Industrial and Commercial Bank of China (Malaysia) Berhad

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

Directors' Report and Financial Statements
31 December 2016

DIRECTORS' REPORT
For the year ended 31 December 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

RESULTS

	RM'000
Profit before taxation	46,853
Tax expense	(13,211)
Profit for the year	33,642

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 financial year until the date of this report are:

YBhg Dato' Leong Khee Seong
Mr Ong Ah Tin @ Ong Chee Kwee
Ms Lan Li
Mr Hong Guilu
Mr Chang Zhenwang (Appointed on 28 October 2016)
Mr Mo Fumin (Resigned on 28 October 2016)
Mr Yuan Bin (Resigned on 27 December 2016)

In accordance with Article 73 of the Bank's Articles of Association, Ms Lan Li retires at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

In accordance with Article 79 of the Bank's Articles of Association, Mr Chang Zhenwang retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

PROFILE OF DIRECTORS

Mr Chang Zhenwang

Age 54. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors. Appointed to the Board on 28 October 2016. Attended one Board meeting held in the financial year since his appointment. Holds a Master Degree in Business Administration from Fudan University and University of Hong Kong (International), China.

Mr Chang Zhenwang carries with him more than 30 years of banking experience. He started his career with Industrial and Commercial Bank of China Limited ("ICBC") in 1986 and held various positions since then ranging from Officer and Deputy Director of Administration Department, ICBC Anhui Branch (December 1986 - November 1997), Deputy President of ICBC Bengbu Branch (December 1997 - March 1998), Deputy President (Officer-in-Charge) of ICBC Suxian Branch (April 1998 - April 1999) and subsequently as President of the branch before taking up the position as Chief Executive Officer of Banking Office in ICBC Anhui Branch from July 1999 until February 2002. Mr Chang Zhenwang was appointed Deputy President of ICBC Anhui Branch in March 2002 before assuming the position as President of the branch in April 2011 until his retirement in March 2015. He is currently also serving as a Non-Executive Director/Chairman of ICBC International Holdings Limited (March 2016 - current), ICBC Financial Leasing Co., Ltd (June 2016 - current) and ICBC (Almaty) Joint Stock Company (December 2016 - current).

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

YBhg Dato' Leong Khee Seong

Age 78. 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 Resources 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.

Mr Ong Ah Tin @ Ong Chee Kwee

Age 66. 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 Degree 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 Malaysia 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 Malaysia 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 of the Board Risk Management Committee and Remuneration Committee and a member of the Audit Committee and Nominating Committee of the Bank.

PROFILE OF DIRECTORS *(continued)*

Ms Lan Li

Age 53. 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 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 was formerly a Non-Independent Non-Executive Director of ICBC (Thai) Public Company Limited (October 2011 - June 2015) and currently serves as a Non-Independent Non-Executive Director of ICBC (London) PLC (2012 - current) and ICBC (USA) NA (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 of the Bank.

Mr Hong Guilu

Age 50. 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 (July 2003 - November 2015). Mr Hong Guilu currently serves as a Non-Independent Non-Executive Director of ICBC (Almaty) Joint Stock Company (July 2011 - current), ICBC (Moscow) (September 2011 - current), ICBC PERU Bank (March 2014 - current), ICBC (Europe) S.A. (December 2014 - current) and ICBC (Asia) Limited (December 2016 - current).

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 Board Risk Management Committee, Nominating Committee and Remuneration Committee of the Bank.

DIRECTORS' INTEREST

None of the Directors holding office as at 31 December 2016 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 remuneration 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 27 (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

During the year, the Bank:

a) increased its authorised share capital from RM380,000,000 to RM1,000,000,000 by the creation of additional 620,000,000 new ordinary shares of RM1 each; and

b) issued 501,609,000 new ordinary shares of RM1 each to its holding corporation for a total cash consideration of RM501,609,000.

There were no other changes in the authorised, issued and paid up capital of the Company 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 CORPORATION

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

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

The Bank registered a profit before tax ("PBT") of RM46.9 million for financial year 2016, a 16.6% growth from previous year. Despite the marginal drop in net interest income, total net operating income rose by RM4.7 million or 4.4% to RM111.3 million, mainly attributable to higher net fee income by RM1.7 million or 12.3% and higher of net trading income by RM3.0 million or 13.2%.

Allowance for impairment on loans, advances and financing decreased by RM9.6 million during the financial year 2016 mainly resulted by maturity of low grade corporate loans. However, it was partially offset with increase of other operating expenses by RM7.6 million or 12.7%, largely attributable to higher personnel as well as establishment-related expenses.

Loan and advances registered a growth by RM91.8 million or 3.63% in 2016 to RM2.6 billion as compared to RM2.5 billion recorded in 2015. Nonetheless, the impact on the increase in loan and advances was offset with a decrease in cash and short-term funds as well as deposits and placements with banks and other financial institutions by RM57.6 million or 4.43% in 2016.

The Bank's total liabilities decreased by RM547 million or 14.9% to RM3.1 billion in 2016. The decrease mainly due to lower of deposits from customers as well as deposits and placements of banks and other financial institutions by 16.0% and 14.1% respectively. However, the Bank's equity was increased by RM536.1 million mainly due to increase of issued and paid up capital from RM331.0 million to RM831.6 million.

In 2017, the Bank will continue to grow its core lending business in a strategic manner and to focus on sustaining its profitability within a robust capital management framework.

OUTLOOK FOR 2017

After a lackluster outturn in year 2016, the World Bank and International Monetary Fund forecasted the global economy to accelerate moderately to 2.7% and 3.4% respectively in 2017. The projection is mostly on account of a gradual normalisation of conditions in a number of large economies that are currently experiencing macroeconomic strains, modestly rising commodity prices and fiscal stimulus in major economies. Nevertheless, the global economic growth outlook is clouded by uncertainty about policy direction in major economies. A protracted period of uncertainty could prolong the slow investment growth, particularly in emerging and developing economies. The volatility in global financial markets, increased restrictions on global trade and migration, thin policy buffers and movement of commodity prices would remain as the key risk drivers while the spill-over effects of geo-political tensions could disrupt the revitalization of the growth momentum.

Malaysia's economy expanded at 4.5% in the fourth quarter of 2016, bringing the full year gross domestic product ("GDP") growth to 4.2% compared with 5.0% in 2015. As a trade-oriented nation, Malaysia has fairly diversified its economy with service sector accounted for 54% and manufacturing sector contributed 23% of the nation's GDP in 2016. Considering the fundamentals are to remain intact, Malaysia's economy is expected to grow within the range of 4.0% to 4.5% in 2017. Growth would continue to be primarily driven by domestic demand amid the challenging external environment. While the external factors, such as volatility in commodity prices, policy uncertainties, currency war and heightened risk aversions in the global financial markets as well as geopolitical developments, would remain as the key factors in driving the growth momentum of Malaysia, the measures to be taken domestically are crucial in capitalising the growth prospects. Among the essential domestic measures include prioritising the implementation of the strategic initiatives under the Government's Economic Transformation Program that could effectively diversify the economy with value-added multiplier effects, gradual rationalisation of macro-financial risks posed by system-wide leverage and inflationary pressures, continuous fiscal consolidation as well as promoting regional collaborations in trade and investment.

Against the backdrop of a strong economic and financial ties between China and Malaysia, the Bank is committed to bridge the economic 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 system infrastructure and multiple distribution networks of ICBC worldwide.

Going forward, the Bank continues to expand the customer base and enhance the financial products and services to better serve the needs of its customers. In addition, the Bank continues 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 customers.

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") Policy Document on Corporate Governance and other relevant best practices of corporate governance.

The Board of Directors

(a) Size and Composition of the Board

The Board of the Bank is currently represented by 5 Members, comprising 2 Independent Non-Executive Directors and 3 Non-Independent Non-Executive Directors one of whom is the Chairman of the Board. A brief profile of each member of the Board is presented on pages 2 and 3 of the Directors' reports.

Current Independent Directors of the Bank account for 40% of the Board. The presence of the Independent Directors ensures an effective check and balance on the functioning of the Board. Independent Directors of the Bank are not involved in the day-to-day management of the Bank, nor do they participate in any of the business dealings. This ensures they remain free from any conflict of interest situation and can undertake their roles and responsibilities as independent director effectively.

The independence of the Independent Directors is reviewed annually and benchmarked against regulatory provisions. Independent Directors are required to confirm their compliance with the criteria and definition of 'Independent Director' as stipulated in the Policy Document on Corporate Governance as issued by BNM.

The Board of the Bank is fully aware of the new requirement under BNM's Policy Document on Corporate Governance for Independent Directors to make up a majority of the Board composition within a stipulated timeframe. The Board has drawn up an action plan to address the composition of Independent Directors of the Bank to ensure compliance of the same within the stipulated timeframe.

The Non-Independent Non-Executive Directors of the Bank continue to proactively engage with the Senior Management to ensure various concerns and issues relating to the business operation of the Bank of which the ICBC Group is related are addressed in a timely manner.

(b) Duties and Responsibilities of the Board

The Board governs the businesses and affairs of the Bank with the assistance of the Senior Management of the Bank. The Directors, collectively and individually, are aware of their responsibilities to shareholder/stakeholders and the manner in which the affairs of the Bank are managed. They discharge their roles and duties with integrity, honesty and professionalism within the ambit of law and also under such powers as conferred by the Articles of Assocation of the Bank and shareholder's mandate which is renewed on yearly basis.

(i) Business Strategy, Direction and Operation

The Board assumes an active role and takes full responsibilities for key strategy setting, business plans, financial objectives, risk appetite and various policies formulation and major capital and operating budgets of the Bank. It reviews the Bank's business strategies and governs the risk management, compliance and internal controls as well as human resource management through the delegation of certain decision making and/or oversight responsibilities to various Board Committees, namely Board Risk Management Committee ("BRMC"), Audit Committee ("AC"), Nominating Committee ("NC") and Remuneration Committee ("RC") of the Bank.

The Chief Executive Officer who is assisted by a group of Senior Management personnel, assumes the overall responsibilities of executing the Bank's strategies and plans in line with the Board's direction, overseeing the operations and drives the Bank's businesses and performance towards achieving the Bank's vision and goals.

CORPORATE GOVERNANCE STATEMENT *(continued)*

The Board of Directors *(continued)*

(b) Duties and Responsibilities of the Board *(continued)*

(i) Business Strategy, Direction and Operation *(continued)*

At the Board meetings, the Board reviews the management reports on business performance of the Bank, reviews the financial results for each reporting period compared to the previous quarter and year-on-year as well as comparison against the budget for the year, reviews risk management reports, compliance reports and actions taken to address shortcomings as well as initiatives taken by the Bank that are essential to the Bank's business and operations. As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the AC and BRMC and other Board Committees, where deemed appropriate.

(ii) Risk Management

The Board embraces risk management as a foundation of the Bank's business operations and employs a risk management framework which sets out the Bank's risk principles and strategies established to drive strong risk culture and consistent risk management practices across the Bank.

An on-going process has been established to identify, evaluate and manage the significant risks faced by the Bank includes enhancing the risk management and internal control system from time to time in response to the changes to the business environment or regulatory guidelines. Management assists the Board in the implementation of the Bank's policies, procedures and limits within the Board approved risk appetite by identifying the possible risks and to operate and monitor a suitable internal control system to mitigate these risks.

In ensuring effectiveness of risk assessment and control, the BRMC has been entrusted to provide oversight and governance of risks for the Bank. The BRMC has discharged its functions to support the Board in ensuring the Bank is adequately capitalised to support risks undertaken in meeting the regulatory requirements. A risk management report is also presented to the Board.

(iii) Talent Development and Performance Evaluation of Key Senior Officers

Talent development and succession planning are key focus of the Board in ensuring a high performance workforce which contributes to the Bank's sustainability and competitiveness. The NC and RC have been entrusted by the Board to provide high level oversight and direction on human resource matters.

The NC supports the Board in reviewing and assessing the appointment of Directors, Board Committee members and key Senior Management officers of the Bank. During the year, the NC has reviewed the appointment of new Chairman and Chief Executive Officer, the appointment of new key management officers and renewal of employment service of senior expatriate officers of the Bank.

Human Resources related policies, procedures and guidelines have been established to facilitate the human capital management of the Bank.

(iv) Internal Control

The Board is responsible for ensuring the adequacy and integrity of the Bank's internal control system. With the support of the AC, Internal Audit and Legal & Compliance, the Board ensures that there is a process for reviewing the adequacy and effectiveness of the Bank's internal control system.

Meetings and Supply of Information to the Board

An annual meeting schedule for Board and Board Committees' meetings are circulated to the Directors for their convenience before the end of the current financial year to enable the Directors to plan ahead and block their next year meeting schedules.

The Board holds regular meetings of no less than 6 times a year and additionally when required to deliberate on any urgent proposals or matters. At each Board meeting, the Board is, among others, informed of decisions, salient issues and views raised at the respective Board Committees' meetings by the respective Committees' Chairmen. Minutes of the respective Board Committees' meetings are also tabled for the Board's information. All Board meetings' proceedings are properly recorded. Minutes of the Board meetings are tabled at the next meeting for confirmation of the Board.

CORPORATE GOVERNANCE STATEMENT *(continued)*

The Board of Directors *(continued)*

Meetings and Supply of Information to the Board *(continued)*

The Chairman of the Bank manages the affairs of the Board with the objective to ensure the Board functions effectively and meets its duties and responsibilities. The Chairman ensures all Members of the Board have been given the opportunities to express their views, opinions and ideas to facilitate a proper decision making process by the Board.

To facilitate a meaningful deliberation, the proceedings of the Board and Board Committees' meetings are conducted in accordance with a structured agenda. The agenda together with the management reports and proposal papers are furnished to the Directors between 5 to 10 days before the Board and Board Committees' meeting. There is always an avenue for Non-Executive Directors to seek clarifications or obtain details concerning the Board agenda proposal papers from the Management or the Company Secretary or if they deem necessary to take independent professional advice at the Bank's expense, for the discharge of their duties. Senior Management or Heads of Department are invited to attend the Board meetings to report to the Board on matters relating to their respective areas of responsibility and also to brief and provide details to the Directors on recommendations or reports submitted to the Board. In any case and depend on the urgency of the matters, decision of the Board may be taken by way of Directors' Circular Resolution in accordances with the Articles of Association of the Bank.

The Directors have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly or indirectly by the Bank or proposal that is of their interest. An interested director is required to abstain from deliberations and decision of the Board.

All Directors in office as at end of 31 December 2016 have allocated sufficient time to the Bank to discharge their duties and responsibilities effectively and complied with the required minimum Board meetings attendance of 75% under BNM's Policy Document on Corporate Governance and internal policy of the Bank, as reflected below:-

Directors	**Number of Board Meeting Attended**	**Total Percentage of Attendance (%)**
Chang Zhenwang*(Chairman) Non-Independent Non-Executive Director	1	100
Dato' Leong Khee Seong Independent Non-Executive Director	6	100
Ong Ah Tin @ Ong Chee Kwee Independent Non-Executive Director	6	100
Lan Li Non-Independent Non-Executive Director	6	100
Hong Guilu Non-Independent Non-Executive Director	6	100
Mo Fumin** Non-Independent Non-Executive Director/Chairman	5	100
Yuan Bin*** Executive Director	4	67

Note: * Appointed on 28 October 2016
** Resigned on 28 October 2016
*** Resigned on 27 December 2016

Training and Development of Directors

Directors' training is an on-going process to enable the Directors to develop and update their knowledge and skills required to fulfill their role both on the Board and Board Committees. During the financial year 2016, the Members of the Board had received training on the new Companies Act 2016 on areas relevant to their duties and responsibilities as Directors. The Directors also participated in the assessment of research papers covering various topics related to the industry as organised by the Bank. This also served to provide the Directors with industry information and development.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Appointment and Re-election of Directors

(a) Appointment/Re-Appointment of Directors

Pursuant to the provisions of the Financial Services Act 2013 and the policy documents issued by BNM, the appointment of a new Director is subject to the prior approval of BNM and will be for a specified term of appointment. The NC considers and recommends to the Board, the nominee(s) for directorship and Board Committee membership upon assessing the skill, knowledge and experience as well as fitness and propriety of the nominee(s) to act as Director/Board Committee member in accordance with the Bank's Fit and Proper Policy.

For the re-appointment of existing Directors, the NC refers to the results of the individual assessments conducted via the Board Performance Evaluation exercise in addition to their normal interactions with the Directors. The NC also assesses the Directors based on their performance and contribution to the Board and Board Committees, their independence of view in respect of decision making, where deemed appropriate and time commitment. Once approved by the Board, the application for the re-appointment of Directors is submitted to BNM for its consideration.

(b) Re-election of Directors

The Articles of Association of the Bank provide that at every annual general meeting, one-third of the Directors for the time being or the number nearest to one-third, and those Directors newly appointed subsequent to the preceding annual general meeting, shall retire from office and shall be eligible for re-election.

(c) Board Performance Evaluation

The Bank has undertaken the Board Performance Evaluation exercise on the Board and Board Committees to assess their effectiveness and that of individual Directors on yearly basis. Implemented in 2011, the Board Performance Evaluation is designed to identify the strengths and weaknesses to improve the Board's overall effectiveness and forms part of the NC's evaluation for the re-appointment of Directors.

The evaluation is made up of self and peer assessment conducted through a customised questionnaire. The assessment results will be tabled at the NC and the Board for review and consideration, respectively. Each Director is provided with the individual results on each area of assessment for private information and improvement.

Board Committees Established by the Board

The Board has established a number of Board Committees whose compositions are in line with BNM's Policy Document on Corporate Governance. The functions and terms of reference of the Board Committees are reviewed from time to time to ensure that they remain relevant and are up-to-date.

Audit Committee

The AC comprises of Non-Executive Directors with majority of whom are Independent Directors. The objective of the AC is primarily to assist the Board in providing independent oversight on the Bank's financial reporting, internal control system, risk management function and governance processes.

The Committee is assisted by internal and external auditors, where applicable, in the review of the integrity and reliability of the Bank's financial statements on quarterly and yearly basis, prior to the recommendation of the same to the Board for further approval. The Committee scrutinises the internal audit report submitted by Internal Audit Department on the Bank's operation lapses and the remedial actions taken by the Management to rectify any of the shortcomings.

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. The Committee meets twice a year with the external auditors, without the presence of the Management of the Bank to discuss any key issues and/or areas, if any, that require the attention of the Committee and the Board.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Audit Committee *(continued)*

The attendance of Members at the AC Meetings held in 2016 is reflected below:

Members of AC	**Number of Board Meeting Attended**	**Total Percentage of Attendance (%)**
Dato' Leong Khee Seong (Chairman) Independent Non-Executive Director	6	100
Ong Ah Tin @ Ong Chee Kwee Independent Non-Executive Director	6	100
Lan Li Non-Independent Non-Executive Director	6	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 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 statements;
- to appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor;
- to review adequacy and effectiveness of the internal controls and risk management processes with clear line of reporting established for timely communication of issues;
- to select and recommend the external auditors to the Board for appointment and re-appointment annually, including removal of the external auditors, where relevant;
- to review and approve the provision of non-audit services by the external auditors so as to ensure that the provision of non-audit services does not interfere with the exercise of independent judgement of auditors;
- to review 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 Anti-Money Laundering/Counter Financing of Terrorism ("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.

Internal Audit Function

The Bank has an internal audit function undertaken by the IAD and guided by the Internal Audit Charter. The IAD reports functionally to the AC. The IAD's primary 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.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Audit Committee *(continued)*

Internal Audit Function *(continued)*

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 all business 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 2016, 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 outstanding audit issues to full resolution.

Board Risk Management Committee

The BRMC is entrusted by the Board to undertake 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 approval by the Board.

The Committee comprises of Non-Executive Directors with majority of whom are Independent Directors. The attendance of Members of the BRMC Meetings held in 2016 is reflected below:

Members of BRMC	**Number of Board Meeting Attended**	**Total Percentage of Attendance (%)**
Ong Ah Tin @ Ong Chee Kwee (Chairman) Independent Non-Executive Director	6	100
Dato' Leong Khee Seong Independent Non-Executive Director	6	100
Hong Guilu Non-Independent Non-Executive Director	6	100

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

- to review and recommend risk management strategies, risk appetite and policies 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 assurance that they are being adhered to at all times;
- to evaluate and obtain assurance that the infrastructure, resources and systems are in place for overall effective management of risk and compliance functions;
- to review and deliberate Management's periodic reports on risk exposure, risk portfolio composition and risk management activities and issues and matters relating to compliance;
- to evaluate and provide input on such strategies and/or policies to suit local conditions and make appropriate recommendations to the Board on the execution or compliance of such strategies and/or policies where risk strategies and policies are driven by the parent bank;

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Board Risk Management Committee *(continued)*

- to provide oversight for establishing AML/CFT policies and effective standards, overall AML/CFT risk profiles and measures undertaken by the Bank;

- to review and ensure a forward looking and dynamic capital management process that incorporates changes in the Bank's strategic business direction, risk profiles, operating environment and other factors that could materially affect the Bank's 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 mitigation or contingency plans for the stressed scenario(s); and

- to review and deliberate the proposal of new products and services that require approval by the Board per BNM's guidelines based on the risk appetite set by the Board.

- to support the Board in examining whether incentives provided under the remuneration system take into consideration of risks, capital, liquidity and the likelihood and timing of earnings.

The details pertaining to the Bank's financial risk management framework are set out on pages 55 to 66 of these financial statements.

Nominating Committee

The size and composition of the NC was revised in late 2016 to meet the new requirement of BNM that the Committee is to comprise of majority of Independent Directors. The Committee meets when required, at least once a year.

The attendance of Members at the NC Meetings held in 2016 is reflected below:

Members of NC	Number of Board Meeting Attended	Total Percentage of Attendance (%)
Dato' Leong Khee Seong (Chairman) Independent Non-Executive Director	5	100
Ong Ah Tin @ Ong Chee Kwee Independent Non-Executive Director	5	100
Hong Guilu Non-Independent Non-Executive	5	100
Lan Li* Non-Independent Non-Executive	5	100
Yuan Bin** Executive Director	5	100

Note: * Ceased as a Member of NC on 27 December 2016
** Ceased as a Member of NC on 27 December 2016 following his resignation as the Executive Director on even date

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;

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Nominating Committee *(continued)*

- 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;
- 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 or any officer primarily responsible for the respective areas of expertise undertaken by the Senior Management members, in the event such position is left vacant. 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 trainings 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 fitness and propriety of key responsible persons as defined in the Bank's Fit and Proper Policy.

Remuneration Committee

The size and composition of the RC was revised in late 2016 to meet the new requirement of BNM that the Committee is to comprise of majority of Independent Directors.

The attendance of Members at the RC Meetings held in 2016 is reflected below:

Members of RC	Number of Board Meeting Attended	Total Percentage of Attendance (%)
Ong Ah Tin @ Ong Chee Kwee (Chairman) Independent Non-Executive Director	1	100
Dato' Leong Khee Seong Independent Non-Executive Director	1	100
Hong Guilu Non-Independent Non-Executive Director	1	100
Lan Li* Non-Independent Non-Executive Director	1	100

Note: * Ceased as a Member of RC on 27 December 2016

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

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Remuneration Committee *(continued)*

- 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.

The Bank's Independent Non-Executive Directors receive Directors' fees and meeting attendance allowances. The annual Directors' fees and allowances 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 former Executive Director and Independent Non-Executive Directors for financial year ended 31 December 2016 are disclosed in Note 27(c) to the financial statements, while the aggregate fixed remuneration (inclusive of cash and benefit-in-kind) of other Senior Management of the Bank which comprises of four (4) personnel for financial year ended 31 December 2016 is tabulated below:

Aggregated Remuneration	Amount (RM'000)
Cash-based	3,333
Others	132

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 financial performance 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 material respects and other legal requirements.

Relationship with the Auditors

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

OTHER STATUTORY INFORMATION

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

i) all known bad debts have been written off and 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 written off for bad debts or 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 2016 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, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 23 to the financial statements.

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

……………………………………………………………

Ong Ah Tin
Director

……………………………………………………………

Dato' Leong Khee Seong
Director

Kuala Lumpur, Malaysia
Date: 31 May 2017

STATEMENT BY DIRECTORS PURSUANT TO
Section 251(2) of the Companies Act, 2016

We, Ong Ah Tin 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 23 to 67 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 of 31 December 2016 and of its financial performance and cash flows for the year then ended.

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

……………………………………………………………
Ong Ah Tin
Director

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

Kuala Lumpur, Malaysia
Date: 31 May 2017

STATUTORY DECLARATION PURSUANT TO
Section 251(1)(b) of the Companies Act, 2016

I, Wang Qiang, the Officer primarily responsible for the financial management of Industrial and Commercial Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 23 to 67 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Wang Qiang, (PP no. PE0550833), in Kuala Lumpur, Malaysia on 31 May 2017

…………………………………………………………
Wang Qiang

BEFORE ME:

…………………………………………………………

Independent Auditors' Report to the Members of
Industrial and Commercial Bank of China (Malaysia) Berhad
(Company No. 839839 M)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

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 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 23 to 67.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its 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.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

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

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.

(Company No. 839839 M)

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chin Shoon Chong
Approval Number: 02823/04/19 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 31 May 2017

Industrial and Commercial Bank of China (Malaysia) Berhad

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Cash and short-term funds	4	954,456	1,297,823
Deposits and placements with banks and other financial institutions	5	288,047	2,314
Financial investments available-for-sale	6	169,946	202,568
Loans, advances and financing	7	2,620,187	2,528,388
Derivative financial assets	8	2,529	7,555
Other assets	9	7,278	4,684
Statutory deposits with Bank Negara Malaysia	10	10,580	22,460
Plant and equipment	11	4,523	3,875
Intangible asset	12	304	824
Deferred tax assets	13	5,835	4,058
TOTAL ASSETS		4,063,685	4,074,549
LIABILITIES			
Deposits from customers	14	2,782,198	3,310,848
Deposits and placements of banks and other financial institutions	15	256,640	298,755
Derivative financial liabilities	8	2,247	6,965
Other liabilities	16	69,888	41,616
Provision for taxation		3,080	2,824
TOTAL LIABILITIES		3,114,053	3,661,008
EQUITY			
Share capital	17	832,609	331,000
Reserves	18	117,023	82,541
EQUITY ATTRIBUTABLE TO OWNER OF THE BANK		949,632	413,541
TOTAL LIABILITIES AND EQUITY		4,063,685	4,074,549
COMMITMENTS AND CONTINGENCIES	29	2,187,259	3,027,115

The notes set out on pages 28 to 67 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 2016

	Note	2016 RM'000	2015 RM'000
Interest income	19	111,710	122,707
Interest expense	19	(42,319)	(52,568)
Net interest income	19	69,391	70,139
Net fee income	20	15,290	13,613
Net trading income	21	25,923	22,900
Other operating income	22	723	3
Net operating income		111,327	106,655
Other operating expenses	23	(67,895)	(60,260)
Operating profit		43,432	46,395
Write back of/(Allowance for) impairment on loans, advances and financing	24	3,421	(6,198)
Profit before taxation		46,853	40,197
Tax expense	25	(13,211)	(11,867)
Profit for the year		33,642	28,330
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to profit or loss			
Fair value reserve			
- Changes in fair value		(1,495)	(1,489)
- Amount transferred to profit or loss		2,600	-
- Deferred tax adjustment	13	(265)	354
Total other comprehensive expense for the year		840	(1,135)
Total comprehensive income for the year		34,482	27,195
Basic earnings per ordinary share (sen):	26	8.11	8.56

The notes set out on pages 28 to 67 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 2016

	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 2015	331,000	26,227	(278)	11,051	18,346	386,346
Total comprehensive income for the year						
Other comprehensive income, net of tax						
Fair value reserve						
- Changes in fair value	-	-	(1,489)	-	-	(1,489)
- Deferred tax adjustment	-	-	354	-	-	354
Total other comprehensive expense for the year	-	-	(1,135)	-	-	(1,135)
Profit for the year	-	-	-	-	28,330	28,330
Total comprehensive (expense)/income for the year	-	-	(1,135)	-	28,330	27,195
Transfer to statutory reserve	-	14,165	-	-	(14,165)	-
Transfer to regulatory reserve	-	-	-	2,111	(2,111)	-
At 31 December 2015	331,000	40,392	(1,413)	13,162	30,400	413,541
At 1 January 2016	331,000	40,392	(1,413)	13,162	30,400	413,541
Total comprehensive income for the year						
Other comprehensive income, net of tax						
Fair value reserve						
- Changes in fair value	-	-	(1,495)	-	-	(1,495)
- Amount transferred to profit or loss	-	-	2,600	-	-	2,600
- Deferred tax adjustment	-	-	(265)	-	-	(265)
Total other comprehensive income for the year	-	-	840	-	-	840
Profit for the year	-	-	-	-	33,642	33,642
Total comprehensive income for the year	-	-	840	-	33,642	34,482
Contributions by and distributions to owners of the Bank						
Issue of ordinary shares	501,609	-	-	-	-	501,609
Total transactions with owners of the Bank	501,609	-	-	-	-	501,609
Transfer to statutory reserve	-	16,821	-	-	(16,821)	-
Transfer to regulatory reserve	-	-	-	4,482	(4,482)	-
At 31 December 2016	832,609	57,213	(573)	17,644	42,739	949,632
	Note 17	Note 18.1	Note 18.2	Note 18.3	Note 18.4	

The notes set out on pages 28 to 67 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 2016

	Note	2016 RM'000	2015 RM'000
Cash flows from operating activities			
Profit before taxation		46,853	40,197
Adjustments for:			
Depreciation of plant and equipment		2,128	2,114
Amortisation of intangible asset		520	520
(Write back of)/Allowance for impairment on loans, advances and financing		(3,421)	6,198
Net unrealised loss/(gains) arising from derivative trading		308	(540)
Gain on disposal of financial investments available-for-sale		(661)	-
Accretion of discounts net of amortisation of premiums on financial investments available-for-sale		(63)	(3,842)
Operating profit before working capital changes		45,664	44,647
Changes in operating assets			
Deposits and placements with banks and other financial institutions		(285,733)	105,286
Loans, advances and financing		(88,378)	(323,802)
Other assets		(2,594)	2,480
Statutory deposits with Bank Negara Malaysia		11,880	(12,120)
Changes in operating liabilities			
Deposits from customers		(528,650)	1,361,020
Deposits and placements of banks and other financial institutions		(42,115)	(1,351,463)
Other liabilities		28,272	(10,370)
Cash used in operations		(861,654)	(184,322)
Income taxes paid		(14,997)	(10,605)
Net cash used in operating activities		(876,651)	(194,927)
Cash flows from investing activities			
Purchase of plant and equipment		(2,776)	(1,686)
Net proceeds/(purchase) of financial investments available-for-sale		34,451	(145,059)
Net cash from/(used in) investing activities		31,675	(146,745)

(Company No. 839839 M)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

	Note	2016 RM'000	2015 RM'000
Cash flows from financing activities			
Proceeds from issue of share capital		501,609	-
Net cash from financing activities		501,609	-
Net decrease in cash and cash equivalents		(343,367)	(341,672)
Cash and cash equivalents at beginning of the financial year		1,297,823	1,639,495
Cash and cash equivalents at end of the financial year		954,456	1,297,823
Cash and cash equivalents comprise:			
Cash and short-term funds	4	954,456	1,297,823

The notes set out on pages 28 to 67 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 address of its registered office and principal place of business is as follows:

Level 35, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors on 31 May 2017.

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 of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank:

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

Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

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

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

MFRS 16, *Leases*

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- 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, except for Amendments to MFRS 12, as they are not applicable to the Bank.

- 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, except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 4, Amendments to MFRS 128 and Amendments to MFRS 140 as they are not applicable to the Bank.

- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

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

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services.*

The Bank is currently assessing the financial impact that may arise from the adoption of 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, and on hedge accounting.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 16, *Leases*

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

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

(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.

2. Basis of preparation *(continued)*

(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.

Estimate 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 33 - Fair values of financial assets and financial liabilities.

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

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency 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 period 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 period 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 equity instruments which are recognised in other comprehensive income.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of the foreign operations are translated to RM at average exchange rates for the period.

All resulting exchange differences are recognised in other comprehensive income and accumulated in the Foreign Currency Translation Reserve ("FCTR") in equity.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR in equity.

3. Significant accounting policies *(continued)*

(b) Interest recognition

Interest income and expense are recognised in profit or loss 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.

(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 expenses relating mainly to transaction and service fees, are expensed off as the services are received.

(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.

3. Significant accounting policies *(continued)*

(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 financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instruments.

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

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 of ownership, but has not retained control of the assets.

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 profit or loss.

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

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.

3. Significant accounting policies *(continued)*

(h) Derivative financial instruments *(continued)*

(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.

(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 as '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 profit or loss as 'Net gains/losses on disposal of financial investments available-for-sale'.

Investment in equity 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 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 financial asset 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 instrument 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 extent 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 amounts of the Bank's loans, advances and financing are reviewed at each reporting date to determine whether there is any 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 assessment 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 bands 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, 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 asset to working condition for its 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 is recognised net within "other operating income" or "other operating expenses" 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 commencing from the month subsequent to the month of addition, and depreciation is accounted for up to the month of disposal at the following annual rates:

	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

Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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 asset is calculated to write-off the cost of the intangible asset on a straight-line basis over the estimated useful life of 5 years. Intangible asset is subject to 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 assets) 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 of disposal. 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 a group of cash-generating units) and then to reduce the carrying amounts 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.

(s) Earning per ordinary share

The Bank presents basic earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

No diluted EPS is presented in these financial statements as there are no dilutive potential ordinary shares.

3. Significant accounting policies *(continued)*

(t) 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.

The Bank recognises transfers between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

4. Cash and short-term funds

	2016 RM'000	2015 RM'000
Cash and balances with banks and other financial institutions	58,102	326,271
Money at call and deposit placements maturing within one month	896,354	971,552
	954,456	1,297,823

5. Deposits and placements with banks and other financial institutions

	2016 RM'000	2015 RM'000
Bank Negara Malaysia	60,000	-
Licensed Malaysian banks	200,000	-
Foreign banks	28,047	2,314
	288,047	2,314

6. Financial investments available-for-sale

	2016 RM'000	2015 RM'000
At fair value		
Malaysian Government Securities	90,071	70,553
Malaysian Government Investment Issues	79,875	-
Financial Institutions Securities	-	127,042
Private Debt Securities	-	4,973
	169,946	202,568
The maturity structure of financial investments available-for-sale is as follows:		
Within one year	50,045	127,042
More than one year to three years	-	55,668
More than three years to five years	119,901	19,858
	169,946	202,568

7. Loans, advances and financing

At amortised cost

(i) By type

	2016 RM'000	2015 RM'000
Overdrafts	96,172	165,405
Term loans		
- Housing loans	54,683	47,605
- Syndicated term loans	181,512	178,456
- Other term loans	1,058,343	567,547
Bills receivable	14,480	33,810
Revolving credit	1,137,905	1,459,748
Bankers' acceptances	87,844	91,605
Staff loans	2,808	2,118
Credit card loans	2,486	1,561
Gross loans, advances and financing	2,636,233	2,547,855
Less: Allowance for impairment		
- Collective allowance for impairment	(13,966)	(17,387)
- Individual allowance for impairment	(2,080)	(2,080)
Net loans, advances and financing	2,620,187	2,528,388

(ii) By type of customer

	2016 RM'000	2015 RM'000
Domestic banking institutions		
Domestic non-bank financial institutions	75,217	-
- Others	100,188	20,042
Domestic business enterprises		
- Small medium enterprises	66,850	70,827
- Others	1,564,421	1,468,940
Individuals	47,378	43,628
Foreign entities	782,179	944,418
	2,636,233	2,547,855

(iii) By interest rate sensitivity

	2016 RM'000	2015 RM'000
Fixed rate loans	5,294	18,944
Variable rate		
- Base rate/base lending rate plus	112,295	116,754
- Cost plus	2,383,145	1,070,516
- Other variable rates	135,499	1,341,641
	2,636,233	2,547,855

(iv) By sector

	2016 RM'000	2015 RM'000
Primary agriculture	79,535	49,297
Manufacturing	654,048	136,688
Electricity, gas and water	179,819	-
Construction	149,366	122,614
Real estate	225,859	363,146
Wholesale & retail trade and restaurants & hotels	547,308	760,497
Transport, storage and communication	46,708	533,691
Finance, insurance and business services	505,574	397,736
Education, health and others	170,962	114,728
Household	77,054	69,458
	2,636,233	2,547,855

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

(v) By purpose

	2016 RM'000	2015 RM'000
Purchase of landed properties		
- Non residential	177,375	125,610
- Residential	56,939	49,107
Purchase of transport vehicles	62	113
Construction	25,847	9,099
Credit card	2,486	1,561
Personal use	987	863
Mergers and acquisitions	179,819	2,147
Working capital	2,171,481	2,335,892
Other purpose	21,237	23,463
	2,636,233	2,547,855

(vi) By geographical distribution

	2016 RM'000	2015 RM'000
Within Malaysia	2,089,875	1,634,748
Outside Malaysia	546,358	913,107
	2,636,233	2,547,855

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

(vii) By residual contractual maturity

	2016 RM'000	2015 RM'000
Maturity within one year	1,421,086	1,770,401
More than one year to three years	426,522	452,935
More than three years to five years	652,057	211,844
More than five years	136,568	112,675
	2,636,233	2,547,855

(viii) Impaired loans, advances and financing

(a) Movement in impaired loans, advances and financing

	2016 RM'000	2015 RM'000
At 1 January	2,080	2,080
Impaired during the financial year	5	-
Reclassified as performing during the financial year	(5)	-
At 31 December	2,080	2,080
Less: Individual allowance for impairment	(2,080)	(2,080)
Net impaired loans, advances and financing	-	-
As % of gross loans, advances and financing (net of individual allowance for impairment)	**0%**	**0%**

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

(b) By sector

	2016 RM'000	2015 RM'000
Wholesale & retail trade and restaurants & hotels	2,029	2,029
Household	51	51
	2,080	2,080

(c) By purpose

	2016 RM'000	2015 RM'000
Working capital	2,029	2,029
Credit card	51	51
	2,080	2,080

(d) By geographical distribution

	2016 RM'000	2015 RM'000
Within Malaysia	2,080	2,080

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

	2016 RM'000	2015 RM'000
Collective allowance for impairment		
At 1 January	17,387	11,189
Allowance made during the financial year	3,631	9,199
Allowance written back	(7,052)	(3,001)
At 31 December	13,966	17,387
As % of gross loans, advances and financing (net of individual allowance for impairment)	0.53%	0.68%
Individual allowance for impairment		
At 1 January	2,080	2,080
Allowance made during the financial year	5	-
Allowance write back during the financial year	(5)	-
At 31 December	2,080	2,080

8. Derivative financial assets/liabilities

2016	Contract/ Nominal value RM'000	Assets RM'000	Liabilities RM'000
Foreign exchange contracts			
- Currency forwards and spots	130,294	2,271	2,247
- Currency swaps	23,046	258	-
Total recognised derivative assets/liabilities (Note 29)	153,340	2,529	2,247

2015	Contract/ Nominal value RM'000	Assets RM'000	Liabilities RM'000
Foreign exchange contracts			
- Currency forwards and spots	580,512	7,166	6,961
- Currency swaps	173,550	389	4
Total recognised derivative assets/liabilities (Note 29)	754,062	7,555	6,965

9. Other assets

	2016 RM'000	2015 RM'000
Interest receivable	4,653	1,536
Deposits	1,890	1,924
Other receivables and prepayments	735	1,224
	7,278	4,684

10. 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 percentage on total eligible liabilities.

11. Plant and equipment

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Fixed assets under construction RM'000	Total RM'000
Cost						
At 1 January 2016	2,676	2,236	472	6,128	1,038	12,550
Additions	896	885	311	684	-	2,776
Transfer	-	-	-	1,009	(1,009)	-
At 31 December 2016	3,572	3,121	783	7,821	29	15,326
Accumulated depreciation						
At 1 January 2016	2,035	1,496	167	4,977	-	8,675
Charge during the year	502	445	60	1,121	-	2,128
At 31 December 2016	2,537	1,941	227	6,098	-	10,803
Net carrying amount						
At 1 January 2016	641	740	305	1,151	1,038	3,875
At 31 December 2016	1,035	1,180	556	1,723	29	4,523

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Fixed assets under construction RM'000	Total RM'000
Cost						
At 1 January 2015	2,179	2,143	414	6,128	-	10,864
Additions	497	93	58	-	1,038	1,686
At 31 December 2015	2,676	2,236	472	6,128	1,038	12,550
Accumulated depreciation						
At 1 January 2015	1,615	1,073	125	3,748	-	6,561
Charge during the year	420	423	42	1,229	-	2,114
At 31 December 2015	2,035	1,496	167	4,977	-	8,675
Net carrying amount						
At 1 January 2015	564	1,070	289	2,380	-	4,303
At 31 December 2015	641	740	305	1,151	1,038	3,875

12. Intangible asset

	Admission Fee RM'000
Cost	
At 1 January 2016/31 December 2016	2,600
Accumulated amortisation	
At 1 January 2016	1,776
Charge during the year	520
At 31 December 2016	2,296
Net carrying amount	
At 1 January 2016	824
At 31 December 2016	304
Cost	
At 1 January 2015/31 December 2015	2,600
Accumulated amortisation	
At 1 January 2015	1,256
Charge during the year	520
At 31 December 2015	1,776
Net carrying amount	
At 1 January 2015	1,344
At 31 December 2015	824

13. Deferred tax assets

	2016 RM'000	2015 RM'000
At 1 January	4,058	3,102
Recognised in profit or loss (Note 25)	2,042	602
Recognised in equity	(265)	354
At 31 December	5,835	4,058

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

	Plant and Equipment RM'000	Available-for-sale Reserve RM'000	Provisions RM'000	Total RM'000
Deferred tax (assets)/liabilities				
At 1 January 2016	(4)	(446)	(3,608)	(4,058)
Recognised in profit or loss (Note 25)	90	-	(2,132)	(2,042)
Recognised in equity	-	265	-	265
At 31 December 2016	86	(181)	(5,740)	(5,835)

13. Deferred tax assets *(continued)*

	Plant and Equipment RM'000	Available-for-sale Reserve RM'000	Provisions RM'000	Total RM'000
Deferred tax (assets)/liabilities				
At 1 January 2015	127	(92)	(3,137)	(3,102)
Recognised in profit or loss (Note 25)	(131)	-	(471)	(602)
Recognised in equity	-	(354)	-	(354)
At 31 December 2015	(4)	(446)	(3,608)	(4,058)

14. Deposits from customers

(i) By type of deposits

	2016 RM'000	2015 RM'000
Demand deposits	808,759	1,166,923
Fixed deposits	517,921	638,283
Savings deposits	129,959	101,741
Money market deposits	1,282,204	1,356,784
Short term deposits	-	19,424
Others	43,355	27,693
	2,782,198	3,310,848

(ii) By type of customer

	2016 RM'000	2015 RM'000
Business enterprises	1,298,516	2,203,566
Individuals	272,448	193,067
Foreign entities	1,210,501	913,380
Others	733	835
	2,782,198	3,310,848

(iii) By maturity structure of term deposits

	2016 RM'000	2015 RM'000
Due within six months	2,665,449	2,550,783
More than six months to one year	99,891	757,345
More than one year to three years	16,858	2,720
	2,782,198	3,310,848

15. Deposits and placements of banks and other financial institutions

	2016 RM'000	2015 RM'000
Licensed Malaysian banks	25,251	179,730
Licensed investment banks	147	43
Licensed Islamic banks	1,499	157
Other financial institutions	216,181	105,174
Foreign banks	13,562	13,651
	256,640	298,755

16. Other liabilities

	2016 RM'000	2015 RM'000
Interest payable	8,139	7,068
Other payables and accruals	61,749	34,548
	69,888	41,616

17. Share capital

	Number of ordinary shares of RM1 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised				
At 1 January	380,000	380,000	380,000	380,000
Created during the year	620,000	-	620,000	-
At 31 December	1,000,000	380,000	1,000,000	380,000
Issued and fully paid				
At 1 January	331,000	331,000	331,000	331,000
Issued during the year	501,609	-	501,609	-
At 31 December	832,609	331,000	832,609	331,000

18. Reserves

18.1 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 dividend.

18.2 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.

18.3 Regulatory reserve

The Bank maintained a minimum level of impairment provisions which is in excess of the collective impairment provisions required under MFRSs. An amount of RM17.644 million (2015: RM13.162 million) from the retained earnings as of 31 December 2016 has been reserved for this purpose.

18.4 Retained earnings

The Finance Act 2007 introduced the single tier tax system with effect from 1 January 2008. Under this system, tax on a company's profits is a final tax and dividends are tax exempt in the hands of shareholders.

19. Interest income

	2016 RM'000	2015 RM'000
Loans, advances and financing:		
- Interest income other than from impaired loans	89,375	84,120
Money at call and deposit placements with financial institutions	18,898	32,361
Financial investments available-for-sale	3,395	6,180
Others	42	46
	111,710	122,707
Interest expense		
Deposits and placements of banks and other financial institutions	(8,163)	(18,170)
Deposits from customers	(34,144)	(34,373)
Others	(12)	(25)
	(42,319)	(52,568)
Net interest income	69,391	70,139

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

20. Fee income

	2016 RM'000	2015 RM'000
Fee income:		
- Commission	34	41
- Service charges and fees	2,410	2,148
- Loan processing fees	1,115	942
- Syndication fees	983	1,184
- Guarantee fees	4,796	3,178
- Commitment fees	674	669
- Other loans related fees income	56	300
- Other fees income	5,306	5,321
	15,374	13,783
Fee expense:		
- Brokerage fees	(27)	(24)
- Other fees expense	(57)	(146)
	(84)	(170)
Net fee income	15,290	13,613

21. Net trading income

	2016 RM'000	2015 RM'000
Net gains from dealing in foreign exchange	11,462	2,168
Net gains arising from derivative trading	14,577	20,556
Net unrealised revaluation gains/(losses) in foreign exchange	192	(364)
Net unrealised (losses)/gains arising from derivative trading	(308)	540
	25,923	22,900

22. Other operating income

	2016 RM'000	2015 RM'000
Gain on disposal:		
- Financial investments available-for-sale	661	-
Others	62	3
	723	3

23. Other operating expenses

	2016 RM'000	2015 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	36,604	33,143
- Directors' remuneration (Note 27 (c))	1,785	1,395
- Pension fund contributions	3,863	2,528
- Other staff costs	5,701	5,153
Promotion and marketing related expenses:		
- Advertising and promotion	1,612	1,715
- Others	739	1,367
Establishment costs:		
- Depreciation of plant and equipment	2,128	2,114
- Amortisation of intangible asset	520	520
- Rental	5,914	4,949
- Others	2,018	1,454
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	270	155
- under/(over) provision in prior year	10	(15)
• audit related services	106	94
- Professional fees	776	837
- Licence fee	307	307
- Membership fee	216	156
- Others	5,326	4,388
	67,895	60,260

24. (Write back of)/Allowance for impairment on loans, advances and financing

	2016 RM'000	2015 RM'000
Collective allowance for impairment		
- Made during the financial year	3,631	9,199
- Written back during the financial year	(7,052)	(3,001)
Individual allowance for impairment		
- Made during the financial year	5	-
- Written back during the financial year	(5)	-
	(3,421)	6,198

25. Tax expense

	2016 RM'000	2015 RM'000
Current tax expense		
- Current financial year	15,205	12,553
- Under/(over) provision in prior year	48	(84)
Total current tax recognised in profit or loss	15,253	12,469
Deferred taxation		
Origination and reversal of temporary differences	(2,042)	(761)
Effect of changes in tax rate	-	159
Total deferred tax recognised in profit or loss (Note 13)	(2,042)	(602)
	13,211	11,867

25. Tax expense *(continued)*

	2016 RM'000	2015 RM'000
Reconciliation of tax expense		
Profit before taxation	46,853	40,197
Income tax using Malaysian tax rate @ 24% (2015: 25%)	11,245	10,049
Non-deductible expenses	1,918	1,743
Effect of changes in tax rate	-	159
Under/(over) provision of income tax expense in prior year	48	(84)
Tax expense	13,211	11,867

26. Basic earnings per ordinary share

The basic earnings per ordinary share has been calculated based on the profit attributable to equity holder of the Bank of RM33,642,000 (2015: RM28,330,000) and weighted average number of ordinary shares outstanding during the year of 414,601,500 (2015: 331,000,000) ordinary shares of RM1 each in issue during the financial year.

27. Significant related party transactions and balances

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

	2016		2015	
	RM'000 Holding Company	**RM'000** Related Companies	**RM'000** Holding Company	**RM'000** Related Companies
Income				
Interest income				
- Deposits and placements with banks and other financial institutions	382	308	2,261	1,041
Expenses				
Interest expense				
- Deposits and placements with banks and other financial institutions	92	-	10,117	-
Other operating expenses				
- Other charges	28	1	20	1

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

	2016		2015	
	RM'000 Holding Company	**RM'000** Related Companies	**RM'000** Holding Company	**RM'000** Related Companies
Amount due from				
- Cash and short-term funds	59,675	187,769	317,752	16,575
- Deposits and placements with banks and other financial institutions	19,369	8,677	2,314	-
- Other assets	29	5	418	-
Amount due to				
- Deposits and placements with banks and other financial institutions	12,715	-	13,229	-

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

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 parties.

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

(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:

	2016 RM'000	**2015 RM'000**
Executive Director and CEO		
Mr. Yuan Bin		
- Salaries	904	743
- Bonus	549	311
- Other allowances	116	133
	1,569	1,187
Non-Executive Directors' fees		
YBhg Dato' Leong Khee Seong	108	104
Mr. Ong Ah Tin @ Ong Chee Kwee	108	104
	216	208
	1,785	1,395
	Note 23	Note 23

28. 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:

	2016 RM'000	**2015 RM'000 Restated**
Aggregate value of outstanding credit exposures to connected parties	185,166	62,088
As a percentage of total credit exposures	3.85%	1.40%
Percentage of outstanding credit exposures to connected parties which are non-performing or in default	0%	0%

29. 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:

	2016			
	Principal Amount RM'000	**Positive Value of Derivative Contracts ^ RM'000**	**Credit Equivalent Amount * RM'000**	**Risk-Weighted Assets * RM'000**
Credit-related exposures				
Direct credit substitutes	80,746	-	80,746	16,149
Transaction-related contingent items	1,032,166	-	516,083	347,834
Short term self-liquidating trade-related contingencies	24,428	-	4,886	4,877
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	115,112	-	57,556	45,241
- Not exceeding one year	748,759		149,752	119,112
Unutilised credit card lines	32,708	-	6,542	4,906
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	153,340	2,529	4,020	1,834
Total	2,187,259	2,529	819,585	539,953
		Note 8		

^ 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 and interest rates) of the underlying instruments. The underlying principal amounts of these derivative financial instruments and their corresponding gross positive fair values (derivative financial assets) 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.

29. Commitments and contingencies *(continued)*

	2015			
	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	818,692	-	409,346	264,726
Short term self-liquidating trade-related contingencies	46,529	-	9,306	6,553
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	223,558	-	111,779	100,046
- Not exceeding one year	1,157,325		231,465	160,394
Unutilised credit card lines	26,949	-	5,390	4,042
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	754,062	7,555	21,870	10,523
Total	3,027,115	7,555	789,156	546,284
		Note 8		

^ 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 and interest rates) of the underlying instruments. The underlying principal amounts of these derivative financial instruments and their corresponding gross positive fair values (derivative financial assets) 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.

30. 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:

	2016 RM'000	2015 RM'000
Within one year	6,339	3,759
After one year but not more than five years	2,770	2,318
	9,109	6,077

31. Capital commitments

	2016 RM'000	2015 RM'000
Capital expenditure for plant and equiptment		
- Contracted but not provided for	-	872

32. 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 of the Bank are analysed as follows:

	2016 RM'000	2015 RM'000
Common Equity Tier 1 ("CET1") Capital		
Paid-up share capital	832,609	331,000
Retained earnings	42,739	30,400
Statutory reserve	57,213	40,392
Regulatory reserve	17,644	13,162
Unrealised losses on financial investments available-for-sale	(573)	(1,413)
	949,632	413,541
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Intangible asset	(304)	(824)
- Deferred tax assets	(5,835)	(4,058)
- Regulatory reserve attributable to loans, advances and financing	(17,644)	(13,162)
	(23,783)	(18,044)
Total CET1 Capital	925,849	395,497
Tier 2 Capital		
Collective impairment allowance	13,966	17,387
Regulatory reserve	17,644	13,162
Total Tier 2 Capital	31,610	30,549
Total Capital	957,459	426,046
CET1 capital ratio	37.828%	15.675%
Tier 1 capital ratio	37.828%	15.675%
Total capital ratio	39.120%	16.886%

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

	2016		2015	
	Principal RM'000	Risk-Weighted Assets RM'000	Principal RM'000	Risk-Weighted Assets RM'000
Total RWA for credit risk	4,888,871	2,253,430	4,869,479	2,363,908
Total RWA for market risk	-	4,797	-	894
Total RWA for operational risk	-	189,282	-	158,249
	4,888,871	2,447,509	4,869,479	2,523,051

33. Fair values of financial assets and financial liabilities

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 quotation.

(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 maturity 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 exceeding one year, the fair values are estimated using discounted cash flows based on market rates at the respective reporting dates 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 market rates at the respective reporting dates for deposits with similar maturity.

33. 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
2016										
Financial assets										
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	288,047	288,047	288,047	288,047
Financial investments available-for-sale (Note 6)	-	169,946	-	169,946	-	-	-	-	169,946	169,946
Loans, advances and financing	-	-	-	-	-	-	2,619,150	2,619,150	2,619,150	2,620,187
Derivative financial assets (Note 8)	-	2,529	-	2,529	-	-	-	-	2,529	2,529
	-	172,475	-	172,475	-	-	2,907,197	2,907,197	3,079,672	3,080,709
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	2,782,198	2,782,198	2,782,198	2,782,198
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	256,640	256,640	256,640	256,640
Derivative financial liabilities (Note 8)	-	2,247	-	2,247	-	-	-	-	2,247	2,247
	-	2,247	-	2,247	-	-	3,038,838	3,038,838	3,041,085	3,041,085
2015										
Financial assets										
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	2,314	2,314	2,314	2,314
Financial investments available-for-sale (Note 6)	-	75,526	127,042	202,568	-	-	-	-	202,568	202,568
Loans, advances and financing	-	-	-	-	-	-	2,527,302	2,527,302	2,527,302	2,528,388
Derivative financial assets (Note 8)	-	7,555	-	7,555	-	-	-	-	7,555	7,555
	-	83,081	127,042	210,123	-	-	2,529,616	2,529,616	2,739,739	2,740,825
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	3,310,819	3,310,819	3,310,819	3,310,848
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	298,755	298,755	298,755	298,755
Derivative financial liabilities (Note 8)	-	6,965	-	6,965	-	-	-	-	6,965	6,965
	-	6,965	-	6,965	-	-	3,609,574	3,609,574	3,616,539	3,616,568

33. 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 (2015: no transfer in either directions).

34. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following material 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.

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, Credit Policy Committee ("CPC") and Management Risk Management Committee ("MRMC"). These committees are supervised by the Senior Management Committee.

The functions of the Credit Committee are as follows:

• *Ensuring prudent underwriting standards that are consistent with the Bank's risk appetite and lending direction*

The Credit Committee ensures 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 periodically to reflect the dynamic changes in the industry and economic environment.

• *Deliberation of lending propositions and credit related requests*

Each credit facility to be extended to clients is subject to independent credit assessment by the Bank's Credit Evaluation Department, which would then be supported by the Credit Committee prior to escalation to the approving authority for approval. Where necessary, mitigation measures such as collateral and covenants setting, are imposed to protect the Bank's interest.

The functions of the CPC are as follows:

• *Reviewing and deliberation of credit policies, guidelines, procedures and manuals*

The CPC is tasked to review and deliberate the revisions of the credit policies and sets the lending 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.

34. Financial risk management *(continued)*

(b) Credit risk *(continued)*

• Reviewing and deliberation of the variation requests related to the Bank's standard legal documents for lending business

As part of the initiatives of further enhancing the credit process of the Bank, the CPC is identified as a platform to collectively deliberate and making decision on the variation requests related to the Bank's standard legal documents. Prior to the tabling of such request to the CPC, the variation requests are to be routed directly to the functional department for independent assessment.

The functions of the MRMC are as follows:

• Reviewing the Bank's credit risk management profile

Ongoing risk assessment and 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.

• Reviewing the 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 imposed are within the Bank's approved risk appetite set.

• Ensure effective credit risk management is in place

The MRMC ensures an effective credit risk management process that takes into account the risk profiles, size and complexity of the Bank. 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.

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 according 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 bands 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.

34. 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

2016	**Loans, Advances and Financing to Customers RM'000**	**Loans, Advances and Financing to Banks* RM'000**	**Investment Securities RM'000**
Carrying amount	2,620,187	1,242,503	169,946
Assets at amortised cost			
Individually impaired	2,080	-	-
Allowance for impairment	(2,080)	-	-
	-	-	-
Past due but not impaired			
Carrying amount	201	-	-
Past due comprises			
- Less than one month	169	-	-
- Between one to two months	22	-	-
- Between two to three months	10	-	-
	201	-	-
Neither past due nor impaired			
- Pass	2,633,952	1,242,503	169,946
Collective allowance for impairment	(13,966)	-	-
Carrying amount - amortised cost	2,620,187	1,242,503	169,946
Available-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	169,946
Carrying amount - fair value	-	-	169,946

In addition to the above, the Bank had entered into lending commitments of RM896.58 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM1.14 billion.

* 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 loan origination.

34. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Exposure to credit risk (continued)

2015	**Loans, Advances and Financing to Customers RM'000**	**Loans, Advances and Financing to Banks* RM'000**	**Investment Securities RM'000**
Carrying amount	2,528,388	1,300,137	202,568
Assets at amortised cost			
Individually impaired	2,080	-	-
Allowance for impairment	(2,080)	-	-
	-	-	-
Past due but not impaired			
Carrying amount	104	-	-
Past due comprises			
- Less than one month	86	-	-
- Between one to two months	15	-	-
- Between two to three months	3	-	-
	104	-	-
Neither past due nor impaired			
- Pass	2,545,671	1,300,137	202,568
Collective allowance for impairment	(17,387)	-	-
Carrying amount - amortised cost	2,528,388	1,300,137	202,568
Available-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	202,568
Carrying amount - fair value	-	-	202,568

In addition to the above, the Bank had entered into lending commitments 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 loan origination.

34. 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:

	2016 Loans, Advances and Financing to Banks* RM'000	2015 Loans, Advances and Financing to Banks* RM'000
Carrying amount	1,242,503	1,300,137
Concentration of credit risk based on sector		
Financial services	887,490	784,824
Government and central bank	355,013	515,313
	1,242,503	1,300,137
Concentration of credit risk based on geographical location		
Malaysia	963,705	963,495
East Asia	203,429	65,640
South East Asia	65,277	45,828
United States of America	5,617	220,820
Europe	3,523	1,988
Oceania	952	2,366
	1,242,503	1,300,137

* 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 Notes 7 (iv) and 7 (vi) to the financial statements.

	2016 Investment Securities RM'000	2015 Investment Securities RM'000
Carrying amount	169,946	202,568
Concentration of credit risk based on sector		
Financial services	-	127,042
Government and central bank	169,946	70,553
Others	-	4,973
	169,946	202,568
Concentration of credit risk based on geographical location		
Malaysia	169,946	75,526
China	-	127,042
	169,946	202,568

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

34. 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 repayment from 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 regulatory requirement; and practices and limits set by 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:

	2016				
	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	961,140	1,664,636	152,150	16,858	2,794,784
Deposits and placements of banks and other financial institutions	41,235	142,614	79,188	-	263,037
Derivative financial liabilities	-	2,247	-	-	2,247
Other liabilities	61,749	-	-	-	61,749
	1,064,124	1,809,497	231,338	16,858	3,121,817

	2015				
	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	1,269,189	1,203,038	843,098	12,333	3,327,658
Deposits and placements of banks and other financial institutions	177,060	76,528	48,424	-	302,012
Derivative financial liabilities	-	3,844	3,121	-	6,965
Other liabilities	34,548	-	-	-	34,548
	1,480,797	1,283,410	894,643	12,333	3,671,183

34. 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:

	2016		
	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			
- Currency forwards and spots	130,294	2,271	2,247
- Currency Swaps	23,046	258	-
	153,340	2,529	2,247

	2015		
	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			
- Currency forwards and spots	580,512	7,166	6,961
- Currency Swaps	173,550	389	4
	754,062	7,555	6,965

(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.

34. 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 currencies 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
2016					
ASSETS					
Cash and short-term funds	501,806	373,015	70,351	9,284	954,456
Deposits and placements with banks and other financial institutions	260,000	-	19,370	8,677	288,047
Financial investments available-for-sale	169,946	-	-	-	169,946
Loans, advances and financing	1,064,895	1,488,457	66,835	-	2,620,187
Derivative financial assets	1	26	242	2,260	2,529
Other assets	7,123	125	30	-	7,278
Statutory deposits with Bank Negara Malaysia	10,580	-	-	-	10,580
Plant and equipment	4,523	-	-	-	4,523
Intangible asset	304	-	-	-	304
Deferred tax assets	5,835	-	-	-	5,835
TOTAL ASSETS	2,025,013	1,861,623	156,828	20,221	4,063,685
LIABILITIES					
Deposits from customers	821,060	1,801,610	135,271	24,257	2,782,198
Deposits and placements of banks and other financial institutions	228,957	734	26,947	2	256,640
Derivative financial liabilities	118	-	2,129	-	2,247
Other liabilities	35,362	27,345	7,176	5	69,888
Provision for taxation	3,080	-	-	-	3,080
TOTAL LIABILITIES	1,088,577	1,829,689	171,523	24,264	3,114,053

34. Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk (continued)

	Malaysia Ringgit RM'000	United States Dollars RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
2015					
ASSETS					
Cash and short-term funds	521,216	672,630	84,663	19,314	1,297,823
Deposits and placements with banks and other financial institutions	-	-	2,314	-	2,314
Financial investments available-for-sale	75,526	-	127,042	-	202,568
Loans, advances and financing	900,615	1,548,023	79,750	-	2,528,388
Derivative financial assets	191	7,098	71	195	7,555
Other assets	4,141	125	418	-	4,684
Statutory deposits with Bank Negara Malaysia	22,460	-	-	-	22,460
Plant and equipment	3,875	-	-	-	3,875
Intangible asset	824	-	-	-	824
Deferred tax assets	4,058	-	-	-	4,058
TOTAL ASSETS	1,532,906	2,227,876	294,258	19,509	4,074,549
LIABILITIES					
Deposits from customers	962,758	2,129,675	171,314	47,101	3,310,848
Deposits and placements of banks and other financial institutions	118,173	17,174	163,406	2	298,755
Derivative financial liabilities	2,270	173	4,518	4	6,965
Other liabilities	30,476	9,755	1,374	11	41,616
Provision for taxation	2,824	-	-	-	2,824
TOTAL LIABILITIES	1,116,501	2,156,777	340,612	47,118	3,661,008

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34. 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 summarise the Bank's exposure to interest rate risk at the respective balance sheet dates and the periods in which they reprice or mature, whichever is earlier.

	Non-trading book							
2016	**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**
Assets								
Cash and short-term funds	940,417	-	-	-	-	14,039	-	954,456
Deposits and placements with banks and other financial institutions	-	88,047	200,000	-	-	-	-	288,047
Financial investments available-for-sale	-	50,045	-	119,901	-	-	-	169,946
Loans, advances and financing:								
- performing	1,052,347	1,001,889	560,863	2,425	2,663	-	-	2,620,187
Other assets ^	-	-	-	-	-	31,049	-	31,049
Total assets	1,992,764	1,139,981	760,863	122,326	2,663	45,088	-	4,063,685
Liabilities								
Deposits from customers	1,255,684	1,359,469	145,021	-	-	22,024	-	2,782,198
Deposits and placements of banks and other financial institutions	83,125	97,000	76,515	-	-	-	-	256,640
Other liabilities	-	-	-	-	-	75,215	-	75,215
Total liabilities	1,338,809	1,456,469	221,536	-	-	97,239	-	3,114,053
Equity	-	-	-	-	-	949,632	-	949,632
Total liabilities and equity	1,338,809	1,456,469	221,536	-	-	1,046,871	-	4,063,685
On-balance sheet interest sensitivity gap	653,955	(316,488)	539,327	122,326	2,663	(1,001,783)	-	
Total interest sensitivity gap	653,955	(316,488)	539,327	122,326	2,663	(1,001,783)	-	

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

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34. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

2015	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
Assets								
Cash and short-term funds	1,280,259	-	-	-	-	17,564	-	1,297,823
Deposits and placements with banks and other financial institutions	-	2,314	-	-	-	-	-	2,314
Financial investments available-for-sale	-	-	127,042	75,526	-	-	-	202,568
Loans, advances and financing:								
- performing	1,805,192	680,672	38,927	1,592	2,005	-	-	2,528,388
Other assets ^	-	-	-	-	-	43,456	-	43,456
Total assets	3,085,451	682,986	165,969	77,118	2,005	61,020	-	4,074,549
Liabilities								
Deposits from customers	1,046,813	552,439	831,719	852,184	-	27,693	-	3,310,848
Deposits and placements of banks and other financial institutions	215,862	36,290	46,603	-	-	-	-	298,755
Other liabilities	-	-	-	-	-	51,405	-	51,405
Total liabilities	1,262,675	588,729	878,322	852,184	-	79,098	-	3,661,008
Equity	-	-	-	-	-	413,541	-	413,541
Total liabilities and equity	1,262,675	588,729	878,322	852,184	-	492,639	-	4,074,549
On-balance sheet interest sensitivity gap	1,822,776	94,257	(712,353)	(775,066)	2,005	(431,619)	-	
Total interest sensitivity gap	1,822,776	94,257	(712,353)	(775,066)	2,005	(431,619)	-	

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

34. 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 2016	13,637	(13,637)
At 31 December 2015	18,063	(18,063)

**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 2016	(4,771)	4,771
At 31 December 2015	(2,007)	2,007

**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.

Every department is responsible for understanding the operational risks inherit in its material products, activities, processes and systems. They are responsible for the management of operational risk on a day-to-day basis. 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

35. 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 and III frameworks 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 Directors 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.