank has since 2011 undertaken the Board Performance Evaluation exercise annually on the Board and Board committees with the objective to assess their effectiveness and that of the individual Directors.

The evaluation is based on a combination of self and peer assessment performed via a customised questionnaire. The overall evaluation results will be tabled to the NC and the Board for consideration. Each Director is provided with the individual results on each area of assessment for personal information and further improvement. The results of the Director's self and peer evaluation also form part of the basis for evaluation by the NC for the re-appointment of the respective Directors.

Assessment of Independence

The Independent Directors are required to provide their confirmations on their compliance with the criteria and definition of "Independent Director" as stipulated in BNM's CG Guidelines.

Information Access

The Board members may interact directly with the Management, seeking their clarification and advices as well as request for information on matters pertaining to the Bank's operation or business concerns. The Board members regularly obtains the advice and dedicated support services of the Company Secretary in ensuring the effective functioning of the Board. Should the need arises, the Directors may also seek independent professional advices, at the Bank's expense when deemed necessary for the proper discharge of their duties.

Conduct of Board Meeting

The Board meets six times a year with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. Due notice is given for the scheduled meetings and matters to be dealt with. All Board meeting proceedings are properly recorded, including issues discussed and conclusions made in discharging its duties and responsibilities.

Agenda for each Board meeting and papers relating to the agenda items are disseminated to all Directors well before the meeting, to provide sufficient time for the Directors to review the Board papers and seek clarifications from the Management, if required. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Articles of Association.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Conduct of Board Meeting *(continued)*

A total of six meetings were held for the financial year ended 31 December 2014. The attendance of each Director in office at the Board Meetings held in the financial year 2014 is set out below:-

Directors	Independent/Non-Independent	Attendance at meetings
Mo Fumin	Non-Independent Non-Executive Chairman	6/6 (100%)
Yuan Bin (appointed on 28 May 2014)	Non-Independent Executive Director	4/4 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	6/6 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	6/6 (100%)
Lan Li	Non-Independent Non-Executive Director	5/6 (83%)
Hong Guilu	Non-Independent Non-Executive Director	6/6 (100%)
Tian Fenglin (resigned on 28 May 2014)	Non-Independent Non-Executive Director	0/2 (0%)

All Directors in office as at 31 December 2014 have complied with the required minimum Board Meetings attendance of 75% under the revised guidelines of BNM.

Board Committees

Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have oversight authorities to examine and/or consider all matters within their scope of responsibility and make recommendations to the Board for approval, if required. The minutes of the committees' meetings are tabled to the Board for information.

The Board committees are as follows:

(i) Audit Committee;
(ii) Board Risk Management Committee;
(iii) Nominating Committee; and
(iv) Remuneration Committee.

Audit Committee

The objective of the AC is primarily to assist the Board in providing independent oversight of the Bank's financial reporting, internal control system, risk management function and governance processes.

The Committee with the assistance of both external and internal auditors, where deemed appropriate, reviews the integrity and reliability of the Bank's financial statements on yearly or quarterly basis, prior to recommending the same for the Board's approval.

The Committee also meets twice a year with the external auditors, without the presence of the Management, for discussion on any key issues/areas that require attention of the Committee and the Board.

The Committee also undertakes an assessment of the suitability and independence of the external auditors based on qualifying criteria for the appointment of auditors and terms of engagements in accordance with BNM's Guidelines on External Auditors. Having reviewed and satisfied with their performance, the Committee will recommend the re-appointment of the external auditors to the Board, upon which the shareholder's approval will be sought at the Annual General Meeting.

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CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Audit Committee *(continued)*

During the financial year ended 31 December 2014, a total of eight meetings were held. The Committee comprises of the following members and the details of attendance of each member at the Committee meetings held during the year are as follows:

Members of AC	**Independent/Non-Independent**	**Attendance at meetings**
Dato' Leong Khee Seong	Chairman/Independent Non-Executive Director	8/8 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	8/8 (100%)
Lan Li	Non-Independent Non-Executive Director	8/8 (100%)

The salient terms of reference of the AC are as follows:

- to oversee the functions of the Internal Audit Department ("IAD") and ensuring compliance with relevant regulatory requirements;
- to review and approve the annual audit plan including its audit objectives, scope and resources allocation as well as subsequent changes thereof;
- to review internal audit findings/reports, Management's responses as well as remedial actions and follow-up on status of rectification;
- to review and discuss with the external auditors and Management on the fairness of presentation and transparent reporting of the financial statements and timely publication of the financial accounts;
- to appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor;
- to review the adequacy and effectiveness of the internal controls and risk management processes and to ensure clear line of reporting is established for timely communication of issues which have an impact on the effectiveness of the Bank's risk management framework;
- to select and recommend the external auditors for appointment and re-appointment by Board annually, including removal of the external auditors, where relevant;
- to review the performance, independency and objectivity of the external auditors, including the requisite disclosures from the external auditors evidencing their independency;
- to review and approve the provision of non-audit service by the external auditor so as to ensure that the provision of non-audit services does not interfere with the exercise of independent judgement of auditors;
- to review all related party transactions and keep the Board informed of such transactions; and
- to ensure that independent audits are conducted to assess the effectiveness of the policies, procedures and controls for AML/CFT measures within the Bank and also the measures are in line with the latest developments and changes of the relevant AML/CFT requirements.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Audit Committee *(continued)*

Internal Audit Function

The Bank has an internal audit function which is guided by the Internal Audit Charter and reports to the AC. The primarily role is to assist the AC in discharging its duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Bank's risk management, internal control system and governance processes.

The AC approves the annual audit plan of the Bank at the beginning of each financial year. IAD adopts a risk-based approach, driven by a systematic and comprehensive risk assessment model in managing the internal audit activities. The fundamental framework for the internal audit function is based on the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework, a well-recognised risk and control framework for the evaluation of the design and operating effectiveness of internal control. The use of the COSO framework is integrated into the internal audit activities.

The scope of the internal audit covers the audit of all units and operations of the Bank. The priority of internal audit activities are identified through risk assessment and in accordance with the annual audit plan approved by the AC.

During the financial year 2014, IAD has conducted audits to examine and assess the adequacy, effectiveness and efficiency of risk management functions and internal control system as well as to review the compliance with the established policies, procedures, guidelines and regulatory requirements. The audit reports, which provide the results of audits/reviews conducted including the remedial actions for rectifying audit issues, are submitted to the AC for review. There are also follow-up and escalation procedures in place for the tracking of all audit issues to full resolution.

Board Risk Management Committee

The Board has entrusted BRMC with the responsibilities to provide oversight and governance of risks for the Bank. The Committee oversees the risk framework, reviews the risk management activities and policies formulated by the Management for recommendation to the Board for approval.

The Committee comprises of two Independent Non-Executive Directors and one Non-Independent Non-Executive Director . The composition of the BRMC and the attendance of the members at meetings held in 2014 are as follows:

Members of BRMC	**Independent/Non-Independent**	**Attendance at meetings**
Ong Ah Tin @ Ong Chee Kwee	Chairman/Independent Non-Executive Director	6/6 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	6/6 (100%)
Hong Guilu	Non-Independent Non-Executive Director	5/6 (83%)

The salient terms of reference of the Committee are as follows:

- to review and recommend risk management strategies, policies and risk tolerance for Board's approval;
- to review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively; and obtaining assurances that they are being adhered to on timely basis;
- to ensure infrastructure, resources and systems are in place for risk management that is, ensuring staff responsible for implementing risk management systems perform their duties independently of the Bank's risk taking activities;

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Board Risk Management Committee *(continued)*

- to review Management's periodic reports on risk exposure, risk portfolio composition and risk management activities;
- to evaluate and provide input on such strategies and/or policies to suit local conditions and make appropriate recommendations thereof to the Board where risk strategies and policies are driven by the parent bank;
- to provide oversight for establishing AML/CFT policies and minimum standards, overall AML/CFT risk profiles and measures undertaken by the Bank;
- to review and ensure a forward looking and dynamic capital management processes that incorporating changes in the Bank's strategic business direction, risk profiles, operating environment and other factors that could materially affect the capital adequacy;
- to review and approve the Bank's overall stress testing methodology, which should be forward looking with defined scenario(s) that cover various material risks and business areas. The result of the stress tests should facilitate the development of risk mitigation or contingency plans for the stressed scenario(s); and
- to review and recommend new products and services that require approval by the Board per BNM's guidelines based on the recommendation from the New Product Approval Committee.

The details pertaining to the Bank's risk management framework are set out on pages 55 to 67 of these financial statements.

Nominating Committee

The NC comprises four Non-Executive Directors and one Executive Director. The NC met three times during financial year 2014. The composition of the NC and the attendance of the members at meetings held in 2014 were as follows:

Members of NC	**Independent/Non-Independent**	**Attendance at meetings**
Dato' Leong Khee Seong	Chairman/Independent Non-Executive Director	3/3 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	3/3 (100%)
Yuan Bin	Non-Independent Executive Director	3/3 (100%)
Lan Li	Non-Independent Non-Executive Director	3/3 (100%)
Hong Guilu	Non-Independent Non-Executive Director	1/3 (33%)

The salient terms of reference of the NC are set out below:

- to establish minimum requirements for the Board members with the required mix of skills, experience, qualification and other core competencies required of a director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the Board;
- to recommend and assess the nominees for directorship, Board committee members as well as nominees for the CEO. This includes assessing directors/CEO for re-appointment upon the expiry of their respective terms of appointment as approved by BNM. The final decision as to who shall be nominated should be the responsibility of the Board;
- to oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review;
- to recommend to the Board the removal of a director or CEO or other Senior Management members from the Board or management if he/she is ineffective, errant and negligent in discharging his/her responsibilities;

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CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Nominating Committee *(continued)*

- to establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other Senior Management members. Annual assessment should be conducted based on objective performance criteria. Such performance criteria should be approved by the Board;

- to ensure all Directors receive appropriate continuous training programme(s) in order to keep abreast with the latest developments in the industry;

- to oversee the appointment of Senior Management members, Management succession planning and performance evaluation of Senior Management members;

- to assess on annual basis, and ensure that the directors and Senior Management members are not disqualified under Section 59 of the Financial Services Act 2013; and

- to assess the fit and proper of key responsible persons as defined in the Bank's Fit and Proper Policy.

Remuneration Committee

The RC comprises four Non-Executive Directors of whom two are Independent Non-Executive Directors. The RC met twice during financial year 2014. The composition of the RC and the attendance of the members at meetings held in 2014 were as follows:

Members of RC	**Independent/Non-Independent**	**Attendance at meetings**
Ong Ah Tin @ Ong Chee Kwee	Chairman/Independent Non-Executive Director	2/2 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	2/2 (100%)
Lan Li	Non-Independent Non-Executive Director	2/2 (100%)
Hong Guilu	Non-Independent Non-Executive Director	1/2 (50%)

The salient terms of reference of the RC are set out below:

- to recommend a framework of remuneration for directors, CEO and other Senior Management members for the Board's approval. The remuneration framework should support the Bank's culture, objectives and strategy to reflect the responsibility and commitment of the Board members, CEO and other Senior Management members. There should be a balance in determining the remuneration package, either to reward or retain members of the Board or staff of caliber and at the same time without compromising the short term and long term interest of the Bank. The framework should cover all aspects of remuneration including director's fees, salaries, allowances, bonuses, share options and benefits-in-kind; and

- to recommend specific remuneration packages for executive directors and the CEO. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependent on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. In addition, the remuneration of each Board member may differ based on their level of expertise, knowledge and experience.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Remuneration Committee *(continued)*

The Bank's Independent Non-Executive Directors receive Directors' fee and meeting attendance allowances. The annual Directors' fees are subject to shareholders' approval at the Annual General Meeting ("AGM") of the Bank. The nature and amount of each major element of the remuneration of the CEO/MD and Independent Non-Executive Directors for financial year 31 December 2014 are disclosed in Note 25 (c) to the financial statements.

Accountability and audit

Financial reporting

It is the Board's commitment to present a balanced and meaningful assessment of the Bank's financial performance and prospects at the end of the financial year, primarily through the annual financial statements to BNM. The Board is assisted by the AC to oversee the Bank's financial reporting process and the quality of its financial reporting.

Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Bank as at the end of the accounting period and of its operation results and cash flows for the year then ended. In preparing the financial statements, the Directors have ensured that the preparation and fair presentation of these financial statements are in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia in all respects and other legal requirements.

Relationship with the Auditor

Key features underlying the relationship of the AC with the external auditors are included in the AC's terms of reference.

DIRECTORS' REPORT
For the year ended 31 December 2014

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the provision of banking and other related financial services.

RESULTS

	RM'000
Profit before taxation	26,696
Tax expense	(7,456)
Profit for the year	19,240

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

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

DIRECTORS OF THE BANK

Directors who held office during the year since the date of the last report are:

Mr Mo Fumin	
Mr Yuan Bin	(Appointed on 28 May 2014)
YBhg Dato' Leong Khee Seong	
Mr Ong Ah Tin @ Ong Chee Kwee	
Ms Lan Li	
Mr Hong Guilu	
Mr Tian Fenglin	(Resigned on 28 May 2014)

Pursuant to Section 129 of the Companies Act 1965, YBhg Dato' Leong Khee Seong retires at the forthcoming Annual General Meeting of the Bank and being eligible, offers himself for re-election.

In accordance with Article 73 of the Bank's Articles of Association, Mr Hong Guilu retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTEREST

None of the Directors holding office as at 31 December 2014 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Bank or of related corporations as shown in Note 25 (c) to the financial statements) by reason of a contract made by the Bank with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ISSUE OF SHARES AND DEBENTURES

There were no changes in the authorised, issued and paid-up capital of the Bank during the financial year. There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

BANK RATINGS

The Bank has not been rated by any external agencies.

HOLDING COMPANY

The Directors regard Industrial and Commercial Bank of China Limited, a company incorporated in China, as the holding company of the Bank.

OTHER STATUTORY INFORMATION

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

i) adequate provision has been made for doubtful debts; and

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

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

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

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

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2014 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

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

…………………………………………………………….
Yuan Bin

…………………………………………………………….
Dato' Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 26 March 2015

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Yuan Bin and Dato' Leong Khee Seong being two of the directors of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 22 to 68 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance and cash flows of the Bank for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolutions of the directors:

……………………………………………………………
Yuan Bin

……………………………………………………………
Dato' Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 26 March 2015

STATUTORY DECLARATION PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Yuan Bin, being the Director primarily responsible for the financial management of Industrial and Commercial Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 22 to 68 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur, Malaysia on 26 March 2015.

……………………………………………………………

Yuan Bin

BEFORE ME:

……………………………………………………………

Independent Auditors' Report to the Member Of Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2014 of the Bank, and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 68.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Company No. 839839 M)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2014 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/16(J)

Petaling Jaya, Malaysia

Date: 26 March 2015

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 RM'000	2013 RM'000
ASSETS			
Cash and short-term funds	4	1,639,495	2,478,860
Deposits and placements with banks and other financial institutions	5	107,600	556,355
Financial investments available-for-sale	6	55,156	99,040
Loans, advances and financing	7	2,210,784	1,821,613
Derivative financial assets	30	592	7,880
Other assets	8	7,164	19,342
Statutory deposits with Bank Negara Malaysia	9	10,340	3,601
Tax recoverable		-	3,431
Plant and equipment	10	4,303	6,188
Intangible asset	11	1,344	1,864
Deferred tax assets	12	3,102	863
TOTAL ASSETS		4,039,880	4,999,037
LIABILITIES			
Deposits from customers	13	1,949,828	1,325,195
Deposits and placements of banks and other financial institutions	14	1,650,218	3,269,095
Derivative financial liabilities	30	542	12,317
Other liabilities	15	51,986	25,297
Provision for taxation		960	-
TOTAL LIABILITIES		3,653,534	4,631,904
EQUITY			
Share capital	16	331,000	331,000
Reserves	17	55,346	36,133
EQUITY ATTRIBUTABLE TO OWNER OF THE BANK		386,346	367,133
TOTAL LIABILITIES AND EQUITY		4,039,880	4,999,037
COMMITMENTS AND CONTINGENCIES	27	2,498,328	3,380,078

The notes set out on pages 26 to 68 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 RM'000	2013 RM'000
Interest income	18	132,924	110,053
Interest expense	18	(74,021)	(74,220)
Net interest income	18	58,903	35,833
Net fee income	19	11,090	14,411
Net trading income	20	15,538	10,895
Net operating income		85,531	61,139
Other operating expenses	21	(54,032)	(44,310)
Operating profit		31,499	16,829
Allowance for impairment on loans, advances and financing	22	(4,803)	(4,488)
Profit before taxation		26,696	12,341
Tax expense	23	(7,456)	(4,385)
Profit for the year		19,240	7,956
Other comprehensive income, net of tax			
Fair value reserve			
- Changes in fair value		121	(237)
- Amount transferred to profit or loss		(320)	-
- Deferred tax adjustment		172	(64)
Total other comprehensive expense for the year		(27)	(301)
Total comprehensive income for the year		19,213	7,655
Basic earnings per ordinary share (sen):	24	5.81	2.40

The notes set out on pages 26 to 68 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad
(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Non-distributable				Distributable	
	Share Capital RM'000	**Statutory Reserve RM'000**	**Available-for-sale Reserve RM'000**	**Regulatory Reserve RM'000**	**Retained Earnings RM'000**	**Total Equity RM'000**
At 1 January 2013	331,000	12,629	50	-	15,799	359,478
Total comprehensive income for the year						
Profit for the year	-	-	-	-	7,956	7,956
Other comprehensive income, net of tax						
Fair value reserve						
- Net changes in fair value	-	-	(237)	-	-	(237)
- Deferred tax adjustment	-	-	(64)	-	-	(64)
Total other comprehensive expense for the year	-	-	(301)	-	-	(301)
Total comprehensive (expense)/income for the year	-	-	(301)	-	7,956	7,655
Transfer to statutory reserve	-	3,978	-	-	(3,978)	-
Transfer to regulatory reserve	-	-	-	6,175	(6,175)	-
At 31 December 2013	331,000	16,607	(251)	6,175	13,602	367,133
At 1 January 2014	331,000	16,607	(251)	6,175	13,602	367,133
Total comprehensive income for the year						
Profit for the year	-	-	-	-	19,240	19,240
Other comprehensive income, net of tax						
Fair value reserve						
- Changes in fair value	-	-	121	-	-	121
- Amount transferred to profit or loss			(320)			(320)
- Deferred tax adjustment	-	-	172	-	-	172
Total other comprehensive expense for the year	-	-	(27)	-	-	(27)
Total comprehensive (expense)/income for the year	-	-	(27)	-	19,240	19,213
Transfer to statutory reserve	-	9,620	-	-	(9,620)	-
Transfer to regulatory reserve	-	-	-	4,876	(4,876)	-
At 31 December 2014	331,000	26,227	(278)	11,051	18,346	386,346
	Note 16	Note 17.1	Note 17.2	Note 17.3	Note 17.4	

The notes set out on pages 26 to 68 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 RM'000	2013 RM'000
Cash flows (used in)/generated from operating activities			
Profit before taxation		26,696	12,341
Adjustments for:			
Depreciation of plant and equipment		2,244	2,259
Amortisation of intangible asset		520	520
Allowance for impairment on loans, advances and financing		4,803	4,488
Net unrealised (gains)/losses arising from derivative trading		(4,487)	5,198
Operating profit before working capital changes		29,776	24,806
Decrease/(Increase) in operating assets			
Deposits and placements with banks and other financial institutions		448,755	816,196
Loans, advances and financing		(393,974)	(1,458,642)
Other assets		12,421	(9,230)
Statutory deposits with Bank Negara Malaysia		(6,739)	(3,601)
Increase/(Decrease) in operating liabilities			
Deposits from customers		624,633	663,203
Deposits and placements of banks and other financial institutions		(1,618,877)	1,162,881
Other liabilities		26,689	6,236
Cash (used in)/generated from operations		(877,316)	1,201,849
Income taxes paid		(5,132)	(5,878)
Net cash (used in)/generated from operating activities		(882,448)	1,195,971
Cash flows generated from/(used in) investing activities			
Purchase of plant and equipment		(359)	(4,158)
Net proceeds/(purchase) of financial investments available-for-sale		43,442	(48,562)
Net cash from/(used in) investing activities		43,083	(52,720)
Net (decrease)/increase in cash and cash equivalents		(839,365)	1,143,251
Cash and cash equivalents at beginning of the financial year		2,478,860	1,335,609
Cash and cash equivalents at end of the financial year		1,639,495	2,478,860
Cash and cash equivalents comprise:			
Cash and short-term funds	4	1,639,495	2,478,860

The notes set out on pages 26 to 68 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad
(Company No. 839839 M)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. General information

Industrial and Commercial Bank of China (Malaysia) Berhad is a public limited liability company incorporated and domiciled in Malaysia. The Bank is principally engaged in the provision of banking and other related financial services. The addresses of its registered office and principal place of business are as follows:

Registered office
Level 34C, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur.

Principal place of business
Level 35, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors on 26 March 2015.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

MFRSs, Interpretations and amendments effecting for annual periods beginning on or after 1 July 2014

Amendments to MFRS 1, *First Time Adoption of Malaysian Reporting Standards (Annual Improvements 2011 - 2013 Cycle)*
Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010 - 2012 Cycle)*
Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010 - 2012 Cycle and 2011 - 2013 Cycle)*
Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010 - 2012 Cycle)*
Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010 - 2012 Cycle and 2011 - 2013 Cycle)*
Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010 - 2012 Cycle)*
Amendments to MFRS 119, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010 - 2012 Cycle)*
Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010 - 2012 Cycle)*
Amendments to MFRS 140, *Investment Property (Annual Improvements 2011 - 2013 Cycle)*

MFRSs, Interpretations and amendments effecting for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012 - 2014 Cycle)*
Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012 - 2014 Cycle)*
Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

Amendments to MFRS 10, *Consolidated Financial Statements* , MFRS 12, *Disclosure of Interests in Other Entities and* MFRS 128, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
Amendments to MFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
MFRS 14, *Regulatory Deferral Accounts*
Amendments to MFRS 101, *Presentation of Financial Statements - Disclosure Initiative*
Amendments to MFRS 116, *Property, Plant and Equipment and* MFRS 138, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to MFRS 116, *Property, Plant and Equipment and* MFRS 141, *Agriculture - Agriculture: Bearer Plants*
Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012 - 2014 Cycle)*
Amendments to MFRS 127, *Separate Financial Statements - Equity Method in Separate Financial Statements*
Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012 - 2014 Cycle)*

MFRSs, Interpretations and amendments effecting for annual periods beginning on or after 1 January 2017

MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effecting for annual periods beginning on or after 1 January 2018

MFRS 9, *Financial Instruments (2014)*

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

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual period beginning on or after 1 July 2014, except for Amendments to MFRS 2, Amendments to MFRS 3, Amendments to MFRS 8 and Amendments to MFRS 140 as they are not applicable to the Bank.

- from the annual period beginning on 1 January 2016 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for Amendments to MFRS 5, Amendments to MFRS 10 and MFRS 128, Amendments to MFRS 10 and MFRS 12, Amendments to MFRS 11 and Amendments to MFRS 127 as they are not applicable to the Bank.

- from the annual period beginning on 1 January 2017 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.

- from the annual period beginning on 1 January 2018 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

The initial applications of the other standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Bank, except as mentioned below:

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 118, *Revenue.* The adoption of MFRS 15 will result in a change in accounting policy. The Bank is currently assessing the financial impact of adopting MFRS 15.

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 will result in a change in accounting policy. The Bank is currently assessing the financial impact of adopting MFRS 9.

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for financial investments available-for-sale and derivative financial instruments as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 31.

3. Significant accounting policies

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

(a) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale debt instruments which are recognised in other comprehensive income.

(b) Interest recognition

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

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

Interest expense on deposits and borrowings of the Bank are recognised on an accrual basis.

(c) Fees recognition

Loan arrangement fees which are material are recognised as income when all conditions precedent are fulfilled. Guarantee fees and commitment fees which are material are recognised as income based on time apportionment.

Other fee income on services and facilities extended to customers are recognised as the related services are performed.

Other fee expense relating mainly to transaction and service fees, are expensed off as the services are received.

3. Significant accounting policies *(continued)*

(d) Operating lease payments

Leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statement of financial position.

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

(e) Income tax expense

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

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

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

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

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

(f) Financial instruments

i) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits and debt securities issued on the date they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

3. Significant accounting policies *(continued)*

(f) Financial instruments (continued)

ii) Derecognition

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- the Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

On derecognition of a financial asset, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

Financial liabilities are derecognised when the Bank's contractual obligations are discharged, cancelled, or expired.

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

iii) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the MFRSs.

(g) Cash and cash equivalents

Cash and cash equivalents consist of notes and coins on hand, unrestricted balances held with BNM and highly liquid financial assets maturing within one month, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

(h) Derivative financial instruments

Derivatives are recognised at fair value in the statement of financial position. Gains and losses (realised and unrealised) arising from changes in the fair value are recognised in profit or loss.

(i) Forward Foreign Exchange Contracts

Forward contracts are valued at the prevailing forward rates of exchange at the reporting date. The resultant unrealised gains and losses are recognised in profit or loss.

(ii) Currency Swaps

The Bank acts as an intermediary for counterparties who wish to swap their foreign currency obligations. The resultant realised and unrealised gains and losses are recognised in profit or loss.

3. Significant accounting policies *(continued)*

(i) Financial investments

Available-for-sale

Available-for-sale investments are non-derivative financial assets that are not classified as held-for-trading or held-to-maturity investments; and are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Fair value reserve' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of profit or loss and other comprehensive income as 'Net gains/losses arising from the sale of financial investments available-for-sale'.

Investment in debt securities instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Interest income earned is recognised on available-for-sale debt securities using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates.

An assessment is made at each reporting date as to whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or 'events') has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

An impairment loss is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in fair value of an available-for-sale securities has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

If, in a subsequent period, the fair value of a debt instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extend that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(j) Loans, advances and financing

Loans, advances and financing are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

The loans, advances and financing are carried at their outstanding unpaid principal and interest balances, net of individual and collective assessment impairment allowances. The carrying amount of the Bank's loans, advances and financing are reviewed at each reporting date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated.

3. Significant accounting policies *(continued)*

(k) Impairment of loans, advances and financing

A collective impairment allowance is performed on “collective basis” on the Bank’s loan portfolio using statistical techniques with the necessary model risk adjustments to the credit grades and probability of defaults of the respective credit grade band of the loans in order to guard against the risk of judgement error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgement error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, the relevant market data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interest, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. Individual impairment allowances are made for loans, advances and financing which have been individually reviewed and specifically identified as impaired. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the carrying value of the loans, advances and financing (outstanding amount of loans, advances and financing, net of individual impairment allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

Impaired loans, advances and financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Loans, advances and financing (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, advances and financing, when the proceeds from the realisation of security have been received.

(l) Plant and equipment

Recognition and measurement

All purchases above RM1,000 are capitalised. Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Subsequent costs

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

3. Significant accounting policies *(continued)*

(l) Plant and equipment *(continued)*

Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The plant and equipment are depreciated in the subsequent month of addition, and depreciation is accounted for in the month of disposal.

	Depreciation rate per annum (%)
Electronic equipment	33.33
Office equipment, fixtures and fittings	20
Computer software	10
Improvement on leased assets	Over the leasehold period

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

(m) Intangible asset

Intangible asset represents admission fee and is measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated to write-off the cost of the intangible assets on a straight line basis over the estimated useful life of 5 years. Intangible assets are subject to any impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(n) Impairment

The carrying amounts of the Bank’s non-financial assets (except for deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or the group of cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

3. Significant accounting policies *(continued)*

(n) Impairment *(continued)*

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(o) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plan
The Bank's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(q) Other receivables

Other receivables are initially recognised at their costs when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, other receivables are measured at amortised cost using the effective interest method.

(r) Liabilities

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values.

Other liabilities are measured initially and subsequently at cost. Other liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

3. Significant accounting policies *(continued)*

(s) Fair value measurement

MFRS 13 prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. Cash and short-term funds

	2014 RM'000	2013 RM'000
Cash and balances with banks and other financial institutions	67,619	32,106
Money at call and deposit placements maturing within one month	1,571,876	2,446,754
	1,639,495	2,478,860

5. Deposits and placements with banks and other financial institutions

	2014 RM'000	2013 RM'000
Foreign banks	107,600	556,355
	107,600	556,355

6. Financial investments available-for-sale

	2014 RM'000	2013 RM'000
At fair value		
Malaysian Government Securities	50,185	50,290
Private Debt Securities	4,971	48,750
(Note 31)	55,156	99,040

The maturity structure of financial investments available-for-sale are as follows:		
Within one year	-	43,780
More than one year to three years	55,156	-
More than three years to five years	-	55,260
	55,156	99,040

7. Loans, advances and financing

At amortised cost

(i) By type	**2014 RM'000**	**2013 RM'000**
Overdrafts	118,152	85,462
Term loans		
- Housing loans	34,895	8,129
- Syndicated term loans	145,186	11,936
- Other term loans	623,518	1,208,311
Bills receivable	2,156	22,633
Trust receipt	320	401
Revolving credit	1,223,503	385,277
Bankers' acceptances	73,221	105,833
Staff loans	1,867	1,223
Credit card loans	1,235	874
Gross loans, advances and financing	2,224,053	1,830,079
Less: Allowance for impairment		
- Collective allowance for impairment	(11,189)	(8,466)
- Individual allowance for impairment	(2,080)	-
Net loans, advances and financing	2,210,784	1,821,613

(ii) By type of customer	**2014 RM'000**	**2013 RM'000**
Domestic non-bank financial institutions		
- Others	12,038	10,019
Domestic business enterprises		
- Small medium enterprises	61,154	41,441
- Others	1,067,624	587,536
Individuals	31,575	17,734
Foreign entities	1,051,662	1,173,349
	2,224,053	1,830,079

(iii) By interest rate sensitivity	**2014 RM'000**	**2013 RM'000**
Fixed rate loans	3,103	4,535
Variable rate		
- Base Lending Rate plus	44,226	23,674
- Cost plus	800,013	468,997
- Other variable rates	1,376,711	1,332,873
	2,224,053	1,830,079

7. Loans, advances and financing *(continued)*

(iv) By sector

	2014 RM'000	2013 RM'000
Primary agriculture	23,481	11,936
Mining and quarrying	-	24,823
Manufacturing	41,460	39,698
Construction	41,337	129,951
Real estate	221,591	13,640
Wholesale & retail trade and restaurants & hotels	972,074	1,055,656
Transport, storage and communication	416,813	203,389
Finance, insurance and business services	396,749	331,730
Education, health and others	62,831	-
Household	47,717	19,256
	2,224,053	1,830,079

(v) By purpose

	2014 RM'000	2013 RM'000
Purchase of landed properties		
- Non residential	99,998	60,942
- Residential	36,074	8,612
Purchase of transport vehicles	166	120
Construction	9,034	14,779
Credit card	1,235	874
Personal use	778	-
Mergers and acquisitions	3,496	-
Working capital	2,047,214	1,737,440
Other purpose	26,058	7,312
	2,224,053	1,830,079

(vi) By geographical distribution

	2014 RM'000	2013 RM'000
Within Malaysia	1,099,833	407,077
Outside Malaysia	1,124,220	1,423,002
	2,224,053	1,830,079

Concentration by location for loans, advances and financing is based on the geographical location where the credit risk resides.

(vii) By residual contractual maturity

	2014 RM'000	2013 RM'000
Maturity within one year	1,887,523	1,158,068
More than one year to three years	105,753	428,826
More than three years to five years	133,248	126,615
More than five years	97,529	116,570
	2,224,053	1,830,079

7. Loans, advances and financing *(continued)*

(viii) Impaired loans, advances and financing

(a) Movement in impaired loans, advances and financing

	2014 RM'000	2013 RM'000
At 1 January	-	-
Impaired during the financial year	2,080	-
At 31 December	2,080	-
Less: Individual allowance for impairment	(2,080)	-
Net impaired loans, advances and financing	-	-
As % of gross loans, advances and financing (net of individual allowance for impairment)	**0%**	**0%**

(b) By sector

	2014 RM'000	2013 RM'000
Wholesale & retail trade and restaurants & hotels	2,029	-
Household	51	-
	2,080	-

(c) By purpose

	2014 RM'000	2013 RM'000
Working capital	2,029	-
Credit card	51	-
	2,080	-

(d) By geographical distribution

	2014 RM'000	2013 RM'000
Within Malaysia	2,080	-

(ix) Movements in allowance for impairment on loans, advances and financing

	2014 RM'000	2013 RM'000
<u>Collective allowance for impairment</u>		
At 1 January	8,466	3,978
Allowance made during the financial year	6,082	6,916
Allowance written back	(3,359)	(2,428)
At 31 December	11,189	8,466
As % of gross loans, advances and financing (net of individual allowance for impairment)	0.5%	0.5%
<u>Individual allowance for impairment</u>		
At 1 January	-	-
Allowance made during the financial year	2,080	-
At 31 December	2,080	-

8. Other assets

	2014 RM'000	2013 RM'000
Interest receivable	4,664	12,181
Deposits	1,375	1,237
Other receivables and prepayments	1,125	5,924
	7,164	19,342

9. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009. The amount of the Statutory Reserve Requirement is determined based on a set of percentage of total eligible liabilities.

10. Plant and equipment

	Electronic Equipment RM'000	Office Equipment, Fixtures and fittings RM'000	Computer Software RM'000	Improvement on Leased Assets RM'000	Total RM'000
Cost					
At 1 January 2014	1,953	2,015	412	6,125	10,505
Additions	226	128	2	3	359
At 31 December 2014	2,179	2,143	414	6,128	10,864
Accumulated depreciation					
At 1 January 2014	1,215	643	84	2,375	4,317
Charge during the year	400	430	41	1,373	2,244
At 31 December 2014	1,615	1,073	125	3,748	6,561
Net carrying amount					
At 1 January 2014	738	1,372	328	3,750	6,188
At 31 December 2014	564	1,070	289	2,380	4,303

10. Plant and equipment *(continued)*

	Electronic Equipment RM'000	Office Equipment, Fixtures and fittings RM'000	Computer Software RM'000	Improvement on Leased Assets RM'000	Total RM'000
Cost					
At 1 January 2013	1,427	1,160	264	3,496	6,347
Additions	526	855	148	2,629	4,158
At 31 December 2013	1,953	2,015	412	6,125	10,505
Accumulated depreciation					
At 1 January 2013	759	292	50	957	2,058
Charge during the year	456	351	34	1,418	2,259
At 31 December 2013	1,215	643	84	2,375	4,317
Net carrying amount					
At 1 January 2013	668	868	214	2,539	4,289
At 31 December 2013	738	1,372	328	3,750	6,188

11. Intangible asset

	Admission Fee RM'000
Cost	
At 1 January 2014/31 December 2014	2,600
Accumulated amortisation	
At 1 January 2014	736
Charge during the year	520
At 31 December 2014	1,256
Net carrying amount	
At 1 January 2014	1,864
At 31 December 2014	1,344
Cost	
At 1 January 2013/31 December 2013	2,600
Accumulated amortisation	
At 1 January 2013	216
Charge during the year	520
At 31 December 2013	736
Net carrying amount	
At 1 January 2013	2,384
At 31 December 2013	1,864

12. Deferred tax assets

	2014 RM'000	2013 RM'000
At 1 January	863	1,034
Recognised in profit or loss (Note 23)	2,067	(107)
Recognised in equity	172	(64)
At 31 December	3,102	863

The components and movements of deferred tax assets and liabilities during the financial year are as follows:

	Plant and Equipment RM'000	Collective Impairment Allowance RM'000	Available-for-sale Reserve RM'000	Others RM'000	Total RM'000
Deferred tax (assets)/liabilities					
At 1 January 2014	296	(720)	80	(519)	(863)
Recognised in profit or loss (Note 23)	(169)	720	-	(2,618)	(2,067)
Recognised in equity	-	-	(172)	-	(172)
At 31 December 2014	127	-	(92)	(3,137)	(3,102)

	Plant and Equipment RM'000	Collective Impairment Allowance RM'000	Available-for-sale Reserve RM'000	Others RM'000	Total RM'000
Deferred tax (assets)/liabilities					
At 1 January 2013	282	(651)	16	(681)	(1,034)
Recognised in profit or loss (Note 23)	14	(69)	-	162	107
Recognised in equity	-	-	64	-	64
At 31 December 2013	296	(720)	80	(519)	(863)

13. Deposits from customers

(i) By type of deposits

	2014 RM'000	2013 RM'000
Demand deposits	321,759	409,288
Fixed deposits	570,577	587,849
Savings deposits	69,198	35,871
Money market deposits	634,888	257,464
Short term deposits	349,650	32,622
Others	3,756	2,101
	1,949,828	1,325,195

(ii) By type of customer

	2014 RM'000	2013 RM'000
Business enterprises	1,292,592	1,105,461
Individuals	153,872	115,196
Foreign entities	502,383	104,538
Others	981	-
	1,949,828	1,325,195

13. Deposits from customers *(continued)*

(iii) By maturity structure of term deposits

	2014 RM'000	2013 RM'000
Due within six months	1,720,079	1,282,394
More than six months to one year	228,292	40,548
More than one year to three years	1,457	2,253
	1,949,828	1,325,195

14. Deposits and placements of banks and other financial institutions

	2014 RM'000	2013 RM'000
Licensed Malaysian banks	826,095	2,256,615
Licensed investment banks	31	28
Licensed Islamic banks	111	-
Other financial institutions	185,915	205,010
Foreign banks	638,066	807,442
	1,650,218	3,269,095

15. Other liabilities

	2014 RM'000	2013 RM'000
Interest payable	10,556	13,529
Other payables and accruals	41,430	11,768
	51,986	25,297

16. Share capital

	Number of ordinary share of RM1 each	
	2014 '000	2013 '000
Authorised		
Ordinary shares of RM1 each	380,000	380,000
Issued and fully paid		
Ordinary shares of RM1 each	331,000	331,000

	Amount	
	2014 RM'000	2013 RM'000
Authorised		
Ordinary shares of RM1 each	380,000	380,000
Issued and fully paid		
Ordinary shares of RM1 each	331,000	331,000

17. Reserves

17.1 Statutory reserve

The statutory reserve is maintained in compliance with Section 12 of the Financial Services Act, 2013 (FSA) and is not distributable as cash dividends.

17.2 Available-for-sale reserve

Available-for-sale reserve captures the fair value adjustment on financial assets which are classified as available-for-sale and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to profit or loss upon disposal of the assets.

17.3 Regulatory reserve

The Bank maintained a minimum level of impairment provisions which is in excess of the impairment provisions required under MFRSs. An amount of RM11.051 million (2013: RM6.165 million) from the retained earnings as of 31 December 2014 has been reserved for this purpose.

17.4 Retained earnings

In accordance with the Finance Act 2007 which was gazetted on 28 December 2008, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). Hence, the Bank will be able to distribute dividends out of its entire retained earnings under the single tier system.

18. Interest income

	2014 RM'000	2013 RM'000
Loans, advances and financing:		
- Interest income other than from impaired loans	60,300	26,330
Money at call and deposit placements with financial institutions	68,612	79,898
Financial investments available-for-sale	3,997	3,824
Others	15	1
	132,924	110,053
Of which:		
Interest income earned on impaired loans, advances and financing	34	-
Interest expense		
Deposits and placements of banks and other financial institutions	(46,102)	(58,974)
Deposits from customers	(27,872)	(15,241)
Others	(47)	(5)
	(74,021)	(74,220)
Net interest income	58,903	35,833

All items of interest income and expense were recognised from assets and liabilities that were not at fair value through profit or loss.

19. Fee income

	2014 RM'000	2013 RM'000
Fee income:		
- Commission	43	20
- Service charges and fees	1,192	1,090
- Loan processing fees	674	537
- Syndication fees	293	888
- Guarantee fees	2,560	1,378
- Commitment fees	1,200	590
- Other loans related fees income	1,249	3,899
- Credit card	237	117
- Other fees income	4,046	5,970
	11,494	14,489
Fee expense:		
- Brokerage fees	(57)	(51)
- Other fees expense	(347)	(27)
	(404)	(78)
Net fee income	11,090	14,411

20. Net trading income

	2014 RM'000	2013 RM'000
Net gains from dealing in foreign exchange	10,335	5,948
Net gains arising from derivative trading	723	9,970
Net unrealised revaluation (losses)/gains in foreign exchange	(7)	175
Net unrealised gains/(losses) arising from derivative trading	4,487	(5,198)
	15,538	10,895

21. Other operating expenses

	2014 RM'000	2013 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	33,766	24,350
- Directors' remuneration (Note 25 (c))	643	1,441
- Pension fund contributions	2,389	2,847
- Other staff costs	3,675	2,488
Promotion and marketing related expenses:		
- Advertising and promotion	577	363
- Others	879	664
Establishment costs:		
- Depreciation of plant and equipment	2,244	2,259
- Amortisation of intangible asset	520	520
- Rental	3,537	3,337
- Others	1,045	968
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	155	140
- overprovision in prior year	(14)	(20)
• audit related services	94	92
- Professional fees	376	255
- Licence fee	140	140
- Membership fee	154	134
- Others	3,852	4,332
	54,032	44,310

22. Allowance for impairment on loans, advances and financing

	2014 RM'000	2013 RM'000
Collective allowance for impairment		
- Made during the financial year	6,082	6,916
- Written back during the financial year	(3,359)	(2,428)
Individual allowance for impairment		
- Made in the financial year	2,080	-
	4,803	4,488

23. Tax expense

	2014 RM'000	2013 RM'000
Malaysian income tax		
- Current financial year	9,393	3,822
- Under provision in prior year	130	456
Total current tax recognised in profit or loss	9,523	4,278
Deferred taxation (Note 12)		
Origination and reversal of temporary differences		
- Current financial year	(2,067)	107
Total deferred tax recognised in profit or loss	(2,067)	107
Total tax expense	7,456	4,385

Reconciliation of tax expense

	2014 RM'000	2013 RM'000
Profit before taxation	26,696	12,341
Income tax using Malaysian tax rate @ 25%	6,674	3,085
Non-deductible expenses	652	844
Under provision of income tax expense in prior year	130	456
Tax expense	7,456	4,385

24. Basic earnings per ordinary share

The basic earnings per ordinary share has been calculated based on the profit attributable to equity holder and 331,000,000 (2013: 331,000,000) ordinary shares of RM1 each in issue during the financial year.

25. Significant related party transactions and balances

(a) The significant transactions of the Bank with its holding company and other related entities are as follows:

	2014		2013	
	RM'000	**RM'000**	**RM'000**	**RM'000**
	Holding Company	Related Companies	Holding Company	Related Companies
Income				
Interest income				
- Deposits and placements with banks and other financial institutions	76	30,376	91	46,058
Expenses				
Interest expense				
- Deposits and placements with banks and other financial institutions	3,394	4,791	137	9,311
Other operating expenses				
- Other charges	8	7	6	13

(b) The significant outstanding balances of the Bank with its holding company and other related entities are as follows:

	2014		2013	
	RM'000	**RM'000**	**RM'000**	**RM'000**
	Holding Company	Related Companies	Holding Company	Related Companies
Amount due from				
- Cash and short-term funds	19,625	569,504	9,567	1,488,914
- Deposits and placements with banks and other financial institutions	-	107,600	-	501,985
- Other assets	-	2,422	-	9,777
Amount due to				
- Deposits and placements with banks and other financial institutions	291,908	223,249	137,899	636,595
- Other liabilities	1,219	166	85	882

All transactions of the Bank with its related parties are made in the ordinary course of business and on substantially the same terms, including interest rates, with third party.

There is no amount outstanding from key management personnel as at year end.

25. Significant related party transactions and balances *(continued)*

(c) Key management personnel compensation

The remuneration of key management personnel, being the members of the Board of Directors of the Bank, during the financial year are shown below:

	2014 RM'000	2013 RM'000
Executive Director and CEO		
Mr. Yuan Bin		
- Salaries	344	-
- Other allowances	89	-
Mr. Tian Fenglin		
- Salaries	-	488
- Bonuses	-	747
	433	1,235
Non-Executive Directors' fees		
YBhg Dato' Leong Khee Seong	105	103
Mr. Ong Ah Tin @ Ong Chee Kwee	105	103
	210	206
	643	1,441
	Note 21	Note 21

26. Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by BNM's "Guidelines on Credit Transactions and Exposures with Connected Parties" are as follows:

	2014 RM'000	2013 RM'000
Aggregate value of outstanding credit exposures to connected parties	14,432	41,394
As a percentage of total credit exposures	0.30%	0.76%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	0%	0%

27. Commitments and contingencies

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

The commitments and contingencies constitute the following:

	2014			
	Principal Amount RM'000	**Positive Value of Derivative Contracts ^ RM'000**	**Credit Equivalent Amount * RM'000**	**Risk-Weighted Assets * RM'000**
Credit-related exposures				
Transaction-related contingent items	620,391	-	310,196	177,732
Short term self-liquidating trade-related contingencies	2,864	-	573	147
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	104,691	-	52,346	40,744
- Not exceeding one year	942,825		188,565	169,671
Unutilised credit card lines	20,757	-	4,151	3,114
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	806,800	592	13,647	3,589
Total	2,498,328	592	569,478	394,997
		Note 30		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The tables above show the Bank's derivative financial instruments as at the respective reporting dates. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at respective reporting dates are as shown above.

* The credit equivalent and risk-weighted amounts are computed using credit conversion factors and risk-weighting rules as per BNM guidelines. The credit conversion factors and risk-weighting rules were based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

27. Commitments and contingencies *(continued)*

	2013			
	Principal Amount RM'000	Positive Value of Derivative Contracts ^ RM'000	Credit Equivalent Amount * RM'000	Risk-Weighted Assets * RM'000
Credit-related exposures				
Transaction-related contingent items	379,783	-	189,892	116,823
Short term self-liquidating trade-related contingencies	4,866	-	973	849
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	344,705	-	172,353	145,462
- Not exceeding one year	788,217	-	157,643	105,887
Unutilised credit card lines	20,105	-	4,021	4,021
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	1,842,402	7,880	27,218	9,857
Total	3,380,078	7,880	552,100	382,899
		Note 30		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The tables above show the Bank's derivative financial instruments as at the respective reporting dates. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at respective reporting dates are as shown above.

* The credit equivalent and risk-weighted amounts are computed using credit conversion factors and risk-weighting rules as per BNM guidelines. The credit conversion factors and risk-weighting rules were based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

28. Lease commitments

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the long-term lease commitments are as follows:

	2014 RM'000	2013 RM'000
Within one year	4,073	3,845
After one year but not more than five years	2,575	5,881
	6,648	9,726

29. Capital adequacy

The total risk-weighted assets of the Bank are computed based on the following approaches:

(i) Standardised Approach for Credit risk;
(ii) Standardised Approach for Market risk;
(iii) Basic Indicator Approach for Operational risk.

The capital adequacy ratios have been computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II-Risk-Weighted Assets) issued on 28 November 2012, which is effective from 1 January 2013.

The capital adequacy ratios of the Bank are analysed as follows:

	2014 RM'000	2013 RM'000
Common Equity Tier 1 ("CET1") Capital		
Paid-up share capital	331,000	331,000
Retained earnings	18,346	13,602
Statutory reserve	26,227	16,607
Regulatory reserve	11,051	6,175
Unrealised losses on financial investments available-for-sale	(278)	(251)
	386,346	367,133
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Intangible asset	(1,344)	(1,864)
- Deferred tax assets	(2,930)	(927)
- Regulatory reserve attributable to loans, advances and financing	(11,051)	(6,175)
	(15,325)	(8,966)
Total CET1 Capital	371,021	358,167
Tier 2 Capital		
allowance	11,189	8,466
Regulatory reserve	11,051	6,175
Total Tier 2 Capital	22,240	14,641
Total Capital	393,261	372,808
CET1 capital ratio	17.895%	17.094%
Tier 1 capital ratio	17.895%	17.094%
Total capital ratio	18.968%	17.793%

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	2014 Principal RM'000	2014 Risk-Weighted RM'000	2013 Principal RM'000	2013 Risk-Weighted RM'000
Total RWA for credit risk	4,616,852	1,947,772	5,547,429	1,997,679
Total RWA for market risk	-	1,968	-	2,260
Total RWA for operational risk	-	123,544	-	95,324
	4,616,852	2,073,284	5,547,429	2,095,263

30. Derivative financial instruments

	2014		
	Contract/ Nominal value RM'000	**Assets RM'000**	**Liabilities RM'000**
Foreign exchange derivatives	800,655	336	541
Currency swaps	6,145	256	1
Total recognised derivative assets/liabilities (Notes 27)	806,800	592	542

	2013		
	Contract/ Nominal value RM'000	**Assets RM'000**	**Liabilities RM'000**
Foreign exchange derivatives	1,648,502	7,880	8,159
Currency swaps	193,900	-	4,158
Total recognised derivative assets/liabilities (Notes 27)	1,842,402	7,880	12,317

31. Fair values of financial assets and financial liabilities

Recognised financial instruments

The estimated fair values of the financial assets and financial liabilities carried on the statement of financial position as at 31 December for the respective reporting dates are as follows:

	2014		2013	
	Carrying Value RM'000	**Fair Value RM'000**	**Carrying Value RM'000**	**Fair Value RM'000**
Financial assets				
Cash and short-term funds	1,639,495	1,639,495	2,478,860	2,478,860
Deposits and placements with banks and other financial institutions	107,600	107,600	556,355	556,355
Financial investments available-for-sale	55,156	55,156	99,040	99,040
Loans, advances and financing	2,210,784	2,210,154	1,821,613	1,821,200
Financial liabilities				
Deposits from customers	1,949,828	1,949,824	1,325,195	1,325,156
Deposits and placements of banks and other financial institutions	1,650,218	1,650,218	3,269,095	3,269,095

31. Fair values of financial assets and financial liabilities *(continued)*

Recognised financial instruments

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(a) Cash and short-term funds/Deposits and placements with banks and other financial institutions

For cash and short-term funds and deposits and placements with banks and other financial institutions including interest-earning deposits, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature (less than one year) and limited credit risk.

(b) Financial investments available-for-sale

Fair values of investment securities are estimated based on broker/dealer price quotations.

(c) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the respective reporting dates offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment impairment allowance.

(d) Deposits from customers

The fair values of demand deposits and saving deposits maturing within a short period of time are the amounts payable on demand. Fair values of fixed deposits maturing within a year are estimated to approximate their carrying amounts. For deposits with maturity of one year or more, the fair value is estimated using discounted cash flows based in on market rates for similar products and maturity.

(e) Deposits and placements of banks and other financial institutions

The fair values of non-interest bearing deposits are equal to amounts payable on demand. For deposits with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the deposits.

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31. Fair values of financial assets and financial liabilities *(continued)*

Recognised financial instruments (continued)

Valuation of financial instruments

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014										
Financial assets										
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	107,600	107,600	107,600	107,600
Financial investments available-for-sale (Note 6)	-	55,156	-	55,156	-	-	-	-	55,156	55,156
Loans, advances and financing	-	-	-	-	-	-	2,210,154	2,210,154	2,210,154	2,210,784
Derivative financial assets (Note 30)	-	592	-	592	-	-	-	-	592	592
	-	55,748	-	55,748	-	-	2,317,754	2,317,754	2,373,502	2,374,132
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	1,949,824	1,949,824	1,949,824	1,949,828
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	1,650,218	1,650,218	1,650,218	1,650,218
Derivative financial liabilities (Note 30)	-	542	-	542	-	-	-	-	542	542
	-	542	-	542	-	-	3,600,042	3,600,042	3,600,584	3,600,588
2013										
Financial assets										
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	556,355	556,355	556,355	556,355
Financial investments available-for-sale (Note 6)	-	99,040	-	99,040	-	-	-	-	99,040	99,040
Loans, advances and financing	-	-	-	-	-	-	1,821,200	1,821,200	1,821,200	1,821,613
Derivative financial assets (Note 30)	-	7,880	-	7,880	-	-	-	-	7,880	7,880
	-	106,920	-	106,920	-	-	2,377,555	2,377,555	2,484,475	2,484,888
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	1,325,156	1,325,156	1,325,156	1,325,195
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	3,269,095	3,269,095	3,269,095	3,269,095
Derivative financial liabilities (Note 30)	-	12,317	-	12,317	-	-	-	-	12,317	12,317
	-	12,317	-	12,317	-	-	4,594,251	4,594,251	4,606,568	4,606,607

31. Fair values of financial assets and financial liabilities *(continued)*

Valuation of financial instruments (continued)

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

• Level 1: Quoted market price (unadjusted) in an active market for identical financial assets or liabilities that the entity can access at the measurement date.

• Level 2: Valuation techniques based on observable inputs, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

• Level 3: Valuation techniques of financial assets and liabilities using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used in the market. The objective of valuation techniques is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

Transfer between fair value

There has been no transfer in any levels of the fair values during the financial year. (2013: no transfer in either directions).

32. Financial risk management

(a) Introduction and overview

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

• Credit risk
• Liquidity risk
• Market risk
• Operational risk

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

32. Financial risk management *(continued)*

(a) Introduction and overview *(continued)*

Risk Management framework

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

The Board Risk Management Committee and Audit Committee are responsible for overseeing the Bank's risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank due to failure of the Bank's customers or counterparties in meeting their contractual financial obligations. The credit risk is primarily from the Bank's cash and deposits/placements, direct lending, trade finance and funding activities.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit Committee and Management Risk Management ("MRMC"). Both committees are supervised by the Senior Management Committee. The functions of the Credit Committee are as follows:

• *Ensuring prudent underwriting standards/lending direction*

The Credit Committee ensure that the credit risks to be undertaken by the Bank are controlled even prior to the origination stage. The criteria set forth in the underwriting standards/lending direction will take into consideration the Bank's risk appetite and the client's credit profile. These underwriting standards are to be reviewed on an annual basis to reflect the dynamic changes in the industry and economic environment.

• *Recommending approval on credit requests*

Each credit facility to be extended to clients is subject to independent credit assessment by the Bank's Risk Management department, which would then be supported by the Credit Committee prior to escalation to the approving authority for approval. Only credit requests which meet certain criteria, e.g. fully cash-backed facility will be escalated directly to the approving authority without going through the Credit Committee. Where necessary, mitigation measures such as collateral and covenants setting, are imposed to protect the Bank's interest.

32. Financial risk management *(continued)*

(b) Credit risk *(continued)*

The functions of the MRMC are as follows:

• *Formulating and reviewing credit policies*

Taking the parent company's credit policies as reference and in consultation with business units, the MRMC is tasked to formulate the credit policies and set the underwriting standards that suit the local regulatory and business requirements. The credit policies, which encompass amongst others, the credit risk assessment, risk grading, collateral requirement, documentary and legal requirement, are to be reviewed from time to time to instill the industry's best practices.

• *Review and recommend credit risk appetite of the Bank*

Assess and recommend the adequacy of the Bank's credit risk appetite which should be in line with the expectations of the shareholders, regulators, and other stakeholders. It is also responsible to ensure that the appropriate risk limits/ triggers are imposed within the Bank's approved risk appetite regularly.

• *Ensure effective credit risk management is in place*

The MRMC ensures an effective credit risk management processes that takes into account the risk profiles, size and complexity of the Bank are in place. This includes the credit risk identifications, measurement, controlling, monitoring and reporting. The process is continuously reviewed and enhanced to be in line with the industry's best practices.

• *Monitoring and controlling exposures*

Ongoing monitoring of the Bank's exposures is vital to maintain the quality of the Bank's loan assets. The credit limits are monitored periodically. Concentration risk arising from over-exposure to counterparties, industries and geographies are managed through regular monitoring and reporting. Stress test is conducted in the event of a major shift in the economic indicators or whenever a major change is anticipated.

Allowances for impairment

The Bank employs a credit risk grading system as a tool for determining the credit risk profile of borrowers using appropriate form of scorecards. The credit grades are used as a basis to support the underwriting of credit and are mapped accordingly to the credit rating scales of major international credit rating agencies.

A collective impairment allowance is performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary adjustments to the credit grades and probability of defaults of the respective credit grade band of the loans in order to guard against the risk of judgement error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgement error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, the relevant market data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interest, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. The methodology adopted for collective impairment assessment and the list of trigger events for individual impairment assessment will be reviewed on a regular basis to suit with the Bank's policy and the traits of its loan portfolio.

Loans, advances and financing past due but not impaired

Past due but not impaired loans, advances and financing are loans/financing where the customer has failed to make a principal or interest/profit payment when contractually due, and includes loans/financing which are due one or more days after the contractual due date but less than three months.

32. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Write-off policy

Clear write-off policy is established to stipulate the approving authority, escalation process and circumstances under which a loan can be written-off. The determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the exposure.

(i) Exposure to credit risk

2014	**Loans, Advances and Financing to Customers RM'000**	**Loans, Advances and Financing to Banks* RM'000**	**Investment Securities RM'000**
Carrying amount	2,210,784	1,747,095	55,156
Assets at amortised cost			
Individually impaired	2,080	-	-
Allowance for impairment	(2,080)	-	-
	-	-	-
Past due but not impaired			
Carrying amount	176	-	-
Past due comprises			
- Less than one month	144	-	-
- Between one to two months	13	-	-
- Between two to three months	19	-	-
	176	-	-
Neither past due nor impaired			
- Pass	2,221,797	1,747,095	55,156
Collective allowance for impairment	(11,189)	-	-
Carrying amount - amortised cost	2,210,784	1,747,095	55,156
Available-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	55,156
Carrying amount - fair value	-	-	55,156

In addition to the above, the Bank had entered into lending commitment of RM1.07 billion. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM623 million.

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

32. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Exposure to credit risk (continued)

2013	**Loans, Advances and Financing to Customers RM'000**	**Loans, Advances and Financing to Banks* RM'000**	**Investment Securities RM'000**
Carrying amount	1,821,613	3,035,215	99,040
Assets at amortised cost			
Individually impaired	-	-	-
Past due but not impaired			
Carrying amount	72	-	-
Past due comprises			
- Less than one month	67	-	-
- Between one to two months	1	-	-
- Between two to three months	4	-	-
	72	-	-
Neither past due nor impaired			
- Pass	1,830,007	3,035,215	99,040
Collective allowance for impairment	(8,644)	-	-
Carrying amount - amortised cost	1,821,613	3,035,215	99,040
Available-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	99,040
Carrying amount - fair value	-	-	99,040

In addition to the above, the Bank had entered into lending commitment of RM1.15 billion. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM385 million.

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. There is no impaired loans as at 31 December 2013, hence collateral held as security for past due nor impaired loans are not disclosed.

32. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(ii) Concentration by sector and geographical location

The Bank monitors the concentration of credit risk by sector and by geographical distribution. An analysis of the concentration of credit risk as at the respective reporting dates are shown below:

	2014 Loans, Advances and Financing to Banks* RM'000	2013 Loans, Advances and Financing to Banks* RM'000
Carrying amount	1,747,095	3,035,215
Concentration of credit risk based on sector		
Financial services	962,299	2,214,836
Government and central bank	784,796	820,379
	1,747,095	3,035,215
Concentration of credit risk based on geographical location		
Malaysia	1,050,365	980,378
East Asia	435,782	1,965,260
Middle East	-	65,898
South East Asia	229,654	19,030
United States of America	30,584	4,598
European Union	211	38
Oceania	499	13
	1,747,095	3,035,215

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

Concentration of credit risk by geographical distribution for loans, advances and financing is measured based on the location of the borrower.

Concentration by sector and geographical distribution for loans, advances and financing to customers are disclosed under Note 7 (iv) and 7 (vi) to the financial statements.

	2014 Investment Securities RM'000	2013 Investment Securities RM'000
Carrying amount	55,156	99,040
Concentration of credit risk based on sector		
Financial services	-	43,780
Government and central bank	50,185	50,290
Others	4,971	4,970
	55,156	99,040
Concentration of credit risk based on geographical location		
Malaysia	55,156	55,260
China	-	43,780
	55,156	99,040

Concentration of credit risk by geographical distribution for investment securities is measured based on the location of the issuer.

32. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(iii) Derivatives risk

The Bank's derivatives may give rise to risks in the event the counterparty defaults. Control measures, such as limit setting and monitoring, are in place to manage the risk.

(iv) Settlement risk

The Bank's activities may give rise to risks at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawal, overdue payment of the debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets.

Management of liquidity risk

The management of liquidity and funding is mainly carried out in compliance with BNM's New Liquidity Framework; and practices and limits set by parent company, and the Assets and Liabilities Committee ("ALCO"). The Bank maintains a strong liquidity position and constantly manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately balanced and all obligations are met accordingly.

It is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base.

Cash flows payable by the Bank (financial liabilities) based on remaining contractual maturity:

	2014				
	On demand	Due within 3 months	Between 3 to 12 months	Between 1 to 3 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	393,668	1,247,662	320,581	1,463	1,963,374
Deposits and placements of banks and other financial institutions	86,460	1,069,261	503,669	-	1,659,390
Derivative financial liabilities	-	438	104	-	542
Other liabilities	41,430	-	-	-	41,430
	521,558	2,317,361	824,354	1,463	3,664,736

	2013				
	On demand	Due within 3 months	Between 3 to 12 months	Between 1 to 3 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	445,329	812,326	70,861	2,326	1,330,842
Deposits and placements of banks and other financial institutions	24,170	2,253,847	1,015,731	-	3,293,748
Derivative financial liabilities	-	7,197	5,120	-	12,317
Other liabilities	11,768	-	-	-	11,768
	481,267	3,073,370	1,091,712	2,326	4,648,675

32. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The balances in the above table will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future interest payments.

Cash flows payable in respect of deposits from customers are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable and cash flow position has been actively managed.

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

	2014		
	Contract/ Nominal Amount Up to 1 year RM'000	**Positive Fair Value Up to 1 Year RM'000**	**Negative Fair value Up to 1 Year RM'000**
Trading derivatives			
Foreign exchange contracts			
- Forward	786,680	327	532
- Swap	6,145	256	1
- Spot	13,975	9	9
	806,800	592	542

	2013		
	Contract/ Nominal Amount Up to 1 year RM'000	**Positive Fair Value Up to 1 Year RM'000**	**Negative Fair value Up to 1 Year RM'000**
Trading derivatives			
Foreign exchange contracts			
- Forward	1,644,323	7,878	8,159
- Swap	193,900	-	4,158
- Spot	4,179	2	-
	1,842,402	7,880	12,317

(d) Market risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads and foreign exchange rates.

Management of market risk

The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within a tolerable level and maximise risk-adjusted return according to the Bank's risk preference.

The Bank does not engage in any proprietary trading activities. Exposures arising from normal banking activities (deposits, loans, foreign exchange, etc) are hedged accordingly to minimise and preferably eliminate exposure to market risk. All risks related to treasury money market activities will be managed according to, and within the authorised risk limits.

32. Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk

Foreign exchange risk is the risk that arises as a result of movements in the relative value of currencies. The Bank is exposed to foreign currency risk on transactions that are denominated in a currency other than its functional currency. The Bank minimises its exposure to foreign currency risk through hedging and limiting the net open position of the foreign exchange portfolio.

The following tables summarise the assets, liabilities and net open position by currency as at the reporting date, which are mainly in Ringgit Malaysia, United States Dollars and Chinese Renminbi. Other currencies mainly include exposure to Euro, Australia Dollars, Great Britain Pounds, Hong Kong Dollars, Japanese Yen, Canadian Dollars and Singapore Dollars.

	Malaysia Ringgit RM'000	United States Dollars RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
2014					
ASSETS					
Cash and short-term funds	850,436	273,663	499,260	16,136	1,639,495
Deposits and placements with banks and other financial institutions	-	59,695	47,905	-	107,600
Financial investments available-for-sale	55,156	-	-	-	55,156
Loans, advances and financing	626,552	1,495,467	88,765	-	2,210,784
Other assets	4,962	1,149	1,645	-	7,756
Statutory deposits with Bank Negara Malaysia	10,340	-	-	-	10,340
Plant and equipment	4,303	-	-	-	4,303
Intangible asset	1,344	-	-	-	1,344
Deferred tax assets	3,102	-	-	-	3,102
TOTAL ASSETS	1,556,195	1,829,974	637,575	16,136	4,039,880
LIABILITIES					
Deposits from customers	933,734	891,412	109,166	15,516	1,949,828
Deposits and placements of banks and other financial institutions	198,602	916,085	535,530	1	1,650,218
Other liabilities	22,246	29,479	796	7	52,528
Provision for taxation	960	-	-	-	960
TOTAL LIABILITIES	1,155,542	1,836,976	645,492	15,524	3,653,534

32. Financial risk management *(continued)*

(d) Market risk *(continued)*

	Malaysia Ringgit RM'000	United States Dollars RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
2013					
ASSETS					
Cash and short-term funds	980,208	37,828	1,447,031	13,793	2,478,860
Deposits and placements with banks and other financial institutions	-	175,765	380,590	-	556,355
Financial investments available-for-sale	55,260	-	43,780	-	99,040
Loans, advances and financing	305,488	1,427,200	88,925	-	1,821,613
Other assets	10,976	5,742	10,504	-	27,222
Statutory deposits with Bank Negara Malaysia	3,601	-	-	-	3,601
Tax recoverable	3,431	-	-	-	3,431
Plant and equipment	6,188	-	-	-	6,188
Intangible asset	1,864	-	-	-	1,864
Deferred tax assets	863	-	-	-	863
TOTAL ASSETS	1,367,879	1,646,535	1,970,830	13,793	4,999,037
LIABILITIES					
Deposits from customers	808,435	369,909	134,094	12,757	1,325,195
Deposits and placements of banks and other financial institutions	369,350	1,069,195	1,830,549	1	3,269,095
Other liabilities	24,667	4,823	8,120	4	37,614
TOTAL LIABILITIES	1,202,452	1,443,927	1,972,763	12,762	4,631,904

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32. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the respective balance sheet dates and the periods in which they reprice or mature, whichever is earlier.

2014	**Non-trading book** Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	**Trading book RM'000**	**Total RM'000**	**Effective interest rate %**
Assets									
Cash and short-term funds	1,629,245	-	-	-	-	10,250	-	1,639,495	2.54
Deposits and placements with banks and other financial institutions	-	65,023	42,577	-	-	-	-	107,600	3.06
Financial investments available-for-sale	-	-	-	55,156	-	-	-	55,156	3.63
Loans, advances and financing:									
- performing	1,443,906	687,810	77,211	163	1,694	-	-	2,210,784	3.31
Other assets ^	-	-	-	-	-	26,845	-	26,845	-
Total assets	3,073,151	752,833	119,788	55,319	1,694	37,095	-	4,039,880	
Liabilities									
Deposits from customers	985,461	620,412	312,887	118	-	30,950	-	1,949,828	1.64
Deposits and placements of banks and other financial institutions	836,298	301,393	499,356	-	-	13,171	-	1,650,218	2.16
Other liabilities	-	-	-	-	-	53,488	-	53,488	-
Total liabilities	1,821,759	921,805	812,243	118	-	97,609	-	3,653,534	
Equity	-	-	-	-	-	386,346	-	386,346	
Total liabilities and equity	1,821,759	921,805	812,243	118	-	483,955	-	4,039,880	
On-balance sheet interest sensitivity gap	1,251,392	(168,972)	(692,455)	55,201	1,694	(446,860)	-		
Total interest sensitivity gap	1,251,392	(168,972)	(692,455)	55,201	1,694	(446,860)	-		

^ Other assets include other assets, statutory deposits with BNM, tax recoverable, plant and equipment, intangible asset and deferred tax assets as disclosed in the statement of financial position.

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32. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

2013	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short-term funds	2,471,481	-	-	-	-	7,379	-	2,478,860	3.99
Deposits and placements with banks and other financial institutions	-	67,771	488,584	-	-	-	-	556,355	3.33
Financial investments available-for-sale	5,610	-	38,170	55,260	-	-	-	99,040	3.85
Loans, advances and financing:									
- performing	890,394	770,946	159,131	246	896	-	-	1,821,613	2.52
Other assets ^	-	-	-	-	-	43,169	-	43,169	-
Total assets	3,367,485	838,717	685,885	55,506	896	50,548	-	4,999,037	
Liabilities									
Deposits from customers	996,359	244,777	67,874	1,237	-	14,948	-	1,325,195	1.67
Deposits and placements of banks and other financial institutions	1,769,436	483,663	1,001,529	-	-	14,467	-	3,269,095	2.29
Other liabilities	-	-	-	-	-	37,614	-	37,614	-
Total liabilities	2,765,795	728,440	1,069,403	1,237	-	67,029	-	4,631,904	
Equity	-	-	-	-	-	367,133	-	367,133	
Total liabilities and equity	2,765,795	728,440	1,069,403	1,237	-	434,162	-	4,999,037	
On-balance sheet interest sensitivity gap	601,690	110,277	(383,518)	54,269	896	(383,614)	-		
Total interest sensitivity gap	601,690	110,277	(383,518)	54,269	896	(383,614)	-		

^ Other assets include other assets, tax recoverable, plant and equipment, intangible asset and deferred tax assets as disclosed in the statement of financial position.

32. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, are as follows:

(i) Sensitivity of projected net interest

	100 bps* Parallel Increase RM'000	**100 bps* Parallel Decrease RM'000**
At 31 December 2014	7,411	(7,411)
At 31 December 2013	4,805	(4,805)

**bps - basis points*

(ii) Sensitivity of reported reserves in "other comprehensive income" to interest rate movements

	100 bps* Parallel Increase RM'000	**100 bps* Parallel Decrease RM'000**
At 31 December 2014	(1,106)	1,106
At 31 December 2013	(1,738)	1,738

**bps - basis points*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each department. The responsibility is supported by the development of a Bank-wide standard for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where applicable

33. Capital management

Regulatory capital

The Bank's lead regulator, BNM, sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital adequacy.

The Bank adopts a prudent and forward-looking capital management approach to ensure it has adequate capital to support its operations at all times. On top of the minimum regulatory capital requirements, a buffer is added on to arrive at the Bank's internal capital target to ensure adequacy of capital to support the current and anticipated business growth. Internal Capital Adequacy Assessment Process ("ICAAP") is formulated to identify the material risks in the business. The material risk areas that are taken into consideration are credit risk, market risk, operational risk, credit concentration risk, liquidity risk, interest rate risk in banking book, compliance risk, strategic risk as well as reputation risk.

Internal capital assessment is carried out to determine the level of internal capital required by the Bank based on the Pillar 1 and 2 requirements as well as actual results of the preceding financial year (as the base case). Capital plan, business plan and budget are approved by the Board of Director on annual basis. The business plan in particular would set out the Bank's risk appetite to be in line with the lending direction and business strategies for the coming year. Senior Management is responsible in ensuring a smooth development and implementation of the ICAAP policy as well as effective systems and processes are in place. The Bank's performance against the internal capital level is reviewed on a regular basis by the Senior Management. Should there be a need for capital raising exercise, it will be presented to the Board of Directors for approval.

The Bank undertakes stress test exercise on half yearly basis to assess the Bank's capability to withstand the adverse environment. The stress test will at least cover the exceptional but plausible event and the worst case scenario. The possible impact to the Bank due to occurrence of adverse events, i.e. significant deterioration in borrowers' credit profile, decline in collateral value, erosion in the Bank's net interest margin and sizeable foreign exchange loss will be examined. The results of the stress test together with the proposed mitigating actions shall be tabled to the Senior Management and the Board of Directors for deliberations.

The Bank's regulatory capital are analysed as follows:

(a) Tier 1 Capital, which comprises the followings:

• Common Equity Tier 1 ("CET1") Capital, which includes ordinary share capital, share premium, retained earnings (net of dividends declared), statutory reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.

• Additional Tier 1 Capital, which consists of instruments that are issued and paid-up, subordinated to depositors and perpetual in nature (amongst all other criteria) which are not included in CET1 Capital, the share premium arising from issuance of such instruments as well as the regulatory adjustments in relation to the calculation of Additional Tier 1 Capital.

(b) Tier 2 Capital includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired) and regulatory reserve.