# Industrial and Commercial Bank of China (Malaysia) Berhad

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

## Directors' Report and Financial Statements
## 31 December 2018

**DIRECTORS' REPORT**
**For the year ended 31 December 2018**

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

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

## RESULTS

| | **RM'000** |
|---|---|
| Profit before taxation | 95,649 |
| Tax expense | (16,831) |
| **Profit for the year** | 78,818 |

## 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:

Mr Chang Zhenwang
Mr Wang Qiang
YBhg Dato' Leong Khee Seong
Mr Ong Ah Tin @ Ong Chee Kwee
Mr Chin Chee Kong
Mr Ng Lip Yong (Appointed on 7 February 2019)
Ms Sum Leng Kuang (Appointed on 15 April 2019)

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

In accordance with Clause 85 of the Bank's Constitution, Mr Ng Lip Yong and Ms Sum Leng Kuang retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

(Company No. 839839 M)
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**PROFILE OF DIRECTORS**

**Mr Chang Zhenwang**

Age 57. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors ("the Board"). Appointed to the Board on 28 October 2016. Holds Master Degrees 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 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.

**Mr Wang Qiang**

Age 49. Chinese. Chief Executive Officer/Managing Director ("CEO/MD"). Appointed to the Board on 22 November 2017. Holds a Master Degree in Business Administration (International) from The University of Hong Kong and a Bachelor Degree in Investment Management from Central University of Finance and Economics.

Mr Wang Qiang has more than 25 years of experience in banking industry, involving in among others, corporate banking, equipment leasing, credit assessment, risk management, mergers and acquisitions. He has held various senior positions within ICBC Group and was formerly the Executive Director of ICBC Turkey Bank A.S. before assuming the position as CEO/MD of ICBC Malaysia.

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

**YBhg Dato' Leong Khee Seong**

Age 80. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. 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).

**PROFILE OF DIRECTORS *(continued)***

**YBhg Dato' Leong Khee Seong *(continued)***

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 Nomination and Remuneration Committee as well as a member of the Board Risk Management Committee of the Bank.

**Mr Ong Ah Tin @ Ong Chee Kwee**

Age 69. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Holds a Bachelor of Arts Degree in Economics from the University of Malaya and a 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 a member of the Audit Committee and Nomination and Remuneration Committee of the Bank.

**Mr Chin Chee Kong**

Age 62. Malaysian. Independent Non-Executive Director. Appointed to the Board on 10 August 2017. He is a Chartered Accountant and a Certified Public Accountant, being a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA) respectively.

Mr Chin Chee Kong has 35 years of experience in providing audit, taxation and corporate advisory services (including corporate finance and corporate restructuring) to clients in a wide range of industries. He started his career as an audit junior with Peat Marwick Mitchell & Co (now known as KPMG PLT) in 1979 and had held various positions before being promoted as a Partner of KPMG Malaysia in 1990. He was later appointed as Partner-in-Charge of KPMG East Malaysia in 2007 and a member of the Executive Council of KPMG Malaysia in 2011 until his retirement from the Firm on 1 January 2014. Mr Chin currently sits on the Board of Naim Holdings Berhad and Perdana Petroleum Berhad as a Non-Independent Non-Executive Director.

Mr Chin Chee Kong has no conflict of interest with the Bank and has no family relationship with any other Director. He is a member of the Audit Committee, Board Risk Management Committee as well as Nomination and Remuneration Committee of the Bank.

**PROFILE OF DIRECTORS *(continued)***

**Mr Ng Lip Yong**

Age 69. Malaysian. Independent Non-Executive Director. Appointed to the Board on 7 February 2019. Holds a Bachelor of Engineering (Hons) in Electronic Engineering from University of Sheffield and Master of Science in Microwave and Communications Engineering from University of Leeds, UK.

Mr Ng Lip Yong has broad experiences through various positions/advisory roles held in the government agencies and corporate companies. He joined Standard Telephone & Cables Ltd in England as an engineer in 1975. He subsequently held various technical and management positions in several established companies, which included engineer in Telecommunications Authority of Singapore and Resident Manager of GTE International Incorporated, USA (Malaysia Representative Office). Mr Ng Lip Yong also has extensive experiences in managing and overseeing business operations of various companies, including Hai-O Marketing Sdn Bhd (Managing Director), Hai-O Energy Sdn Bhd (Managing Director) and Hiap Teck Venture Berhad ("Hiap Teck") (Business Advisor). Mr Ng Lip Yong retired as the Business Advisor of Hiap Teck in 2011.

Mr Ng Lip Yong previously served the Malaysian Government as the Deputy Minister of Ministry of International Trade & Industry Malaysia (MITI), Chairman of Malaysian Logistic Council, Parliamentary Secretary of Ministry of Plantation Industries & Commodities Malaysia and Member of Parliament for Batu Constituency, Kuala Lumpur. Mr Ng Lip Yong is currently the Honourary Advisor of Malaysia-China Chamber of Commerce (2009 - present).

Mr Ng Lip Yong has no conflict of interest with the Bank and has no family relationship with any other Director.

**Ms Sum Leng Kuang**

Age 65. Malaysian. Independent Non-Executive Director. Appointed to the Board on 15 April 2019. Holds a Bachelor of Commerce Degree in Finance from University of Canterbury, New Zealand. She is also a Certified Financial Planner.

Ms Sum Leng Kuang has over 30 years of experience in fund investment and management with vast exposures in credit and market risk management. She has worked loyally with Great Eastern Group for 31 years from 1982 to 2013. As the Head of Fixed Income Investment in Great Eastern Life Assurance (Malaysia) Berhad, Ms Sum Leng Kuang was responsible for the management of approximately RM40.0 billion fixed income funds as well as credit risk management of the credit investment portfolios. In 2013, Ms Sum Leng Kuang joined Hong Leong Asset Management Berhad ("HLAM") as Chief Investment Officer cum Acting Chief Executive Officer to drive and oversee the fund management business of HLAM. Ms Sum Leng Kuang was appointed by Credit Guarantee Corporation Malaysia Berhad as Investment Advisor following her retirement from HLAM in 2014. Currently, Ms Sum Leng Kuang also serves on the boards of Pacific & Orient Insurance Co. Berhad, AmFunds Management Berhad and AmIslamic Funds Management Sdn Bhd.

Ms Sum Leng Kuang has no conflict of interest with the Bank and has no family relationship with any other Director.

**DIRECTORS' INTEREST**

None of the Directors holding office at 31 December 2018 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 as shown in Note 32(c) to the financial statements) by reason of a contract made by the Bank with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

**ISSUE OF SHARES AND DEBENTURES**

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

**OPTIONS GRANTED OVER UNISSUED SHARES**

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

**BANK RATINGS**

The Bank has not been rated by any external agencies.

**HOLDING CORPORATION**

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

**INDEMNITY AND INSURANCE COSTS**

During the financial year, the Bank has put in place a Directors and Officers Insurance scheme with a maximum sum insured and premium paid of RM10.00 million and RM29.27 thousand respectively for Directors and Officers of the Bank.

**FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR**

The Bank registered profit before tax (“PBT”) of RM95.65 million for the financial year 2018, representing a decrease of RM8.34 million or 8.0% from the previous year. Net interest income which contributed 67.9% to the Bank’s total operating income rose 5.3% or RM6.19 million to RM123.53 million in 2018 as a result of growth in interest-bearing assets and higher net interest margin earned when compared to the financial year 2017. Net fee income contributed 14.1% of the Bank’s total operating income rising 8.3% or RM2.0 million to RM25.66 million in 2018. However, net trading income substantially decreased by RM22.46 million or 40.8% to RM32.55 million in 2018 mainly due to lower volume of foreign exchange transactions.

Allowance for impairment on loans, advances and financing decreased by RM9.50 million in 2018 due to negative loan growth during the year 2018. Besides, the Bank implemented Malaysian Financial Reporting Standard 9 (“MFRS 9”) from 1 January 2018, adopting the new Expected Credit Loss (“ECL”) model also impacted the allowance for impairment losses on financial assets. The Bank’s other operating expenses increased by RM3.07 million or 3.9% to RM80.93 million largely attributable to higher personnel costs and higher administration costs.

Overall, the Bank’s Total Assets stood at RM4.83 billion, decreasing by RM36.51 million or 0.8% when compared to year 2017. Gross loans, advances and financing registered a negative growth of RM177.34 million or 5.5% as at 31 December 2018 to RM3.04 billion as compared to the RM3.21 billion recorded as at 31 December 2017. However, financial investments grew by RM302.54 million or 74.8% during the financial year.

As at 31 December 2018, the Bank’s total liabilities decreased by RM116.80 million or 3.0% and stood at RM3.72 billion. The reduction was mainly contributed by lower growth in deposits from customers, reducing by RM336.96 million or 11.9% when compared to 31 December 2017.

In 2019, the Bank will improve on and strengthen its core business, growing both loans as well as deposits, its main corporate and retail products with a view to sustaining business and enhancing profitability for the foreseeable future.

**OUTLOOK FOR 2019**

In view of softening global trade and investment, the World Bank and International Monetary Fund forecasted the global growth to be moderated at 2.9% and 3.5% respectively in 2019 (3.1% and 3.7% respectively in 2018). The global expansion is decelerating as the recovery in trade and manufacturing activities has weakened. The on-going trade tensions among the major economies have worsened the business sentiment across advanced economies, emerging markets and developing economies (“EMDEs”). On the upside, a resolution of trade tensions among the major economies would improve the market and business sentiment and could revitalize the global trade and investment. On the downside, any further negative spillovers arising from escalation of trade tensions will further worsen growth prospects of the global economy. Under such circumstances, measures to boost potential output growth, enhance inclusiveness, strengthen fiscal and financial buffers in an environment of high debt burdens and tighter financial conditions are imperatives for advanced economies and EMDEs.

**OUTLOOK FOR 2019 *(continued)***

As a trade-oriented nation, Malaysia has fairly diversified its economy with service sector accounting for 55.5% and manufacturing sector contributing 23% of the nation's GDP in 2018. Notwithstanding the impacts of supply-side shocks and teething period of a new Government, Malaysia's GDP grew 4.7% for the full year of 2018 (2016: 4.2% and 2017: 5.9%), supported by continued expansion in services and manufacturing sectors. In year 2019, Malaysia economy is expected to continue to expand at a steady pace. Private sector demand is expected to remain the main driver of growth amid fiscal rationalisation while the external sector would be weighed down by weaker global demand. While the external factors, such as pace of recovery in the major export markets, the sustainability of the commodity prices, movement of exchange rates and capital flows, would remain as the key factors in driving the growth momentum of Malaysia, the measures to be taken domestically are crucial in capitalizing the growth prospects as well. Among the essential domestic measures are prioritising the implementation of the strategic initiatives under the new government policies 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.

On another note, the banking system in Malaysia remains sound as evidenced by its healthy asset quality and strong capitalization. Stiffer competitions for acquiring customer deposits and quality lending deals are, however, expected to put pressure on the banking system's net interest margin. Additionally, given the expectation of slower loan growth and a potential increase in credit costs, banks' earnings are projected to soften this year.

The Bank will remain prudent and focused on its long term strategic objectives with the aim of playing a greater role in providing banking service solutions that suit clients' evolving needs and promoting cross border trade and investment activities by capitalizing on the ICBC Group's established business network and service channels globally. Notwithstanding the challenging operating environment, the Bank will continue to uphold its commitment to grow profitability of the Bank and manage the balance sheet in a sustainable manner.

## CORPORATE GOVERNANCE STATEMENT

The Board of the Bank recognises the importance of maintaining high standard of corporate governance to ensure long-term sustainability of the Bank's business growth. The Board has endeavored to adopt the best practices of corporate governance in all areas of the Bank's business towards enhancing its business prosperity and corporate accountability with the ultimate objective of safeguarding the interests of all stakeholders and enhancing shareholder's value.

The Bank's approach to corporate governance practices is in conformity with Bank Negara Malaysia's Policy Document on Corporate Governance ("BNM CG Policy") and other relevant best practices of corporate governance.

## BOARD OF DIRECTORS

### (a) Size and Composition of the Board

The Board of the Bank is currently represented by seven (7) Members, comprising the Non-Independent Non-Executive Chairman, the Managing Director and five (5) Independent Non-Executive Directors. The Board is constituted of individuals of high caliber with relevant experience and skills. A brief profile of each member of the Board is presented on pages 2 to 4 of the Directors' reports.

The current Independent Directors of the Bank account for 71% of the Board, which is in compliance with the requirement of having a majority of Independent Directors on the Board at all times as set out in BNM CG Policy. The presence of the Independent Directors ensures an effective check and balance on the functioning of the Board. The 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 of any conflict of interest to undertake their roles and responsibilities as Independent Directors effectively.

The Board through the Nomination and Remuneration Committee ("NRC") assesses the Independent Directors' independence annually. In the annual assessment of the Independent Directors of the Bank in respect of financial year 2018, the Board was satisfied that each of the Independent Directors of the Bank continues to be independent and free from any business or other relationship, which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank. All the Independent Directors also continue to fulfill the criteria and definition of 'Independent Director' as stipulated in the BNM CG Policy.

### (b) Duties and Responsibilities of the Board

The Board takes full responsibility for the oversight and overall performance of the Bank and provides leadership, championing good governance and ethical practices throughout the Bank. The Board carries out its role within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed. 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 Constitution of the Bank and shareholder's mandate which is renewed on a yearly basis. The duties and responsibilities of the Board include but not limited to the following:

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD OF DIRECTORS *(continued)***

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

(i) Business Strategy, Direction and Operation

The Board assumes an active role and takes full responsibility for formulation of key strategies, business plans, financial objectives, risk appetites, policies 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 of the Bank, namely Board Risk Management Committee ("BRMC"), Audit Committee ("AC") and Nomination Remuneration Committee ("NRC") of the Bank.

The Chief Executive Officer/Managing Director ("CEO/MD") 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 driving the Bank's businesses and performance towards achieving the Bank's vision and goals.

(ii) Risk Management

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

In ensuring the 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 by supporting the Board in ensuring the Bank is adequately capitalised to support risks undertaken and to comply with regulatory requirements. Risk management reports, key risks and internal control issues are regularly presented to the Board for attention and deliberation.

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

Talent development and succession planning are key areas that the Board focus on in order to achieve a high performance workforce which contributes to the Bank's sustainability and competitiveness. The NRC has been entrusted by the Board to provide high level oversight and direction on human resource development.

(iv) Internal Control

The Board is responsible for ensuring the adequacy and integrity of the Bank's internal control systems. With the supports of the AC, Legal and Compliance, Risk Management and Internal Audit Departments, the Board ensures that there is a process for reviewing the adequacy and effectiveness of the Bank's internal control systems.

The Board has also adopted a charter which sets out among others, the mandate, roles and responsibilities, and key corporate governance practices/procedures of the Board and Board Committees. The Board Charter will be reviewed as and when deemed appropriate to ensure that it is up to date and consistent with the Board's objectives and responsibilities as well as relevant applicable regulatory and statutory requirements. The Board Charter is available on the Bank's corporate website (www.icbcmy.com) for reference. Other than the Board Charter, the Board has also established a Terms of Reference ("TOR") which serves as a guidance to the Board in discharging its duties effectively.

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD OF DIRECTORS *(continued)***

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

The Bank has a Code of Ethics for Directors that sets out the standards required to be observed by the Directors in order to promote and maintain the highest ethical standards at all times. The Code of Ethics for Directors will be revised as and when deemed appropriate so as to maintain its relevancy in line with the business operations of the Bank and the relevant regulatory requirements.

**Meetings and Supply of Information to the Board**

The Board meets at least five (5) times a year to review the business progress and financial performance of the Bank, approves corporate strategies, business plan, annual budget and other matters/proposals that require the Board's direction/decision. Additional meetings, when required, will be held to deliberate on any urgent proposals or matters. Board meetings are scheduled in advance before the commencement of each financial year so as to enable the Directors to plan ahead and accommodate the meetings into their schedule.

At each Board meeting, the Board is, among others, informed of decisions, salient issues and views raised at the Board Committee meetings by the Chairmen of the respective Committees. Minutes of the respective Board Committee meetings are also tabled for the Board's information. All Board meetings' proceedings are properly recorded and the minutes thereof are tabled at the next meeting for confirmation of the Board.

The Chairman of the Bank manages the affairs of the Board with the objective to ensure smooth and effective functioning of the Board in performing its duties and responsibilities. The Chairman ensures all Members of the Board have been given 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 meetings. There is always an avenue for Non-Executive Directors to seek clarifications or obtain details concerning the proposal papers/reports from the Management or the Company Secretary. The Non-Executive Directors may seek independent professional advice, at the Bank's expense, should the need arise in discharging 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 depending on the urgency of the matters, decision of the Board may be taken by way of Directors' Circular Resolution in accordance with the Constitution of the Bank.

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

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD OF DIRECTORS *(continued)***

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

All Directors holding office during the financial year ended 31 December 2018 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 CG Policy and internal policy of the Bank, as reflected below:

| Directors | Number of Board Meeting Attended | Percentage of Attendance (%) |
|---|---|---|
| Chang Zhenwang (Chairman)<br>Non-Independent Non-Executive Director | 4/5 | 80 |
| Wang Qiang<br>Managing Director | 5/5 | 100 |
| Dato' Leong Khee Seong<br>Independent Non-Executive Director | 5/5 | 100 |
| Ong Ah Tin @ Ong Chee Kwee<br>Independent Non-Executive Director | 5/5 | 100 |
| Chin Chee Kong<br>Independent Non-Executive Director | 5/5 | 100 |

**Training and Development of Directors**

The Bank has put in place a Directors' Induction Programme for newly appointed Directors to assist them to familiarise with the industry as well as the business operations of the Bank. Mr Ng Lip Yong who was appointed as Independent Director of the Bank on 7 February 2019 had attended the Induction Programme organised by the Bank, which covered an overview of the corporate strategies, business operations, financial performance, business risks and risk management strategies of the Bank as well as the regulatory requirements of banking industry.

The Directors are also provided with opportunities to participate in relevant training programmes on an ongoing basis in areas relating to the banking and financial industry to keep themselves abreast with the latest developments in the marketplace. This includes the Financial Institutions Directors' Education (FIDE) Core Programme which promotes high-impact Boards by strengthening Board competencies in dealing with corporate governance, risk management and strategic issues faced by the financial services industry.

The training programmes, conferences and forums attended by the Directors of the Bank during the financial year 2018, were as follows:

- FIDE Core Programme
- In-house: Corporate Rescue Mechanism Training
- In-house: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) Training
- KPMG : MFRS 16
- KPMG : Tax Seminar

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD OF DIRECTORS *(continued)***

**Appointment and Re-election of Directors**

(a) Appointment/Re-Appointment of Directors

The Bank has in place a Governance Policy on Nomination and Appointment of Directors and Succession Planning ("Governance Policy"), which sets out a clear and transparent nomination process of Directors as well as the minimum criteria and qualification required of a candidate for appointment as Director of the Bank. The primary goal of the nomination process is to nominate individuals, who, as a group, offer a range of specialised knowledge, skills and expertise that can best contribute to enhancing the Board, and therefore organisational success under existing and future circumstances. The said policy is also aimed at setting out a systematic approach to orderly identify and select new Directors in the event of an opening on the Board of the Bank, whether such opening exists by reason of a planned retirement, an unplanned departure, expansion of the size of the Board or otherwise, so as to ensure proper succession planning and smooth functioning of the Board.

Pursuant to the provisions of the Financial Services Act 2013 and BNM CG Policy, the appointment of a new Director is subject to the prior approval of BNM and will be for a specified term of appointment. The NRC is responsible to undertake a thorough assessment on the proposed candidate by taking into account the criteria/requirements as stated in the Governance Policy, Fit and Proper Policy of the Bank and/or imposed by relevant regulatory authorities before recommending an appointment proposal to the Board for approval.

In the case of Independent Directors, prior to recommending to the Board for consideration, interview session(s) will also be held by NRC to assess the suitability of the candidate to be appointed on the Board, during which the NRC will take into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired composition and the mix of expertise and experience of the Board as a whole.

For the re-appointment of existing Directors, the NRC 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 NRC 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 Constitution of the Bank states that newly appointed Directors shall hold office only until the next annual general meeting ("AGM") and then be eligible for re-election. Further, one-third of the Directors for the time being or the number nearest to one-third shall retire by rotation from office and shall be eligible for re-election at each AGM.

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD OF DIRECTORS *(continued)***

**Tenure of Independent Directors**

As stated in the Board Charter of the Bank, the tenure of office for an Independent Director should not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years, an Independent Director may continue to serve on the Board if the Board has approved his/her re-appointment with recommendation from the NRC, after the assessment that the services of the Independent Director are still required by the Bank and that the Director concerned remains free of any business or other relationship with the Bank which could reasonably be perceived to materially interfere with his/her exercise of unfettered and independent judgement. Any re-appointment of Independent Director of this nature is subject to the approval of BNM.

**Board Performance Evaluation**

The Bank undertakes the Board Performance Evaluation exercise on the Board and Board Committees to assess their effectiveness and that of individual Directors on a yearly basis. Implemented in 2011, the Board Performance Evaluation is designed to identify the strengths and weaknesses so as to further improve the Board's overall effectiveness. It is also forms part of the NRC'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 NRC and the Board for review. All Directors will have access to the final evaluation report for information and improvement.

The Bank has rolled-out the assessment questionnaire for financial year 2018 to its Directors and the assessment results thereof will be compiled for presentation to NRC and the Board for review subsequently.

**BOARD COMMITEES ESTABLISHED BY THE BOARD**

The Board has established AC, BRMC and NRC to complement the Board in the execution of its roles and responsibilities. Each Board Committee operates within its TOR, which clearly define its functions and authorities. The aforesaid TORs are reviewed from time to time to ensure that they remain relevant and are up-to-date.

**Audit Committee**

The AC currently comprises entirely Independent Non-Executive Directors ("INEDs"). The objective of the AC is primarily to assist the Board in providing independent oversight on the Bank's financial reporting, internal control systems, risk management functions and governance processes.

The AC 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 final approval. The AC also reviews the internal audit reports submitted by Internal Audit Department ("IAD") for assessing the adequacy and effectiveness of the Bank's internal control systems.

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD COMMITEES ESTABLISHED BY THE BOARD *(continued)***

**Audit Committee *(continued)***

The AC 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 the regulatory requirements. Having reviewed and satisfied with their performance, the AC will recommend the re-appointment of the external auditors to the Board, upon which the shareholder's approval will be sought at the AGM. The AC meets twice a year with the external auditors, without the presence of the Management of the Bank to discuss key issues and/or areas, if any, that require the attention of the AC and the Board.

The attendance of Members at the AC Meetings held in 2018 is reflected below:

| **Members of AC** | **Number of AC Meeting Attended** | **Percentage of Attendance (%)** |
|---|---|---|
| Dato' Leong Khee Seong (Chairman)<br>Independent Non-Executive Director | 7/7 | 100 |
| Ong Ah Tin @ Ong Chee Kwee<br>Independent Non-Executive Director | 7/7 | 100 |
| Chin Chee Kong<br>Independent Non-Executive Director | 7/7 | 100 |

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

- to review the comprehensiveness and robustness of the Bank's compliance function, internal controls and risk management framework;
- to periodically meet with BRMC to maintain effective exchange of information so as to ensure effective coverage of all risks, including emerging risk issues that could have an impact on the Bank's risk appetite and business plans;
- to review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements;
- to oversee the functions of IAD and approve its audit scope, procedures and frequency;
- to review the audit reports and ensure that Senior Management takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other issues identified by IAD and other control functions;
- to appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor;
- to review and discuss with the external auditors and Management on the fairness of presentation and transparent reporting of the financial statements, conformity with appropriate accounting standards and timely publication of the financial statements;

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD COMMITEES ESTABLISHED BY THE BOARD *(continued)***

**Audit Committee *(continued)***

- to maintain regular, timely, open and honest communication with the external auditors and requiring the external auditors to report to AC in confidence on significant matters;

- to make recommendations to the Board on the appointment, re-appointment and removal as well as the remuneration of the external auditors;

- to monitor and assess the independence of the external auditors including by approving the provision of non-audit services by the external auditors;

- to review related party transactions and keep the Board informed of such transactions;

- to evaluate and overseeing periodic review of the effectiveness of the Whistleblowing Policy; 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 that the measures are in line with the latest developments and changes of the relevant AML/CFT requirements.

Internal Audit Function

The internal audit function is undertaken by the IAD who reports functionally to the AC. The IAD's 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.

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.

Annually, IAD performs a detailed risk assessment of all departments, establishments and functions of the Bank, taking into account of the applicable material risks. Based on the results of the risk assessment, IAD then develops a detailed audit plan which outlines the scope of IAD's activities for the year. The annual audit plan is approved by the AC before being carried out.

During the financial year, 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 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.

The detailed duties and responsibilities are set out in the TOR which is published in the Bank's corporate website.

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD COMMITEES ESTABLISHED BY THE BOARD *(continued)***

**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 currently comprises entirely INEDs. The attendance of Members at the BRMC Meetings held in 2018 is reflected below:

| Members of BRMC | Number of BRMC Meeting Attended | Percentage of Attendance (%) |
|---|---|---|
| Ong Ah Tin @ Ong Chee Kwee (Chairman)<br>Independent Non-Executive Director | 5/5 | 100 |
| Dato' Leong Khee Seong<br>Independent Non-Executive Director | 5/5 | 100 |
| Chin Chee Kong<br>Independent Non-Executive Director | 5/5 | 100 |

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

- to review and recommend the 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;

- for risk strategies and policies that are driven by the parent bank, BRMC is 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;

- 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;

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD COMMITEES ESTABLISHED BY THE BOARD *(continued)***

**Board Risk Management Committee *(continued)***

- to review and approve the Bank's overall stress testing methodology, which should be forward looking with defined scenario(s) covering 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);

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

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

The detailed duties and responsibilities are set out in the TOR which is published in the Bank's corporate website.

The details pertaining to the Bank's financial risk management framework are set out on pages 77 to 93 of these financial statements.

**Nomination and Remuneration Committee**

The NRC is responsible to support the Board in ensuring formal, transparent and consistent procedures are established by the Bank to govern the board composition, performance assessment and development, fit and proper assessment as well as appointment and removal of directors, Board Committee Members, Senior Management and senior officers of control functions. It also provides oversight and direction on human resource policy matters.

The NRC currently comprises entirely INEDs. The attendance of Members at the NRC Meetings held in 2018 is reflected below:

| Members of NRC | Number of NRC Meeting Attended | Percentage of Attendance (%) |
|---|---|---|
| Dato' Leong Khee Seong (Chairman)<br>Independent Non-Executive Director | 5/5 | 100 |
| Ong Ah Tin @ Ong Chee Kwee<br>Independent Non-Executive Director | 5/5 | 100 |
| Chin Chee Kong<br>Independent Non-Executive Director | 5/5 | 100 |

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**BOARD COMMITEES ESTABLISHED BY THE BOARD *(continued)***

**Nomination and Remuneration Committee *(continued)***

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

- establish a documented procedure for the appointment of directors, Board Committee members, senior management and senior officers of control functions;

- establish the minimum requirements including the experience, qualification and other core competencies of a director and CEO of the Bank for recommendation to the Board for approval;

- assess and recommend the nominees for directorship, Board Committee membership and CEO of the Bank. This would include assessing directors and CEO for re-appointment upon the expiry of their respective terms of appointment as approved by BNM;

- recommend for consideration of the Board, the removal of a director or CEO or other senior management or senior officers of control functions if he/she is ineffective, errant or negligent in discharging his/her responsibilities;

- establish and recommend for approval by the Board, a mechanism to assess on an annual basis, the effectiveness of the Board and Board Committees, contribution of each director, performance of CEO, senior management and senior officers of control functions;

- assess annually the independence of independent directors and review the suitability of independent directors to remain on the board and board committees, when they have reached the maximum tenure as determined by the Board;

- ensure directors receive appropriate induction and continuous training programme(s) to keep abreast with the latest relevant developments;

- oversee the succession planning for senior management and senior officers of control functions of the Bank, as deemed appropriate;

- assess and ensure that directors and senior management are not disqualified under Section 59 of the Financial Services Act 2013 and comply with the fit and proper criteria in accordance with the Bank's Fit and Proper Policy;

- review and recommend a formal and transparent procedure for developing remuneration policy for directors, CEO, senior management and senior officers of control functions of the Bank to ensure that compensation stays competitive and consistent with the Company's business and risk strategies, corporate value and long-term interests of the Bank; and

- provide oversight and direction on human resource policy matters.

The detailed duties and responsibilities are set out in the TOR which is published in the Bank's corporate website.

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**REMUNERATION**

**Independent Non-Executive Directors**

The Board recognises the importance of setting a fair and competitive remuneration package for INEDs which commensurates with their expertise, skills, responsibilities, risks and time commitments being a Director of the Bank. In 2018, on the recommendation of the Board, the shareholder has approved the revised remuneration package for INEDs with the objective to ensure that it is aligned to the INEDs' roles and responsibilities and is sufficiently competitive to attract and retain INEDs with relevant experience and expertise required for the stewardship of the Bank. All the INEDs have abstained from the deliberation on the said proposal.

Currently, the INEDs of the Bank receive Directors' fees and meeting attendance allowances for Board/Board Committee meetings attended. The nature and amount of each major element of the remuneration of the MD and Non-Executive Directors for the financial year ended 31 December 2018 are disclosed in Note 32(c) to the financial statements.

**Remuneration Policy of the Bank**

The Bank has established a Remuneration Policy which provides a framework that can be implemented and is replicable year after year. This is to ensure all employees are compensated fairly, transparently and with a proper governance process across all levels of jobs.

The Bank's compensation approach is performance-oriented, market-aware and aligned with business strategy and stakeholders' interests. To ensure the competitiveness and effectiveness of remuneration as well as transparency and internal equity, the principles of sustainable conduct and performance define the key pillars of the remuneration policy:

(i) Maintaining market competitiveness of local market
(ii) Adopting a balanced remuneration structure that comprises both fixed and variable compensation
(iii) Ensuring a direct link between pay and performance
(iv) Adopting a remuneration practice that facilitates the transition of an employee's career progression by segmentation of job clusters and job grade
(v) Consistency with business strategy
(vi) Consistency with prudent risk management

The remuneration of the Bank is made up of the following components:
(i) Fixed Remuneration
(ii) Allowance and Benefits
(iii) Variable Remuneration

**CORPORATE GOVERNANCE STATEMENT *(continued)***

**REMUNERATION *(continued)***

**Remuneration Policy of the Bank *(continued)***

The Remuneration Policy is currently being reviewed in line with BNM CG Policy.

The fixed and variable remuneration of CEO and other Senior Management of the Bank for the financial year ended 31 December 2018 is tabulated below:

| Chief Executive Officer | Amount (RM'000) | Deferred (RM'000) |
|---|---|---|
| **Fixed Remuneration** | | |
| * Cash-based | 940 | - |
| * Others | - | - |
| **Variable Remuneration** | | |
| * Cash-based | 661 | - |
| * Others | - | - |

| Senior Management | Amount (RM'000) | Deferred (RM'000) |
|---|---|---|
| **Fixed Remuneration** | | |
| * Cash-based | 3,060 | - |
| * Others | - | - |
| **Variable Remuneration** | | |
| * Cash-based | 1,981 | - |
| * Others | - | - |

**CORPORATE GOVERNANCE STATEMENT *(continued)***

## 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 2016 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.

### Whistleblowing Policy

The Bank has put in place Whistleblowing Policy and Procedures for Whistleblowing Reporting, which provide an avenue for employees and third parties to disclose any illegal, unethical, questionable practices or improper conduct committed or about to be committed within the Bank. This policy encourages reporting of such matters in good faith, with the confidentiality of the person making such reports protected from reprisal in the best possible manner. The policy in relation to Whistleblowing Reporting by Third Party is available on the Bank's corporate website.

**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 2018 has 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 have indicated their willingness to accept re-appointment.

The auditors’ remuneration is disclosed in Note 27 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: 21 May 2019

**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 30 to 99 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 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: 21 May 2019

**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 30 to 99 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. PE1812244), in Kuala Lumpur, Malaysia on 21 May 2019

…………………………………………………………

**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 2018, 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 30 to 99.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, 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 2016 in Malaysia.

## Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our 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 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the 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.

**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: 02823/04/2021 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 21 May 2019

# Industrial and Commercial Bank of China (Malaysia) Berhad

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

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

| | Note | 2018 RM'000 | 2017 RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short-term funds | 4 | 1,017,586 | 1,062,859 |
| Deposits and placements with banks and other financial institutions | 5 | 12,467 | 150,000 |
| Financial investments measured at fair value through other comprehensive income | 6 | 589,715 | - |
| Financial investments available-for-sale | 7 | - | 372,094 |
| Financial investments measured at amortised cost | 8 | 117,269 | - |
| Financial investments held-to-maturity | 9 | - | 32,349 |
| Loans, advances and financing | 10 | 3,008,073 | 3,185,671 |
| Derivative financial assets | 11 | 8,155 | 15,939 |
| Other assets | 12 | 15,211 | 11,175 |
| Statutory deposits with Bank Negara Malaysia | 13 | 42,602 | 20,378 |
| Plant and equipment | 14 | 8,319 | 9,691 |
| Intangible asset | 15 | - | - |
| Deferred tax assets | 16 | 10,298 | 6,048 |
| **TOTAL ASSETS** | | 4,829,695 | 4,866,204 |
| **LIABILITIES** | | | |
| Deposits from customers | 17 | 2,502,567 | 2,839,525 |
| Deposits and placements of banks and other financial institutions | 18 | 1,130,042 | 906,980 |
| Derivative financial liabilities | 11 | 7,786 | 15,760 |
| Other liabilities | 19 | 71,352 | 65,132 |
| Provision for commitments and contingencies | 20 | 4,546 | - |
| Provision for taxation | | 7,376 | 13,074 |
| **TOTAL LIABILITIES** | | 3,723,669 | 3,840,471 |
| **EQUITY** | | | |
| Share capital | 21 | 832,609 | 832,609 |
| Reserves | 22 | 273,417 | 193,124 |
| **EQUITY ATTRIBUTABLE TO OWNER OF THE BANK** | | 1,106,026 | 1,025,733 |
| **TOTAL LIABILITIES AND EQUITY** | | 4,829,695 | 4,866,204 |
| **COMMITMENTS AND CONTINGENCIES** | 34 | 4,084,834 | 3,205,975 |

The notes set out on pages 36 to 99 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 2018**

| | Note | 2018 RM'000 | 2017 RM'000 |
|---|---|---|---|
| Interest income | 23 | 201,925 | 167,266 |
| Interest expense | 23 | (78,394) | (49,920) |
| Net interest income | 23 | 123,531 | 117,346 |
| Net fee income | 24 | 25,660 | 23,685 |
| Net trading income | 25 | 32,552 | 55,014 |
| Other operating income | 26 | 70 | 281 |
| Net operating income | | 181,813 | 196,326 |
| Other operating expenses | 27 | (80,925) | (77,860) |
| Operating profit | | 100,888 | 118,466 |
| Allowance for impairment on loans, advances and financing | 28 | (4,976) | (14,475) |
| Allowance for impairment on other financial assets | 29 | (263) | - |
| Profit before taxation | | 95,649 | 103,991 |
| Tax expense | 30 | (16,831) | (28,160) |
| Profit for the year | | 78,818 | 75,831 |
| Other comprehensive income, net of tax | | | |
| Items that are or may be reclassified subsequently (from)/to profit or loss | | | |
| Foreign currency translation reserve | | | |
| - Currency translation differences in respect of - foreign operations | | (548) | 253 |
| Fair value reserve | | | |
| - Changes in fair value | | 2,683 | 22 |
| - Amount transferred to profit or loss | | 93 | - |
| - Deferred tax adjustment | 16 | (829) | (5) |
| | | 1,947 | 17 |
| Total other comprehensive income for the year | | 1,399 | 270 |
| Total comprehensive income for the year | | 80,217 | 76,101 |
| Basic earnings per ordinary share (sen): | 31 | 9.47 | 9.11 |

The notes set out on pages 36 to 99 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 2018**

| | Non-distributable | | | | | Distributable | |
|---|---|---|---|---|---|---|---|
| | **Share Capital RM'000** | **Statutory Reserve RM'000** | **Foreign Currency Translation Reserve RM'000** | **Fair value Reserve RM'000** | **Regulatory Reserve RM'000** | **Retained Earnings RM'000** | **Total Equity RM'000** |
| **At 1 January 2017** | 832,609 | 57,213 | - | (573) | 17,644 | 42,739 | 949,632 |
| **Total comprehensive income for the year** | | | | | | | |
| **Other comprehensive income, net of tax** | | | | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | | | | |
| Foreign currency translation reserve | - | - | 253 | - | - | - | 253 |
| - Currency translation differences in respect of - foreign operations | | | | | | | |
| Fair value reserve | | | | | | | |
| - Changes in fair value | - | - | - | 22 | - | - | 22 |
| - Deferred tax adjustment | - | - | - | (5) | - | - | (5) |
| | - | - | - | 17 | - | - | 17 |
| Total other comprehensive income for the year | - | - | 253 | 17 | - | - | 270 |
| Profit for the year | - | - | - | - | - | 75,831 | 75,831 |
| Total comprehensive income for the year | - | - | 253 | 17 | - | 75,831 | 76,101 |
| **Contributions by and distributions to owners of the Bank** | | | | | | | |
| Issue of ordinary shares | - | - | - | - | - | - | - |
| Total transactions with owners of the Bank | - | - | - | - | - | - | - |
| Transfer to retained earnings | - | (57,213) | - | - | - | 57,213 | - |
| **At 31 December 2017** | 832,609 | - | 253 | (556) | 17,644 | 175,783 | 1,025,733 |

# 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 2018 (continued)**

| | Non-distributable | | | | | Distributable | |
|---|---|---|---|---|---|---|---|
| | Share Capital RM'000 | Statutory Reserve RM'000 | Foreign Currency Translation Reserve RM'000 | Fair value Reserve RM'000 | Regulatory Reserve RM'000 | Retained Earnings RM'000 | Total Equity RM'000 |
| **At 31 December 2017** | 832,609 | - | 253 | (556) | 17,644 | 175,783 | 1,025,733 |
| **Adjustment on initial application of MFRS 9, net of tax** | - | - | - | 601 | - | (525) | 76 |
| **At 1 January 2018, restated** | 832,609 | - | 253 | 45 | 17,644 | 175,258 | 1,025,809 |
| **Total comprehensive income for the year** | | | | | | | |
| **Other comprehensive income, net of tax** | | | | | | | |
| Items that are or may be reclassified subsequently (from)/to profit or loss | | | | | | | |
| Foreign currency translation reserve | - | - | (548) | - | - | - | (548) |
| - Currency translation differences in respect of - foreign operations | | | | | | | |
| Fair value reserve | | | | | | | |
| - Changes in fair value | - | - | - | 2,683 | - | - | 2,683 |
| - Amount transferred to profit or loss | - | - | - | 93 | - | - | 93 |
| - Deferred tax adjustment | - | - | - | (829) | - | - | (829) |
| | - | - | - | 1,947 | - | - | 1,947 |
| Total other comprehensive (expense)/income for the year | - | - | (548) | 1,947 | - | - | 1,399 |
| Profit for the year | - | - | - | - | - | 78,818 | 78,818 |
| Total comprehensive (expense)/income for the year | - | - | (548) | 1,947 | - | 78,818 | 80,217 |
| **At 31 December 2018** | 832,609 | - | (295) | 1,992 | 17,644 | 254,076 | 1,106,026 |
| | Note 21 | Note 22.1 | Note 22.2 | Note 22.3 | Note 22.4 | Note 22.5 | |

The notes set out on pages 36 to 99 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 2018**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | 95,649 | 103,991 |
| Adjustments for: | | |
| Depreciation of plant and equipment | 3,793 | 2,223 |
| Plant and equipment written off | 44 | 184 |
| Loss on disposal of plant and equipment | 1 | - |
| Amortisation of intangible asset | - | 304 |
| Allowance for impairment on loans, advances and financing | 4,976 | 14,475 |
| Allowance for impairment on other financial assets | 263 | - |
| Net unrealised (gains)/losses arising from derivative trading | (190) | 103 |
| Transfer (from)/to foreign currency translation reserve | (548) | 253 |
| Gain on disposal of financial investments available-for-sale | - | (116) |
| Accretion of discounts net of amortisation of premiums of financial investments measured at FVOCI | 398 | - |
| Accretion of discounts net of amortisation of premiums of financial investments available-for-sale | - | 213 |
| Accretion of discounts net of amortisation of premiums of financial investments measured at amortised cost | (742) | - |
| Accretion of discounts net of amortisation of premiums of financial investments held-to-maturity | - | 3 |
| Operating profit before working capital changes | 103,644 | 121,633 |
| Changes in operating assets | | |
| Deposits and placements with banks and other financial institutions | 137,534 | 138,047 |
| Loans, advances and financing | 177,291 | (579,959) |
| Other assets | (4,036) | (3,897) |
| Statutory deposits with Bank Negara Malaysia | (22,224) | (9,798) |
| Changes in operating liabilities | | |
| Deposits from customers | (336,958) | 57,327 |
| Deposits and placements of banks and other financial institutions | 223,062 | 650,340 |
| Other liabilities | 6,220 | (4,756) |
| Provision for commitments and contingencies | 2 | - |
| Cash from operations | 284,535 | 368,937 |
| Income taxes paid | (27,608) | (18,384) |
| **Net cash from operating activities** | 256,927 | 350,553 |

(Company No. 839839 M)

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)***

| | Note | 2018 RM'000 | 2017 RM'000 |
|---|---|---|---|
| **Cash flows used in investing activities** | | | |
| Purchase of plant and equipment | | (2,466) | (7,575) |
| Net purchase from financial investments measured at FVOCI | | (215,336) | - |
| Net purchase of financial investments available-for-sale | | - | (202,223) |
| Net purchase from financial investments measured at amortised cost | | (84,271) | - |
| Purchase of financial investments held-to-maturity | | - | (32,352) |
| **Net cash used in investing activities** | | (302,073) | (242,150) |
| **Net (decrease)/increase in cash and cash equivalents** | | (45,146) | 108,403 |
| **Cash and cash equivalents at beginning of the financial year** | | 1,062,859 | 954,456 |
| **Adjustment on initial application of MFRS 9** | | (22) | |
| **At 1 January 2018, restated** | | 1,062,837 | |
| | | 1,017,691 | |
| Less: Allowance for credit loss for the year | | (105) | |
| **Cash and cash equivalents at end of the financial year** | | 1,017,586 | 1,062,859 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and short-term funds | 4 | 1,017,586 | 1,062,859 |

The notes set out on pages 36 to 99 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

## 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 10, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur.

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

The financial statements were authorised for issue by the Board of Directors on 21 May 2019.

## 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 2016 in Malaysia.

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

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

MFRS 16, *Leases*
IC Interpretation 23, *Uncertainty over Income Tax Treatments*
Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
Amendments to MFRS 119, *Employee Benefits - Plan Amendment, Curtailment or Settlement*
Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in and Joint Ventures*

***Amendments effective for annual periods beginning on or after 1 January 2020***

Amendments to MFRS 3, *Business Combinations - Definition of a Business*
Amendments to MFRS 101, *Presentation of Financial Statements - Definition of Material*
Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*

**2. Basis of preparation *(continued)***

**(a) Statement of compliance *(continued)***

***MFRSs effective for annual periods beginning on or after 1 January 2021***

MFRS 17, *Insurance Contracts*

***Amendments effective for annual periods beginning on or after a date yet to be confirmed***

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

The Bank plans to apply the abovementioned accounting standards, interpretations and amendments from the annual period beginning on 1 January 2019 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3, Amendments to MFRS 11 and Amendments to MFRS 128 as they are not applicable to the Bank.

The Bank plans to apply the abovementioned accounting standards, interpretations and amendments from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for Amendments to MFRS 3 as they are not applicable to the Bank.

The Bank does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Bank.

The initial applications of the accounting standards, interpretations and amendments 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 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*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to classify a lease as finance or operating lease.

The Bank has completed the assessment of the estimated impact that the initial application of MFRS 16 will have on its financial statements as at 1 January 2019. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change because the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

The Bank has chosen the cumulative transition approach on initial application at 1 January 2019 by recognising lease liabilities amounting to RM13.97 million with a corresponding right-of-use assets amounting to RM13.97 million, with the difference between the lease liabilities and right-of-use assets being recognised in retained earnings. No significant impact is expected on the Bank’s financial statements.

**2. Basis of preparation *(continued)***

**(b) Basis of measurement**

The financial statements of the Bank have been prepared on the historical cost basis other than as disclosed in the notes to the financial statements.

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgements**

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

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

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

- Note 37.3 - Valuation of financial instruments
- Note 37.4(b) - Expected credit loss ("ECL") measurement

**3. Significant accounting policies**

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

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

i) revenue recognition;

ii) financial instruments; and

iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 39.

**3. Significant accounting policies *(continued)***

**(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 from the retranslation of equity instruments designated as measured at fair value through other comprehensive income ("FVOCI") 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, 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.

**(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.

Interest income is recognised at gross basis for financial assets under Stage 1 and Stage 2 ECL. However, interest income is recognised at net basis for financial assets under Stage 3 ECL.

**(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.

**3. Significant accounting policies *(continued)***

**(d) Operating lease payments**

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

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

**(e) Income tax expense**

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

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

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

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

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

**(f) Financial instruments**

The Bank has generally applied the following accounting policies retrospectively. Nevertheless, as permitted under MFRS 9, *Financial Instruments*, the Bank has elected not to restate the comparatives upon the adoption of the Standard with effect from 1 January 2018.

**(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 assets. 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 ("FVTPL"), transaction costs that are directly attributable to its acquisition or issuance.

**3. Significant accounting policies *(continued)***

**(f) Financial instruments *(continued)***

**(ii) Financial instruments categories and subsequent measurement**

**Financial Assets**
**Current financial year**
Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

*Amortised cost*
A financial instrument is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Fair value through other comprehensive income - Debt investments*
A debt investment is measured at FVOCI only if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income, foreign exchange gains and losses are recognised in profit or loss. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 3(l)(i)) where the effective interest rate is applied to the amount net of ECL.

*Fair value through profit or loss*
All financial assets, including derivative financial assets not measured at amortised cost or FVOCI are classified as measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Subsequently, financial assets at FVTPL is measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

All financial assets, except for those measured at FVTPL are subject to impairment assessment (see Note 3(l)(i)).

**Previous financial year**

*Loans and receivables*
This category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalents. Subsequently, these instruments were measured at amortised cost using the effective interest method.

**3. Significant accounting policies *(continued)***

**(f) Financial instruments *(continued)***

**(ii) Financial instruments categories and subsequent measurement *(continued)***

**Financial Assets *(continued)***
**Previous financial year *(continued)***

*Held-to maturity*
This category comprised debt instruments that were quoted in an active market and the Bank had the positive intention to hold them to maturity. Subsequently, these instruments were measured at amortised cost using the effective interest method.

*Available-for-sale*
This category comprised investment in equity and debt instruments that were not held for trading. Investment in equity instruments that did not have a quoted market price in active market and whose fair value could not be reliably estimated was measured were stated at cost. Other financial assets categorised as available-for-sale were subsequently measured at their fair values with the gains or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks or fair value hedges which were recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss.

*Fair value through profit or loss*
This category comprised financial assets that were held for trading, including financial assets that were specifically designated upon initial recognition. Subsequently, these instruments were measured at their fair values with the gain or loss recognised in profit or loss.

**Financial Liabilities**
**Current financial year**
The categories of financial liabilities at initial recognition are as follows:

*Fair value through profit or loss*
Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Bank may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as one to be measured at fair value through profit or loss:

- if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

- a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to the Bank's key management personnel; or

- if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

## 3. Significant accounting policies *(continued)*

### (f) Financial instruments *(continued)*

#### (ii) Financial instruments categories and subsequent measurement *(continued)*

**Financial Liabilities *(continued)***
**Current financial year *(continued)***

*Fair value through profit or loss (continued)*
Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in profit or loss.

For financial liabilities that are designated as fair value through profit or loss upon initial recognition, the Bank recognises the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and the remaining amount of the change in fair value in profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

*Amortised cost*
Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gains or losses on derecognition are also recognised in profit or loss.

**Previous financial year**

In the previous financial year, financial liabilities of the Bank were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments that did not have a quoted price in an active market for identical instruments whose fair values otherwise could not be reliably measured were measured at cost.

Financial liabilities categorised as fair value through profit or loss were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

#### (iii) 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.

**3. Significant accounting policies *(continued)***

**(f) Financial instruments *(continued)***

**(iii) Derecognition *(continued)***

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.

**(iv) 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.

Cash and cash equivalents are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, net of allowance for credit loss. The measurement of credit loss is based on a three-stage expected credit loss model as described in Note 3(l)(i).

**(h) Deposits and Placements with Banks and Other Financial Institutions**

Deposits and placements with banks and other financial institutions including placements with BNM are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, net of allowance for credit loss. The measurement of credit loss is based on a three-stage expected credit loss model as described in Note 3(l)(i).

**(i) 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.

**3. Significant accounting policies *(continued)***

**(j) 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.

*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 component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss when incurred.

*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 life of each component 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 lease 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.

*Disposal and write-off*
On disposal of a plant or equipment, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss. Disposal proceeds may also apply to fully depreciated assets. Where the plant or equipment is no longer in use, they will be written off.

**(k) 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.

**3. Significant accounting policies *(continued)***

**(l) Impairment**

**(i) Financial assets**

The Bank generally applied the following accounting policies retrospectively. Nevertheless, as permitted under MFRS 9, *Financial Instruments*, the Bank has elected not to restate the comparatives upon the adoption of the Standard with effect from 1 January 2018.

**Current financial year**

The Bank assesses impairment by replacing the “incurred loss” model with a forward looking “expected credit loss” (“ECL”) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, financial assets and debt instruments measured at fair value through other comprehensive income.

Based on the ECL model policy established, an assessment is performed at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

The three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition is as follows:

*Stage 1: 12-month ECL - non-credit impaired*

For exposures where there has not been a significant increase in credit risk since initial recognition that are not credit impaired upon origination and with a day past due (“DPD”) of equal or less than 30 days, the ECL associated with the probability of default events occurring within next 12 months will be recognised.

*Stage 2: Lifetime ECL - non-credit impaired*

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired and with a DPD between 31 days to 89 days, a lifetime ECL will be recognised.

*Stage 3: Lifetime ECL - credit impaired*

A financial asset is assessed as credit impaired when it meets the Bank’s default criteria which have detrimental impact on the estimated future cash flows of that asset and with a DPD equal or more than 90 days. For financial assets that are credit impaired, a lifetime ECL will be recognised.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of financial assets measured at FVOCI is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting period, the Bank assesses whether financial assets at amortised cost and FVOCI are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

**3. Significant accounting policies *(continued)***

**(l) Impairment *(continued)***

**(i) Financial assets *(continued)***

**Previous financial year**

A collective impairment assessment was 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 was subject to judgement error, the loans within the same credit grade band generally shared the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, relevant market data was taken for consideration to derive the model risk adjustment.

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

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

**(ii) Other assets**

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)***

**(l) Impairment *(continued)***

**(ii) Other assets *(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.

**(m) 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.

**(n) Provision for commitments and contingencies**

The Bank issues financial guarantees, letters of credit and loan commitments but the nominal values of these instruments are not recorded in the statement of financial position. The same assessment criteria are used by the Bank in making commitments and conditional obligations for off-balance sheet risks as it does for on-balances sheet loan assets.

The measurement of credit loss for these irrevocable off-balance sheet assets is based on a three-stage expected credit loss model as described in Note 3(l)(i).

**(o) 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.

**(p) 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)*

### (q) Fair value measurement

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

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Cash and balances with banks and other financial institutions | 470,089 | 56,695 |
| Money at call and deposit placements maturing within one month | 547,624 | 1,006,164 |
| | 1,017,713 | 1,062,859 |
| Less: Allowance for credit loss | (127) | - |
| | 1,017,586 | 1,062,859 |

An analysis of changes in the gross carrying amount and the corresponding allowance for credit loss is as follows:

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| At 1 January 2018 | 1,062,859 | - | - | 1,062,859 |
| New assets originated | 801,351 | - | - | 801,351 |
| Assets derecognised or repaid | (846,497) | - | - | (846,497) |
| At 31 December 2018 | 1,017,713 | - | - | 1,017,713 |

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Allowance for credit loss** | | | | |
| At 1 January 2018 | | | | |
| - as previously stated | | | | - |
| - adjustment on initial application of MFRS 9 | | | | 22 |
| At 1 January 2018, restated | 22 | - | - | 22 |
| New assets originated | 124 | - | - | 124 |
| Assets derecognised or repaid | (19) | - | - | (19) |
| At 31 December 2018 | 127 | - | - | 127 |

## 5. Deposits and placements with banks and other financial institutions

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Foreign banks | 12,473 | - |
| Licensed Malaysian banks | - | 150,000 |
| | 12,473 | 150,000 |
| Less: Allowance for credit loss | (6) | - |
| | 12,467 | 150,000 |

An analysis of changes in the gross carrying amount and the corresponding allowance for credit loss is as follows:

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| At 1 January 2018 | 150,000 | - | - | 150,000 |
| New assets originated | 12,473 | - | - | 12,473 |
| Assets derecognised or repaid | (150,000) | - | - | (150,000) |
| At 31 December 2018 | 12,473 | - | - | 12,473 |

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Allowance for credit loss** | | | | |
| At 1 January 2018 | | | | |
| - as previously stated | | | | - |
| - adjustment on initial application of MFRS 9 | | | | 27 |
| At 1 January 2018, restated | 27 | - | - | 27 |
| New assets originated | 2 | - | - | 2 |
| Assets derecognised or repaid | (30) | - | - | (30) |
| Foreign exchange adjustments | 7 | - | - | 7 |
| At 31 December 2018 | 6 | - | - | 6 |

## 6. Financial investments measured at fair value through other comprehensive income

| (i) **By type** | 2018 RM'000 |
|---|---|
| Malaysian Government Securities | 206,162 |
| Malaysian Government Investment Issues | 222,374 |
| Malaysian Government Sukuk | 29,799 |
| Financial Institutions Securities | 30,630 |
| Private debt securities | 80,747 |
| Other debt securities | |
| - Cagamas bonds | 20,003 |
| | 589,715 |

| (ii) **By maturity structure** | 2018 RM'000 |
|---|---|
| Within one year | 4,993 |
| More than one year to three years | 191,800 |
| More than three years to five years | 196,311 |
| More than five years | 196,611 |
| | 589,715 |

## 6. Financial investments measured at fair value through other comprehensive income *(continued)*

### (iii) Movement of allowance for credit loss to comprehensive income

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| At 1 January 2018 | 372,094 | - | - | 372,094 |
| New assets originated or purchased | 219,071 | - | - | 219,071 |
| Assets derecognised or repaid | (1,450) | - | - | (1,450) |
| At 31 December 2018 | 589,715 | - | - | 589,715 |

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Allowance for credit loss** | | | | |
| At 1 January 2018 | | | | |
| - as previously stated | | | | - |
| - adjustment on initial application of MFRS 9 | | | | 601 |
| At 1 January 2018, restated | 601 | - | - | 601 |
| New assets originated or purchased | 209 | - | - | 209 |
| Assets derecognised or repaid | (116) | - | - | (116) |
| Foreign exchange adjustments | (1) | - | - | (1) |
| At 31 December 2018 | 693 | - | - | 693 |

## 7. Financial investments at available-for-sale

### (i) By type

| | 2017 RM'000 |
|---|---|
| Malaysian Government Securities | 100,280 |
| Malaysian Government Investment Issues | 111,352 |
| Malaysian Government Sukuk | 29,661 |
| Financial Institutions Securities | 30,526 |
| Private debt securities | 80,290 |
| Other debt securities | |
| - Cagamas bonds | 19,985 |
| | 372,094 |

### (ii) By maturity structure

| | 2017 RM'000 |
|---|---|
| More than one year to three years | 80,633 |
| More than three years to five years | 170,573 |
| More than five years | 120,888 |
| | 372,094 |

## 8. Financial investments measured at amortised cost

### (i) By type

| | 2018 RM'000 |
|---|---|
| Malaysian Government Investment Issues | 32,283 |
| Private debt securities | 20,000 |
| Other debt securities | |
| - Cagamas bonds | 65,079 |
| | 117,362 |
| Less: Allowance for credit loss | (93) |
| | 117,269 |

### (ii) By maturity structure

| | 2018 RM'000 |
|---|---|
| More than one year to three years | 20,000 |
| More than three years to five years | 97,362 |
| | 117,362 |

### (iii) Movement of allowance for credit loss to profit or loss

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| At 1 January 2018 | 32,349 | - | - | 32,349 |
| New assets originated or purchased | 85,079 | - | - | 85,079 |
| Assets derecognised or repaid | (66) | - | - | (66) |
| At 31 December 2018 | 117,362 | - | - | 117,362 |

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Allowance for credit loss** | | | | |
| At 1 January 2018 | - | - | - | - |
| New assets originated or purchased | 93 | - | - | 93 |
| At 31 December 2018 | 93 | - | - | 93 |

## 9. Financial investments held-to-maturity

### (i) By type

| | 2017 RM'000 |
|---|---|
| At amortised cost | |
| Malaysian Government Investment Issues | 32,349 |

### (ii) By maturity structure

| | 2017 RM'000 |
|---|---|
| More than three years to five years | 32,349 |

## 10. Loans, advances and financing

### (i) By type

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Overdrafts | 57,299 | 83,744 |
| Term loans | | |
| - Housing loans | 76,641 | 63,829 |
| - Syndicated term loans | 935,364 | 485,755 |
| - Other term loans | 534,029 | 1,391,814 |
| Bills receivable | 21,123 | 10,613 |
| Revolving credits | 1,268,287 | 1,084,770 |
| Bankers' acceptances | 139,984 | 88,286 |
| Staff loans | 2,004 | 2,517 |
| Credit card loans | 2,124 | 2,869 |
| Gross loans, advances and financing | 3,036,855 | 3,214,197 |
| Less: Allowance for credit loss | | |
| - Stage 1 (12-month ECL) | (15,954) | - |
| - Stage 2 (Lifetime ECL - non-credit impaired) | (11,640) | - |
| - Stage 3 (Lifetime ECL - credit impaired) | (1,188) | - |
| | (28,782) | - |
| Less: Allowance for impairment | | |
| - Collective allowance for impairment | - | (27,399) |
| - Individual allowance for impairment | - | (1,127) |
| | - | (28,526) |
| Net loans, advances and financing | 3,008,073 | 3,185,671 |

### (ii) By type of customer

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Domestic banking institutions | 52,806 | 64,021 |
| Domestic non-bank financial institutions | | |
| - Others | 140,278 | 100,210 |
| Domestic business enterprises | | |
| - Small medium enterprises | 65,029 | 62,313 |
| - Others | 1,530,081 | 1,963,067 |
| Individuals | 46,452 | 47,247 |
| Foreign entities | 1,202,209 | 977,339 |
| | 3,036,855 | 3,214,197 |

### (iii) By interest rate sensitivity

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Fixed rate loans | 4,128 | 5,386 |
| Variable rate | | |
| - Base rate/base lending rate plus | 82,817 | 96,651 |
| - Cost plus | 2,808,749 | 2,976,494 |
| - Other variable rates | 141,161 | 135,666 |
| | 3,036,855 | 3,214,197 |

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

**(iv) By sector**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Primary agriculture | 86,591 | 82,272 |
| Manufacturing | 206,698 | 829,100 |
| Electricity, gas and water | 65,414 | 67,827 |
| Construction | 100,554 | 162,592 |
| Real estate | 476,939 | 597,516 |
| Wholesale & retail trade and restaurants & hotels | 835,595 | 755,280 |
| Transport, storage and communication | 108,308 | 11,285 |
| Finance, insurance and business services | 685,675 | 433,198 |
| Education, health and others | 372,592 | 189,180 |
| Household | 98,489 | 85,947 |
| | 3,036,855 | 3,214,197 |

**(v) By purpose**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Purchase of properties | | |
| - Non residential | 155,994 | 156,703 |
| - Residential | 78,184 | 65,864 |
| Purchase of transport vehicles | 4 | 23 |
| Purchase of fixed assets (excluding properties) | 208,266 | - |
| Construction | 88,539 | 55,567 |
| Credit card | 2,124 | 2,869 |
| Personal use | 1,332 | 929 |
| Mergers and acquisitions | - | 27,734 |
| Working capital | 1,870,754 | 2,523,298 |
| Other purpose | 631,658 | 381,210 |
| | 3,036,855 | 3,214,197 |

**(vi) By geographical distribution**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Within Malaysia | 2,140,728 | 2,391,609 |
| Outside Malaysia | 896,127 | 822,588 |
| | 3,036,855 | 3,214,197 |

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

**(vii) By residual contractual maturity**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Maturity within one year | 1,850,954 | 1,625,183 |
| More than one year to three years | 457,459 | 326,344 |
| More than three years to five years | 518,431 | 930,777 |
| More than five years | 210,011 | 331,893 |
| | 3,036,855 | 3,214,197 |

## 10. Loans, advances and financing *(continued)*

### (viii) Impaired loans, advances and financing

**(a) Movement in impaired loans, advances and financing**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| At 1 January | 1,127 | 2,080 |
| Impaired during the financial year | 816 | 1,298 |
| Reclassified as performing during the financial year | (794) | (171) |
| Amount written off during the financial year | - | (2,080) |
| Exchange differences | 39 | - |
| At 31 December | 1,188 | 1,127 |
| As % of gross loans, advances and financing | **0.04%** | **0.04%** |

**(b) By sector**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Wholesale & retail trade and restaurants & hotels | 1,123 | 1,093 |
| Household | 65 | 34 |
| | 1,188 | 1,127 |

**(c) By purpose**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Working capital | 1,123 | 1,093 |
| Credit card | 65 | 34 |
| | 1,188 | 1,127 |

**(d) By geographical distribution**

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Within Malaysia | 65 | 34 |
| Outside Malaysia | 1,123 | 1,093 |
| | 1,188 | 1,127 |

## 10. Loans, advances and financing *(continued)*

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

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2018 | | | | |
| - as previously stated | | | | 28,526 |
| - adjustment on initial application of MFRS 9 | | | | (8,035) |
| At 1 January 2018, restated | 19,336 | 28 | 1,127 | 20,491 |
| New assets originated | 5,293 | 302 | 816 | 6,411 |
| Assets derecognised or repaid | (2,128) | (1,902) | (794) | (4,824) |
| Transfer to Stage 1 | 1 | (1) | - | - |
| Transfer to Stage 2 | (4,038) | 4,038 | - | - |
| Changes due to change in credit risk | (3,780) | 8,791 | - | 5,011 |
| Changes in model/risk parameter | 1,360 | 384 | - | 1,744 |
| Foreign exchange adjustments | (90) | - | 39 | (51) |
| At 31 December 2018 | 15,954 | 11,640 | 1,188 | 28,782 |

| | 2017 RM'000 |
|---|---|
| <u>Collective allowance for impairment</u> | |
| At 1 January | 13,966 |
| Allowance made during the financial year | 16,353 |
| Allowance written back | (3,091) |
| Exchange differences | 171 |
| At 31 December | 27,399 |
| | |
| As % of gross loans, advances and financing (net of individual allowance for impairment) | 0.85% |
| | |
| <u>Individual allowance for impairment</u> | |
| At 1 January | 2,080 |
| Allowance made during the financial year | 1,384 |
| Allowance written back during the financial year | (171) |
| Amount written off during the financial year | (2,080) |
| Exchange differences | (86) |
| At 31 December | 1,127 |

## 11. Derivative financial assets/liabilities

| | 2018 | | |
|---|---|---|---|
| | **Contract/ Nominal value RM'000** | **Assets RM'000** | **Liabilities RM'000** |
| Foreign exchange contracts | | | |
| - Currency forwards and spots | 528,130 | 1,623 | 1,600 |
| - Currency swaps | 1,167,456 | 6,532 | 6,186 |
| Total recognised derivative assets/liabilities (Note 34) | 1,695,586 | 8,155 | 7,786 |

| | 2017 | | |
|---|---|---|---|
| | **Contract/ Nominal value RM'000** | **Assets RM'000** | **Liabilities RM'000** |
| Foreign exchange contracts | | | |
| - Currency forwards and spots | 663,122 | 14,010 | 13,951 |
| - Currency swaps | 514,249 | 1,929 | 1,809 |
| Total recognised derivative assets/liabilities (Note 34) | 1,177,371 | 15,939 | 15,760 |

## 12. Other assets

| | **2018 RM'000** | **2017 RM'000** |
|---|---|---|
| Interest receivable | 11,657 | 7,616 |
| Deposits | 1,785 | 1,959 |
| Other receivables and prepayments | 1,769 | 1,600 |
| | 15,211 | 11,175 |

## 13. 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 of total eligible liabilities.

## 14. 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 2018 | 4,265 | 4,130 | 950 | 11,232 | 283 | 20,860 |
| Additions | 859 | 118 | 305 | 300 | 884 | 2,466 |
| Transfer to assets | - | 249 | 111 | 59 | (419) | - |
| Disposal | (126) | (26) | - | - | - | (152) |
| Written off | (307) | (888) | (5) | - | - | (1,200) |
| At 31 December 2018 | 4,691 | 3,583 | 1,361 | 11,591 | 748 | 21,974 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2018 | 3,070 | 2,412 | 313 | 5,374 | - | 11,169 |
| Charge during the year | 779 | 517 | 124 | 2,373 | - | 3,793 |
| Disposal | (126) | (25) | - | - | - | (151) |
| Written off | (307) | (846) | (3) | - | - | (1,156) |
| At 31 December 2018 | 3,416 | 2,058 | 434 | 7,747 | - | 13,655 |
| **Net carrying amount** | | | | | | |
| At 1 January 2018 | 1,195 | 1,718 | 637 | 5,858 | 283 | 9,691 |
| At 31 December 2018 | 1,275 | 1,525 | 927 | 3,844 | 748 | 8,319 |

| | 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 2017 | 3,572 | 3,121 | 783 | 7,821 | 29 | 15,326 |
| Additions | 724 | 1,009 | 167 | 5,421 | 254 | 7,575 |
| Written off | (31) | - | - | (2,010) | - | (2,041) |
| At 31 December 2017 | 4,265 | 4,130 | 950 | 11,232 | 283 | 20,860 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2017 | 2,537 | 1,941 | 227 | 6,098 | - | 10,803 |
| Charge during the year | 564 | 471 | 86 | 1,102 | - | 2,223 |
| Written off | (31) | - | - | (1,826) | - | (1,857) |
| At 31 December 2017 | 3,070 | 2,412 | 313 | 5,374 | - | 11,169 |
| **Net carrying amount** | | | | | | |
| At 1 January 2017 | 1,035 | 1,180 | 556 | 1,723 | 29 | 4,523 |
| At 31 December 2017 | 1,195 | 1,718 | 637 | 5,858 | 283 | 9,691 |

## 15. Intangible asset

| | Admission Fee 2018 RM'000 | Admission Fee 2017 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January/31 December | 2,600 | 2,600 |
| **Accumulated amortisation** | | |
| At 1 January | 2,600 | 2,296 |
| Charge during the year | - | 304 |
| At 31 December | 2,600 | 2,600 |
| **Net carrying amount** | | |
| At 1 January | - | 304 |
| At 31 December | - | - |

## 16. Deferred tax assets

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| At 1 January | 6,048 | 5,835 |
| Recognised in profit or loss (Note 30) | 5,079 | 218 |
| Recognised in equity | (829) | (5) |
| At 31 December | 10,298 | 6,048 |

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

| | Deferred tax assets/(liabilities) | | | |
|---|---|---|---|---|
| | At 1 January 2018 | Recognised in profit or loss (Note 30) | Recognised in equity | At 31 December 2018 |
| Plant and equipment | (108) | 870 | - | 762 |
| Fair value reserve | 176 | - | (829) | (653) |
| Allowance for credit loss | - | 4,982 | - | 4,982 |
| Provisions | 5,980 | (773) | - | 5,207 |
| Total | 6,048 | 5,079 | (829) | 10,298 |

| | Deferred tax assets/(liabilities) | | | |
|---|---|---|---|---|
| | At 1 January 2017 | Recognised in profit or loss (Note 30) | Recognised in equity | At 31 December 2017 |
| Plant and equipment | (86) | (22) | - | (108) |
| Available-for-sale reserve | 181 | - | (5) | 176 |
| Provisions | 5,740 | 240 | - | 5,980 |
| Total | 5,835 | 218 | (5) | 6,048 |

## 17. Deposits from customers

### (i) By type of deposits

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Demand deposits | 623,220 | 941,186 |
| Fixed deposits | 1,025,739 | 1,170,990 |
| Savings deposits | 118,052 | 120,707 |
| Money market deposits | 719,447 | 568,285 |
| Others | 16,109 | 38,357 |
| | 2,502,567 | 2,839,525 |

### (ii) By type of customer

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Business enterprises | 1,156,312 | 1,735,405 |
| Individuals | 251,923 | 250,890 |
| Foreign entities | 1,093,295 | 852,239 |
| Others | 1,037 | 991 |
| | 2,502,567 | 2,839,525 |

### (iii) By maturity structure of term deposits

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Due within six months | 2,264,911 | 2,757,025 |
| More than six months to one year | 227,347 | 82,500 |
| More than one year to three years | 10,309 | - |
| | 2,502,567 | 2,839,525 |

## 18. Deposits and placements of banks and other financial institutions

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Licensed Malaysian banks | 154,526 | 238,526 |
| Licensed investment banks | 50,329 | 325 |
| Licensed Islamic banks | 2,851 | 1,709 |
| Other financial institutions | 166,114 | 139,600 |
| Foreign banks | 756,222 | 526,820 |
| | 1,130,042 | 906,980 |

## 19. Other liabilities

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Interest payable | 15,015 | 10,361 |
| Other payables and accruals | 56,337 | 54,771 |
| | 71,352 | 65,132 |

## 20. Provision for commitments and contingencies

| | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2018 | | | | |
| - as previously stated | | | | - |
| - effects of changes in accounting policies | | | | 7,910 |
| At 1 January 2018, restated | 7,896 | 14 | - | 7,910 |
| New assets originated | 969 | 216 | - | 1,185 |
| Assets derecognised or repaid | (2,455) | (330) | - | (2,785) |
| Transfer to Stage 1 | 2 | (2) | - | - |
| Transfer to Stage 2 | (2,525) | 2,525 | - | - |
| Changes due to change in credit risk | 161 | (32) | - | 129 |
| Changes in model/risk parameter | (1,265) | (630) | - | (1,895) |
| Foreign exchange adjustments | 2 | - | - | 2 |
| At 31 December 2018 | 2,785 | 1,761 | - | 4,546 |

## 21. Share capital

| | Number of ordinary | | Amount | |
|---|---|---|---|---|
| | 2018 '000 | 2017 '000 | 2018 RM'000 | 2017 RM'000 |
| **Ordinary Shares** | | | | |
| **Issued and fully paid** | | | | |
| At 1 January/31 December | 832,609 | 832,609 | 832,609 | 832,609 |

## 22. Reserves

*22.1 Statutory reserve*

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

On 3 May 2017, BNM issued a revised policy document on Capital Funds, whereby the requirement to maintain a reserve fund is no longer required, given the implementation of the Capital Conservation Buffer under the Capital Adequacy Framework. Therefore, during the financial year 2017, the Bank had transferred RM57.213 million from Statutory Reserve to Retained Earnings.

*22.2 Foreign currency translation reserve*

The foreign currency translation reserve captures the foreign exchange currency translation differences in respect of Labuan branch operations.

*22.3 Fair value reserve*

Fair value reserve captures the fair value adjustment on financial assets which are measured at fair value through other comprehensive income 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.

*22.4 Regulatory reserve*

The regulatory reserve is maintained by the Bank as an additional credit risk absorbant in excess of the requirement of accounting standards. The reserve is maintained in line with the requirements of Bank Negara Malaysia. An amount of RM17.644 million (2017: RM17.644 million) from the retained earnings as of 31 December 2018 has been reserved for this purpose.

*22.5 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.

## 23. Interest income

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Loans, advances and financing: | | |
| - Interest income other than from impaired loans | 140,339 | 122,962 |
| Money at call and deposit placements with financial institutions | 36,942 | 33,391 |
| Financial investments measured at fair value through other comprehensive income | 20,226 | - |
| Financial investments available-for-sale | - | 10,825 |
| Financial investments measured at amortised cost | 4,418 | - |
| Financial investments held-to-maturity | - | 66 |
| Others | - | 22 |
| | 201,925 | 167,266 |

**Interest expense**

| | | |
|---|---|---|
| Deposits and placements of banks and other financial institutions | (25,101) | (7,418) |
| Deposits from customers | (53,023) | (42,499) |
| Others | (270) | (3) |
| | (78,394) | (49,920) |
| **Net interest income** | 123,531 | 117,346 |

The amounts reported above include interest income and expenses, calculated using the effective interest rate method that relate to the following:

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Financial assets measured at amortised cost | 181,699 | - |
| Financial assets measured at fair value through other comprehensive income | 20,226 | - |
| Loans and receivables | - | 156,375 |
| Financial assets available-for-sale | - | 10,825 |
| Financial assets held-to-maturity | - | 66 |
| Financial assets not at fair value through profit or loss | 201,925 | 167,266 |
| Financial liabilities measured at amortised cost | 78,394 | 49,920 |

## 24. Fee income

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Fee income: | | |
| - Commission | 52 | 20 |
| - Service charges and fees | 2,352 | 2,010 |
| - Loan processing fees | 7,209 | 3,117 |
| - Syndication fees | 3,663 | 6,978 |
| - Guarantee fees | 4,862 | 5,009 |
| - Commitment fees | 1,037 | 1,787 |
| - Other loan related fees income | 3,301 | 140 |
| - Other fees income | 3,705 | 4,924 |
| | 26,181 | 23,985 |
| Fee expense: | | |
| - Brokerage fees | (95) | (35) |
| - Other fees expense | (426) | (265) |
| | (521) | (300) |
| Net fee income | 25,660 | 23,685 |

## 25. Net trading income

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Net gains from dealing in foreign exchange | 22,297 | 68,166 |
| Net gains/(losses) arising from derivative trading | 10,211 | (12,973) |
| Net unrealised revaluation losses in foreign exchange | (146) | (76) |
| Net unrealised gains/(losses) arising from derivative trading | 190 | (103) |
| | 32,552 | 55,014 |

## 26. Other operating income

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Gain on disposal: | | |
| - Financial investments available-for-sale | - | 116 |
| Others | 70 | 165 |
| | 70 | 281 |

## 27. Other operating expenses

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Personnel costs: | | |
| - Salaries, allowance and bonuses (excluding Directors' remuneration) | 46,101 | 45,268 |
| - Directors' remuneration (Note 32(c)) | 1,987 | 1,532 |
| - Pension fund contributions | 4,564 | 4,491 |
| - Other staff costs | 6,716 | 6,454 |
| Promotion and marketing related expenses: | | |
| - Advertising and promotion | 469 | 466 |
| - Others | 547 | 852 |
| Establishment costs: | | |
| - Depreciation of plant and equipment | 3,793 | 2,223 |
| - Amortisation of intangible asset | - | 304 |
| - Rental | 5,698 | 5,608 |
| - Others | 1,785 | 2,605 |
| Administrative expenses: | | |
| - Auditors' remuneration | | |
| • statutory audit fees | 270 | 320 |
| • audit related services | 476 | 143 |
| - Professional fees | 721 | 940 |
| - Licence fee | 311 | 304 |
| - Membership fee | 240 | 163 |
| - Plant and equipment written off | 44 | 184 |
| - Loss on disposal of plant and equipment | 1 | - |
| - Others | 7,202 | 6,003 |
| | 80,925 | 77,860 |

## 28. Allowance for impairment on loans, advances and financing

| | 2018 RM'000 |
|---|---|
| Allowance for credit loss | |
| - Loans, advances and financing | 8,342 |
| - Provision for commitments and contingencies | (3,366) |
| | 4,976 |

| | 2017 RM'000 |
|---|---|
| Collective allowance for impairment | |
| - Made during the financial year | 16,353 |
| - Written back during the financial year | (3,091) |
| | |
| Individual allowance for impairment | |
| - Made during the financial year | 1,384 |
| - Written back during the financial year | (171) |
| | 14,475 |

## 29. Allowance for impairment on other financial assets

| | 2018 RM'000 |
|---|---|
| Allowance for credit loss | |
| - Cash and short-term funds | 105 |
| - Deposits and placements with banks and other financial institutions | (28) |
| - Financial investments measured at fair value through other comprehensive income | 93 |
| - Financial investments measured at amortised cost | 93 |
| | 263 |

## 30. Tax expense

| Current tax expense | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| - Current financial year | 26,825 | 28,906 |
| - Overprovision in prior year | (4,915) | (528) |
| Total current tax recognised in profit or loss | 21,910 | 28,378 |
| | | |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (5,079) | (218) |
| Total deferred tax recognised in profit or loss (Note 16) | (5,079) | (218) |
| | 16,831 | 28,160 |

| **Reconciliation of tax expense** | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Profit before taxation | 95,649 | 103,991 |
| | | |
| Income tax using Malaysian tax rate @ 24% | 22,956 | 24,958 |
| Tax effect of: | | |
| Non-deductible expenses | 3,393 | 3,730 |
| Effect of tax rate in a different jurisdiction | (4,603) | - |
| Overprovision of income tax expense in prior year | (4,915) | (528) |
| Tax expense | 16,831 | 28,160 |

## 31. 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 RM78,818,000 (2017: RM75,831,000) and weighted average number of ordinary shares outstanding during the year of 832,609,000 (2017: 832,609,000) ordinary shares in issue during the financial year.

## 32. Significant related party transactions and balances

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **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 | 2,906 | 3,150 | 2,695 | 3,240 |
| **Expenses** | | | | |
| *Interest expense* | | | | |
| - Deposits and placements of banks and other financial institutions | 14,878 | 450 | 3,035 | 399 |
| *Other operating expenses* | | | | |
| - Other charges | 69 | - | 34 | 1 |
| - Software licence fee | 53 | - | - | - |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **RM'000** Holding company | **RM'000** Related companies | **RM'000** Holding company | **RM'000** Related companies |
| Amount due from | | | | |
| - Cash and short-term funds | 440,358 | 3,363 | 29,245 | 1,645 |
| - Deposits and placements with banks and other financial institutions | 12,467 | - | 58,792 | - |
| - Other assets | 75 | - | 31 | - |
| Amount due to | | | | |
| - Deposits and placements of banks and other financial institutions | 754,290 | - | 525,367 | - |
| - Other liabilities | 4,040 | - | 2,490 | - |

## 32. 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:

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Executive Director and CEO | | |
| *Mr. Wang Qiang* | | |
| - Salaries | 934 | 995 |
| - Bonus | 661 | 29 |
| - Other allowances | 6 | 260 |
| | 1,601 | 1,284 |
| Non-Executive Directors' fees | | |
| *YBhg Dato' Leong Khee Seong* | 130 | 104 |
| *Mr. Ong Ah Tin @ Ong Chee Kwee* | 129 | 104 |
| *Mr. Chin Chee Kong* | 127 | 40 |
| | 386 | 248 |
| | 1,987 | 1,532 |
| | Note 27 | Note 27 |

## 33. 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:

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Aggregate value of outstanding credit exposures to connected parties | 273,694 | 135,696 |
| As a percentage of total credit exposures | 5.26% | 2.44% |
| Percentage of outstanding credit exposures to connected parties which are non-performing or in default | 0% | 0% |

## 34. 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:

| | 2018 | | | |
|---|---|---|---|---|
| | 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 | 74,835 | - | 74,835 | 14,967 |
| Transaction-related contingent items | 564,904 | - | 282,452 | 201,988 |
| Short term self-liquidating trade-related contingencies | 154,257 | - | 30,851 | 20,153 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| - Exceeding one year | 526,420 | - | 263,210 | 214,946 |
| - Not exceeding one year | 1,028,727 | - | 205,746 | 188,852 |
| Unutilised credit card lines | 40,105 | - | 8,021 | 6,015 |
| Derivative financial contracts | | | | |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 1,695,586 | 8,155 | 29,636 | 12,873 |
| Total | 4,084,834 | 8,155 | 894,751 | 659,794 |
| | | Note 11 | | |

^ 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 are based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

## 34. Commitments and contingencies *(continued)*

| | 2017 | | | |
|---|---|---|---|---|
| | **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 | 72,854 | - | 72,854 | 14,571 |
| Transaction-related contingent items | 801,460 | - | 400,730 | 264,760 |
| Short term self-liquidating trade-related contingencies | 42,068 | - | 8,414 | 8,349 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| - Exceeding one year | 131,732 | - | 65,866 | 61,631 |
| - Not exceeding one year | 942,345 | - | 188,469 | 159,126 |
| Unutilised credit card lines | 38,145 | - | 7,629 | 5,722 |
| Derivative financial contracts | | | | |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 1,177,371 | 15,939 | 32,272 | 16,145 |
| Total | 3,205,975 | 15,939 | 776,234 | 530,304 |
| | | Note 11 | | |

^ 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 are based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

## 35. 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 is as follows:

| | **2018 RM'000** | **2017 RM'000** |
|---|---|---|
| Within one year | 4,834 | 5,542 |
| After one year but not more than five years | 5,066 | 5,599 |
| | 9,900 | 11,141 |

## 36. 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:

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| **Common Equity Tier 1 ("CET1") Capital** | | |
| Paid-up share capital | 832,609 | 832,609 |
| Retained earnings | 254,076 | 175,783 |
| Regulatory reserve | 17,644 | 17,644 |
| Foreign currency translation reserve | (295) | 253 |
| Unrealised gains on financial investments measured at FVOCI | 1,299 | - |
| Unrealised losses on financial investments available-for-sale | - | (556) |
| | 1,105,333 | 1,025,733 |
| Less: Regulatory adjustments applied in calculation of CET1 Capital | | |
| - Deferred tax assets | (10,298) | (6,048) |
| - 55% cumulative gains of financial investments measured at FVOCI | (714) | - |
| - Regulatory reserve attributable to loans, advances and financing | (17,644) | (17,644) |
| | (28,656) | (23,692) |
| Total CET1 Capital | 1,076,677 | 1,002,041 |
| **Tier 2 Capital** | | |
| Allowance for credit loss / Collective impairment allowance | 27,684 | 27,399 |
| Regulatory reserve | 17,644 | 17,644 |
| Total Tier 2 Capital | 45,328 | 45,043 |
| Total Capital | 1,122,005 | 1,047,084 |
| CET1 capital ratio | 27.370% | 28.501% |
| Tier 1 capital ratio | 27.370% | 28.501% |
| Total capital ratio | 28.523% | 29.782% |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Principal RM'000 | Risk-Weighted Assets RM'000 | Principal RM'000 | Risk-Weighted Assets RM'000 |
| Total RWA for credit risk | 5,733,813 | 3,626,253 | 5,647,850 | 3,240,863 |
| Total RWA for market risk | - | 1,973 | - | 16,463 |
| Total RWA for operational risk | - | 305,504 | - | 258,530 |
| | 5,733,813 | 3,933,730 | 5,647,850 | 3,515,856 |

## 37. Financial Instruments

### 37.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

(a) Fair value through profit or loss ("FVTPL")
(b) Amortised Cost ("AC")
(c) Fair value through other comprehensive income ("FVOCI")

| **2018**<br>**Financial assets** | **Carrying Amount RM'000** | **AC RM'000** | **FVTPL RM'000** | **FVOCI RM'000** |
|---|---|---|---|---|
| Cash and short-term funds | 1,017,586 | 1,017,586 | - | - |
| Deposits and placements with banks and other financial institutions | 12,467 | 12,467 | - | - |
| Financial investments measured at FVOCI | 589,715 | - | - | 589,715 |
| Financial investments measured at amortised cost | 117,269 | 117,269 | - | - |
| Loans, advances and financing | 3,008,073 | 3,008,073 | - | - |
| Derivative financial assets | 8,155 | - | 8,155 | - |
| Other assets | 15,211 | 15,211 | - | - |
| Statutory deposits with Bank Negara Malaysia | 42,602 | 42,602 | - | - |
| **Total financial assets** | 4,811,078 | 4,213,208 | 8,155 | 589,715 |

| **Financial liabilities** | **Carrying Amount RM'000** | **AC RM'000** | **FVTPL RM'000** | **FVOCI RM'000** |
|---|---|---|---|---|
| Deposits from customers | 2,502,567 | 2,502,567 | - | - |
| Deposits and placements of banks and other financial institutions | 1,130,042 | 1,130,042 | - | - |
| Derivative financial liabilities | 7,786 | - | 7,786 | - |
| Other liabilities | 71,352 | 71,352 | - | - |
| Provision for commitments and contingencies | 4,546 | 4,546 | - | - |
| **Total financial liabilities** | 3,716,293 | 3,708,507 | 7,786 | - |

**37. Financial Instruments *(continued)***

**37.1 Categories of financial instruments *(continued)***

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

(a) Loans and receivables ("L&R")
(b) Fair value through profit or loss ("FVTPL")
(c) Available-for-sale ("AFS")
(d) Held-to-maturity ("HTM")
(e) Financial liabilities measured at amortised cost ("FL")

| **2017 Financial assets** | **Carrying Amount RM'000** | **L&R RM'000** | **FVTPL RM'000** | **AFS RM'000** | **HTM RM'000** |
|---|---|---|---|---|---|
| Cash and short-term funds | 1,062,859 | 1,062,859 | - | - | - |
| Deposits and placements with banks and other financial institutions | 150,000 | 150,000 | - | - | - |
| Financial investments AFS | 372,094 | - | - | 372,094 | - |
| Financial investments HTM | 32,349 | - | - | - | 32,349 |
| Loans, advances and financing | 3,185,671 | 3,185,671 | - | - | - |
| Derivative financial assets | 15,939 | - | 15,939 | - | - |
| Other assets | 11,175 | 11,175 | - | - | - |
| Statutory deposits with Bank Negara Malaysia | 20,378 | 20,378 | - | - | - |
| **Total financial assets** | 4,850,465 | 4,430,083 | 15,939 | 372,094 | 32,349 |

| **Financial liabilities** | **Carrying Amount RM'000** | **FL RM'000** | **FVTPL RM'000** | **AFS RM'000** | **HTM RM'000** |
|---|---|---|---|---|---|
| Deposits from customers | 2,839,525 | 2,839,525 | - | - | - |
| Deposits and placements of banks and other financial institutions | 906,980 | 906,980 | - | - | - |
| Derivative financial liabilities | 15,760 | - | 15,760 | - | - |
| Other liabilities | 65,132 | 65,132 | - | - | - |
| **Total financial liabilities** | 3,827,397 | 3,811,637 | 15,760 | - | - |

## 37. Financial Instruments *(continued)*

### 37.2 Net gains and losses arising from financial instruments

| | 2018 RM'000 | 2017 RM'000 |
|---|---|---|
| Net gains/(losses) arising on: | | |
| Fair value through profit or loss | 32,552 | 55,014 |
| | | |
| Financial investments at fair value through other comprehensive income: | | |
| - interest income from financial investments at fair value through other comprehensive income | 20,624 | - |
| - amortisation of premium recognised in profit or loss | (398) | - |
| - recognised in other comprehensive income | 1,947 | - |
| | | |
| Financial investments available-for-sale | | |
| - interest income from financial investments available-for-sale | - | 11,038 |
| - amortisation of premium recognised in profit or loss | - | (213) |
| - recognised in other comprehensive income | - | 17 |
| - gain on disposal of financial investments available-for-sale | - | 116 |
| | | |
| Financial investments at amortised cost | | |
| - interest income from financial investments at amortised cost | 3,676 | - |
| - accretion of discount recognised in profit or loss | 742 | - |
| | | |
| Financial investments held-to-maturity | | |
| - interest income from financial investments held-to-maturity | - | 69 |
| - amortisation of premium recognised in profit or loss | - | (3) |
| | | |
| Other financial assets at amortised cost | 177,281 | - |
| Financial liabilities at amortised cost | (78,394) | (49,920) |
| | | |
| Loans and receivables | - | 156,375 |
| | | |
| Net loss on impairment on financial instruments: | | |
| - financial assets at amortised cost | (8,512) | - |
| - financial assets at fair value through other comprehensive income | (93) | - |
| - provision for commitment and contingencies | 3,366 | - |
| | (5,239) | - |
| | | |
| Net loss on impairment on loans, advances and financing | - | (14,475) |
| | 152,791 | 158,018 |

## 37. Financial Instruments *(continued)*

### 37.3 Fair value information

**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**

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 of 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.

**37. Financial Instruments *(continued)***

**37.3 Fair value information *(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 |
| **2018** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | - | 12,467 | 12,467 | 12,467 | 12,467 |
| Financial investments measured at FVOCI (Note 6) | - | 589,715 | - | 589,715 | - | - | - | - | 589,715 | 589,715 |
| Financial investments measured at amortised cost (Note 8) | - | - | - | - | - | 86,733 | 30,630 | 117,363 | 117,363 | 117,269 |
| Loans, advances and financing | - | - | - | - | - | - | 3,007,517 | 3,007,517 | 3,007,517 | 3,008,073 |
| Derivative financial assets (Note 11) | - | 8,155 | - | 8,155 | - | - | - | - | 8,155 | 8,155 |
| | - | 597,870 | - | 597,870 | - | 86,733 | 3,050,614 | 3,137,347 | 3,735,217 | 3,735,679 |
| **Financial liabilities** | | | | | | | | | | |
| Deposits from customers | - | - | - | - | - | - | 2,502,567 | 2,502,567 | 2,502,567 | 2,502,567 |
| Deposits and placements of banks and other financial institutions | - | - | - | - | - | - | 1,130,042 | 1,130,042 | 1,130,042 | 1,130,042 |
| Derivative financial liabilities (Note 11) | - | 7,786 | - | 7,786 | - | - | - | - | 7,786 | 7,786 |
| | - | 7,786 | - | 7,786 | - | - | 3,632,609 | 3,632,609 | 3,640,395 | 3,640,395 |

## 37. Financial Instruments *(continued)*

### 37.3 Fair value information *(continued)*

**Recognised financial instruments *(continued)***

***Valuation of financial instruments (continued)***

| | 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 |
| **2017** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | - | 150,000 | 150,000 | 150,000 | 150,000 |
| Financial investments available-for-sale (Note 7) | - | 341,568 | 30,526 | 372,094 | - | - | - | - | 372,094 | 372,094 |
| Financial investments held-to-maturity (Note 9) | - | - | - | - | - | 32,349 | - | 32,349 | 32,349 | 32,349 |
| Loans, advances and financing | - | - | - | - | - | - | 3,184,865 | 3,184,865 | 3,184,865 | 3,185,671 |
| Derivative financial assets (Note 11) | - | 15,939 | - | 15,939 | - | - | - | - | 15,939 | 15,939 |
| | - | 357,507 | 30,526 | 388,033 | - | 32,349 | 3,334,865 | 3,367,214 | 3,755,247 | 3,756,053 |
| **Financial liabilities** | | | | | | | | | | |
| Deposits from customers | - | - | - | - | - | - | 2,839,525 | 2,839,525 | 2,839,525 | 2,839,525 |
| Deposits and placements of banks and other financial institutions | - | - | - | - | - | - | 906,980 | 906,980 | 906,980 | 906,980 |
| Derivative financial liabilities (Note 11) | - | 15,760 | - | 15,760 | - | - | - | - | 15,760 | 15,760 |
| | - | 15,760 | - | 15,760 | - | - | 3,746,505 | 3,746,505 | 3,762,265 | 3,762,265 |

**37. Financial Instruments *(continued)***

**37.3 Fair value information *(continued)***

**Recognised financial instruments *(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 (2017: no transfer in either directions).

**37. Financial Instruments *(continued)***

**37.4 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 Board of Directors establishes the Bank's risk appetite and risk principles. The Board Risk Management Committee ("BRMC") is the principal board committee that oversees the Bank's risk management. It reviews the Bank's overall risk management framework and major risk policies. The BRMC is supported by both Management Risk Management Committee ("MRMC") at management level and Risk Management Department.

MRMC has been established for active Senior Management oversight, deliberating on policies, profiles and activities pertaining to integrated risk management. All major risk policies have to be deliberated at relevant functional management committees (including MRMC) prior to escalation to BRMC and Board of Directors for approval.

The Bank's risk management policies are established to guide the risk governance activities that cover identification, measurement, assessment, monitoring and controlling of risks. Risk management policies and systems are reviewed regularly to suit the evolving operating environment and requirements. The Bank, through its training, communications, standards and procedures, aims to develope a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee, supported by Internal Audit Department, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

**(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 comes primarily from the Bank's placements, direct lending, trade finance and funding activities. Unsecured exposures are managed in a prudent manner and collaterals are taken whenever required as risk mitigation measures. Periodic credit review is performed to assess the on-going quality of the Bank's credit portfolio, the impact of pertinent factors on the credit profile of the counterparties/customers and the collaterals taken.

*Management of credit*

The Board of Directors has delegated the responsibility for the oversight of credit risk to the Credit Committee and MRMC. These committees are supervised by the Senior Management Committee.

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

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
- Deliberation of lending propositions and credit related requests
- To review credit exposures periodically to ensure prudent and effective credit risk management

The functions of the MRMC are as follows:

- Reviewing and tracking of the Bank's credit risk management profile
- Reviewing and deliberation of credit policies
- Reviewing and tracking of the credit risk appetite of the Bank

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

**ECL Methodology**

MFRS 9 requires banks to determine the quantified amount of expected credit losses ("ECL") on a probability-weighted basis as the difference between cash flows that are due to the Bank in accordance with the contractual terms of financial assets and the cash flows that the Bank expects to receive.

Probability of Default ("PD") - This is an estimate of the likelihood of a borrower/counterparty defaulting on its financial obligation.

Loss given Default ("LGD") - This is an estimate of the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

Exposure at Default ("EAD") - This is an estimate of the exposure at a future default date, taking into account expected change in the exposure after the reporting date, including repayments of principal and interest and expected drawdown on committed facilities.

**ECL Measurement**

ECL are generally measured based on the risk of default over one of three different stages, depending on whether the credit risk of the borrower/counterparty has increased significantly since initial recognition. Below are the key categories of staging criteria for ECL measurement under MFRS 9:

A financial instrument that is not credit-impaired on initial recognition is to be classified as "Stage 1" and its credit risk is to be continuously monitored by the Bank.

If a significant increase in credit risk since initial recognition is identified, the financial instrument will be moved to "Stage 2" but it is not yet deemed to be credit-impaired.

If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

**ECL Measurement *(continued)***

| **Loss allowance updated at each reporting date** | **Stage 1** | **Stage 2** | **Stage 3** |
|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL** |
| ECL criterion | Performing credit assets with 12-month ECL | Credit exposure that shows significant increase in credit risk (“SICR”) since initial recognition or under-performing credit assets | Credit Impaired Exposure or non-performing credit assets |
| Criteria | i) Day Past Due (“DPD”) <=30 Days | i) Watch List account<br>ii) DPD>30 days; <90 days<br>iii) Significant downgrade in credit rating | i) DPD=>90 days<br>ii) Credit-impaired exposure |

Change in credit quality since initial recognition

Improvement ⟷ Deterioration

Upon implementation of the ECL Model, the provision/impairment for the credit exposures of the Bank is equivalent to 12-Month ECL or Lifetime ECL, depending on the category of the stages as tabulated above, which are to be computed in the following manner:

Stage 1: 12-month ECL = 12-Month PD × LGD × EAD
Stage 2: Lifetime ECL = Lifetime PD × LGD × EAD
Stage 3: Lifetime ECL = EAD - Expected Discounted Cash Flows*

* Expected Discounted Cash Flows are computed based on individual impairment assessment as stipulated in the Bank’s policy and after incorporating forward-looking considerations.

The Bank’s credit risk grading system comprises 20 grading levels for instruments under not impaired category and 1 grading level for instruments under impaired category. The Grade 1-12 is representative of lower assessed probability of default with other classifications reflecting progressively higher credit risk.

**Grading Level**

Grade 1-12
Grade 13-20
Grade 21

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

**Credit Quality Analysis**

| | 2018 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *Loans, Advances and Financing to Corporates* | | | | |
| - Grade 1-12 | 2,232,373 | 104,441 | - | 2,336,814 |
| - Grade 13-20 | 428,189 | 172,240 | - | 600,429 |
| - Grade 21 | - | - | 1,123 | 1,123 |
| | 2,660,562 | 276,681 | 1,123 | 2,938,366 |
| Allowance for credit loss | (15,100) | (11,639) | (1,123) | (27,862) |
| Carrying Amount | 2,645,462 | 265,042 | - | 2,910,504 |
| *Loans, Advances and Financing to Banks* | | | | |
| - Grade 1-12 | 1,030,186 | - | - | 1,030,186 |
| - Grade 13-20 | - | - | - | - |
| - Grade 21 | - | - | - | - |
| | 1,030,186 | - | - | 1,030,186 |
| Allowance for credit loss | (133) | - | - | (133) |
| Carrying Amount | 1,030,053 | - | - | 1,030,053 |
| *Loans, Advances and Financing to Retails* | | | | |
| - Retails | 98,388 | 36 | 65 | 98,489 |
| | 98,388 | 36 | 65 | 98,489 |
| Allowance for credit loss | (854) | (1) | (65) | (920) |
| Carrying Amount | 97,534 | 35 | - | 97,569 |
| *Financial Investments* | | | | |
| - Grade 1-12 | 707,077 | - | - | 707,077 |
| - Grade 13-20 | - | - | - | - |
| - Grade 21 | - | - | - | - |
| | 707,077 | - | - | 707,077 |
| Allowance for credit loss | (93) | - | - | (93) |
| Carrying Amount | 706,984 | - | - | 706,984 |

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

**Significant Increase in Credit Risk**

The Bank's credit exposure is to be categorised under Stage 2 if either one of the following quantitative or qualitative criteria has been met:

Quantitative Criteria
- The obligor has breached its contractual repayment schedule and is past due for more than 30 days (but shorter than 90 days).
- The obligor's credit grading has deteriorated more than the defined threshold as compared to the original credit grading during initial recognition.

Qualitative Criteria
- If a credit exposure meets any non-mandatory triggers (as defined in the Bank's policy documents) to the extent that warrants its classification as Watch List Exposure as per the criteria set.

**Forward looking information**

Both the assessment of SICR and the calculation of ECL have incorporated forward looking information. The Bank has performed historical analysis and identified the key macroeconomic factors ("MEFs") that could cause material impacts to the ECL of the Bank's credit portfolios. The identified MEFs (variables) have been actively monitored and considered by the Bank in its major business planning processes and regular risk assessment activities ranging from periodic credit reviews, environmental screening and impacts assessment, which would be deliberated in the regular meetings at management level and Board level. The Bank relies on the publicly available economic forecasts from reliable and reputable institutions such as World Bank, IMF, international credit rating agencies and research institutions. Expert judgement will be applied in forecasting the macroeconomic factors if there is no forecasted data available for the Bank for reference.

**Macroeconomic Factors Assumptions**

It is assumed that the state of economy in Malaysia may develop into three scenarios with the probability weightage assigned to each macroeconomic scenario as follows:

| **State of economy** | |
|---|---|
| Upside Scenario | 30.00% |
| Base Scenario | 40.00% |
| Downside Scenario | 30.00% |

The adoption of the above probability weightage reflects the Bank's view of the state of economy for the next 12 months whereby the on-going growth momentum of Malaysia economy may be subjected to the neutralization of external and internal challenges arising from limited room for fiscal and monetary policy flexibility (in Malaysia) as well as uncertainty of trade policies of major economies and on-going geo-political events that may affect the growth prospects of the world economy.

**Loss Given Default**

Given the lack of historical loss experience, the Bank has resorted to adopt the highest available LGDs that are sourced directly from major international credit rating agencies, Parent Bank and local peer banks.

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

**Credit Risk Exposure for ECL**

The loss allowance recognised may be impacted by factors as described below:

- Transfers between Stage 1 to Stage 2 or 3 due to financial instruments experiencing significant increases in credit risk or becoming credit impaired during the period which require adoption of lifetime ECL instead of 12-month ECL;
- Impact on the measurement of ECL due to changes in values used for PDs, EADs, and LGDs during the period after considering the review of prevailing MEFs;
- Impact on the measurement of ECL due to changes made to models and assumptions, if any.

The changes in the loss allowance between the beginning and the end of the annual period are as disclosed under Note 10(ix) to the financial statements.

**Exposure at Default**

EAD is a credit exposure (on and off-balance sheet) that is expected to be outstanding if the default is to occur over the next 12 months (for 12-month EAD). For undrawn credit exposure, it would include an estimate of future drawdown by way of applying applicable credit conversion factors (“CCF”) (the percentage of undrawn limit being drawn at the time of default). Similarly, CCF will be applied to other off-balance sheet credit exposures (such as Bank Guarantee) for EAD estimation. The CCF to be used for ECL purposes will be based on the same CCF as adopted under BNM Policy Document on Capital Adequacy Framework (Basel II - Risk Weighted Assets).

**Definition of Default**

A credit exposure is to be classified as default/credit impaired exposure and is to be categorised under Stage 3 if there is occurrence of mandatory trigger(s) for loan impairment, as follows:

- Quantitatively, a credit exposure is to be classified as default or impaired exposure when the obligor has breached its contractual repayment schedule and is past due for 90 days or more.
- Qualitatively, a credit exposure is to be classified as default/impaired exposure if it meets any of the mandatory triggers as stipulated in the Bank’s policy.

Individual assessment is required for an impaired loan. Individually assessed expected credit loss is required to be provided if the recoverable amount of the loan asset is less than its net carrying amount. Recoverable amount is the present value of the estimated future cash flows discounted at the original effective interest rate or at the current interest rate if it carries variable interest rate. In addition to the requirements as stipulated in the Bank’s policy documents, the individual impairment assessment shall consider forward-looking factors appropriate to the subject impaired credit exposure/counterparty.

**Write-off policy**

Clear write-off policy has been established to stipulate the approving authority, escalation process and circumstances under which a loan can be written-off. Generally, an impaired exposure will be written off if the possibility of recovery is deemed highly unlikely; i.e. all viable actions have been exhausted.

## 37. Financial Instruments *(continued)*

### 37.4 Financial risk management *(continued)*

#### (b) Credit risk *(continued)*

##### (i) Exposure to credit risk

An analysis of the exposure to credit risk as at the respective reporting dates are shown below:

| **2018** | **Gross Carrying Amount** | **Allowance for credit loss** | **Net Carrying Amount** |
|---|---|---|---|
| *Loans, Advances and Financing to Customers* | | | |
| Neither past due nor impaired | 3,035,458 | (27,592) | 3,007,866 |
| Past due but not impaired | | | |
| - Less than one month | 174 | (2) | 172 |
| - Between one to two months | 34 | (1) | 33 |
| - Between two to three months | 2 | - | 2 |
| | 210 | (3) | 207 |
| Credit impaired | 1,187 | (1,187) | - |
| | 3,036,855 | (28,782) | 3,008,073 |
| *Loans, Advances and Financing to Banks* * | | | |
| Neither past due nor impaired | 1,030,186 | (133) | 1,030,053 |
| *Financial Investments* | | | |
| *- measured at FVOCI* | | | |
| Neither past due nor impaired | 589,715 | (693) | 589,022 |
| - *measured at Amortised Cost* | | | |
| Neither past due nor impaired | 117,362 | (93) | 117,269 |

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

In addition to the above, the Bank had entered into lending commitments of RM1.60 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 RM794.00 million.

The Bank holds collaterals against loans, advances and financing to customers in the form of fixed deposits, properties, guarantees and other securities. Estimates of fair value are based on the value of collateral assessed at the time of loan origination and subsequent reviews.

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

**(i) Exposure to credit risk (continued)**

| **2017** | **Gross Carrying Amount** | **Individual impairment** | **Collective impairment** | **Net Carrying Amount** |
|---|---|---|---|---|
| *Loans, Advances and Financing to Customers* | | | | |
| *At amortised cost* | | | | |
| Neither past due nor impaired | 3,212,905 | - | (27,399) | 3,185,506 |
| Past due but not impaired | | | | |
| - Less than one month | 112 | - | - | 112 |
| - Between one to two months | 9 | - | - | 9 |
| - Between two to three months | 44 | - | - | 44 |
| | 165 | - | - | 165 |
| Credit impaired | 1,127 | (1,127) | - | - |
| | 3,214,197 | (1,127) | (27,399) | 3,185,671 |
| *Loans, Advances and Financing to Banks* * | | | | |
| Neither past due nor impaired | 1,212,859 | - | - | 1,212,859 |
| *Financial Investments* | | | | |
| *At fair value* | | | | |
| *- Available-for-sale* | | | | |
| Neither past due nor impaired | 372,094 | - | - | 372,094 |
| *At amortised cost* | | | | |
| *- Held-to-maturity* | | | | |
| Neither past due nor impaired | 32,349 | - | - | 32,349 |

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

In addition to the above, the Bank had entered into lending commitments of RM1.11 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 RM916.38 million.

The Bank holds collaterals against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees and other securities. Estimates of fair value are based on the value of collateral assessed at the time of loan origination and subsequent reviews.

**37. Financial Instruments *(continued)***

**37.4 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:

| | 2018<br>RM'000 | 2017<br>RM'000 |
|---|---|---|
| *Loans, Advances and Financing to Banks ** | | |
| Carrying amount | 1,030,053 | 1,212,859 |
| | | |
| **Concentration of credit risk based on sector** | | |
| Financial services | 654,032 | 1,143,024 |
| Government and central bank | 376,021 | 69,835 |
| | 1,030,053 | 1,212,859 |
| | | |
| **Concentration of credit risk based on geographical location** | | |
| Malaysia | 564,166 | 1,111,498 |
| East Asia | 31,261 | 18,001 |
| South East Asia | 391 | 56,195 |
| United States of America | 428,612 | 25,110 |
| Europe | 4,653 | 1,564 |
| Oceania | 970 | 491 |
| | 1,030,053 | 1,212,859 |

* 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 counterparty.

Concentration by sector and geographical distribution for loans, advances and financing to customers are disclosed under Notes 10(iv) and 10(vi) to the financial statements.

| | 2018<br>RM'000 | 2017<br>RM'000 |
|---|---|---|
| *Financial Investments* | | |
| Carrying amount | 706,984 | 404,443 |
| | | |
| **Concentration of credit risk based on sector** | | |
| Financial services | 30,630 | 30,526 |
| Government and central bank | 490,617 | 273,642 |
| Others | 185,737 | 100,275 |
| | 706,984 | 404,443 |
| | | |
| **Concentration of credit risk based on geographical location** | | |
| Malaysia | 706,984 | 404,443 |

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

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(b) Credit risk *(continued)***

**(iii) Derivatives risk**

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

**(iv) Settlement risk**

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. Control measures such as limit setting and monitoring are in place to manage the said risk.

**(c) Liquidity risk**

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future obligations due to customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawals, overdue repayments from counterparties, mismatch in asset-liability maturity structure and difficulties in realisation of assets.

*Management of liquidity risk*

The management of liquidity and funding has been carried out in compliance with regulatory requirement as well as management requirement and thresholds 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 satisfied and all obligations are met accordingly.

The Bank has continuously been maintaining relationship with new and existing depositors and funding counterparties as it aims at growing the funding base in a diversified manner.

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(c) Liquidity risk *(continued)***

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

| | On demand RM'000 | Due within 3 months RM'000 | Between 3 to 12 months RM'000 | Between 1 to 3 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Deposits from customers | 747,808 | 1,413,362 | 353,806 | 10,309 | 2,525,285 |
| Deposits and placements of banks and other financial institutions | 63,766 | 715,580 | 366,944 | - | 1,146,290 |
| Derivative financial liabilities | - | 1,141 | 6,645 | - | 7,786 |
| Other liabilities | 56,337 | - | - | - | 56,337 |
| | 867,911 | 2,130,083 | 727,395 | 10,309 | 3,735,698 |

| | On demand RM'000 | Due within 3 months RM'000 | Between 3 to 12 months RM'000 | Between 1 to 3 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Deposits from customers | 1,084,201 | 1,516,483 | 254,854 | - | 2,855,538 |
| Deposits and placements of banks and other financial institutions | 28,650 | 656,112 | 233,830 | - | 918,592 |
| Derivative financial liabilities | - | 2,150 | 13,610 | - | 15,760 |
| Other liabilities | 54,771 | - | - | - | 54,771 |
| | 1,167,622 | 2,174,745 | 502,294 | - | 3,844,661 |

The balances in the above tables will not agree directly with the balances in the statement of financial position as the tables incorporate, 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 the Bank's cash flow position has been actively managed.

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(c) Liquidity risk *(continued)***

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

| 2018 | 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 | 528,130 | 1,623 | 1,600 |
| - Currency Swaps | 1,167,456 | 6,532 | 6,186 |
| | 1,695,586 | 8,155 | 7,786 |

| 2017 | 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 | 663,122 | 14,010 | 13,951 |
| - Currency Swaps | 514,249 | 1,929 | 1,809 |
| | 1,177,371 | 15,939 | 15,760 |

**(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 has established governance process for market risk management that covers the activities of identifying, measuring, monitoring, controlling and reporting market risks on timely basis. The objective of market risk management is to manage and control the market risk exposures within the tolerable levels set and maximise risk-adjusted return according to the Bank's risk appetite.

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 activities will be managed according to, and within the authorised risk limits.

**37. Financial Instruments *(continued)***

**37.4 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 exchange risk on transactions that are denominated in currencies other than its functional currency. The Bank minimises its exposure to foreign exchange 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 include 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 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **ASSETS** | | | | | |
| Cash and short-term funds | 439,033 | 564,884 | 4,663 | 9,006 | 1,017,586 |
| Deposits and placements with banks and other financial institutions | - | 12,467 | - | - | 12,467 |
| Financial investments measured at FVOCI | 559,085 | - | 30,630 | - | 589,715 |
| Financial investments measured at amortised cost | 117,269 | - | - | - | 117,269 |
| Loans, advances and financing | 1,538,377 | 1,266,855 | 6,268 | 196,573 | 3,008,073 |
| Derivative financial assets | 6,687 | - | 1,468 | - | 8,155 |
| Other assets | 14,504 | 93 | 614 | - | 15,211 |
| Statutory deposits with Bank Negara Malaysia | 42,602 | - | - | - | 42,602 |
| Plant and equipment | 8,319 | - | - | - | 8,319 |
| Intangible asset | - | - | - | - | - |
| Deferred tax assets | 10,298 | - | - | - | 10,298 |
| **TOTAL ASSETS** | 2,736,174 | 1,844,299 | 43,643 | 205,579 | 4,829,695 |
| **LIABILITIES** | | | | | |
| Deposits from customers | 1,333,909 | 1,056,537 | 94,185 | 17,936 | 2,502,567 |
| Deposits and placements of banks and other financial institutions | 256,884 | 665,198 | 22,001 | 185,959 | 1,130,042 |
| Derivative financial liabilities | - | 7,786 | - | - | 7,786 |
| Other liabilities | 34,948 | 35,352 | 566 | 486 | 71,352 |
| Provision for commitments and contingencies | 4,367 | 179 | - | - | 4,546 |
| Provision for taxation | 7,376 | - | - | - | 7,376 |
| **TOTAL LIABILITIES** | 1,637,484 | 1,765,052 | 116,752 | 204,381 | 3,723,669 |

**37. Financial Instruments *(continued)***

**37.4 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 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| **ASSETS** | | | | | |
| Cash and short-term funds | 758,849 | 232,095 | 57,982 | 13,933 | 1,062,859 |
| Deposits and placements with banks and other financial institutions | 150,000 | - | - | - | 150,000 |
| Financial investments available-for-sale | 341,568 | - | 30,526 | - | 372,094 |
| Financial investments held-to-maturity | 32,349 | - | - | - | 32,349 |
| Loans, advances and financing | 1,196,568 | 1,856,693 | 15,579 | 116,831 | 3,185,671 |
| Derivative financial assets | 15,873 | - | 66 | - | 15,939 |
| Other assets | 10,224 | 184 | 656 | 111 | 11,175 |
| Statutory deposits with Bank Negara Malaysia | 20,378 | - | - | - | 20,378 |
| Plant and equipment | 9,691 | - | - | - | 9,691 |
| Intangible asset | - | - | - | - | - |
| Deferred tax assets | 6,048 | - | - | - | 6,048 |
| **TOTAL ASSETS** | 2,541,548 | 2,088,972 | 104,809 | 130,875 | 4,866,204 |
| | | | | | |
| **LIABILITIES** | | | | | |
| Deposits from customers | 1,316,291 | 1,404,928 | 101,722 | 16,584 | 2,839,525 |
| Deposits and placements of banks and other financial institutions | 150,294 | 625,956 | 17,027 | 113,703 | 906,980 |
| Derivative financial liabilities | 5 | 15,665 | - | 90 | 15,760 |
| Other liabilities | 37,915 | 26,338 | 716 | 163 | 65,132 |
| Provision for taxation | 13,074 | - | - | - | 13,074 |
| **TOTAL LIABILITIES** | 1,517,579 | 2,072,887 | 119,465 | 130,540 | 3,840,471 |

**37. Financial Instruments *(continued)***

**37.4 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2018** | **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 | 993,144 | - | - | - | - | 24,442 | - | 1,017,586 |
| Deposits and placements with banks and other financial institutions | - | - | 12,467 | - | - | - | - | 12,467 |
| Financial investments measured at FVOCI | - | - | 4,993 | 388,111 | 196,611 | - | - | 589,715 |
| Financial investments measured at amortised cost | - | - | - | 117,269 | - | - | - | 117,269 |
| Loans, advances and financing: | | | | | | | | |
| - performing | 1,305,077 | 1,623,222 | 44,950 | 32,900 | 1,924 | - | - | 3,008,073 |
| Other assets ^ | - | - | - | - | - | 84,585 | - | 84,585 |
| **Total assets** | 2,298,221 | 1,623,222 | 62,410 | 538,280 | 198,535 | 109,027 | - | 4,829,695 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 1,514,978 | 635,411 | 341,869 | 10,309 | - | - | - | 2,502,567 |
| Deposits and placements of banks and other financial institutions | 114,515 | 657,641 | 357,886 | - | - | - | - | 1,130,042 |
| Other liabilities * | - | - | - | - | - | 91,060 | - | 91,060 |
| **Total liabilities** | 1,629,493 | 1,293,052 | 699,755 | 10,309 | - | 91,060 | - | 3,723,669 |
| **Equity** | - | - | - | - | - | 1,106,026 | - | 1,106,026 |
| **Total liabilities and equity** | 1,629,493 | 1,293,052 | 699,755 | 10,309 | - | 1,197,086 | - | 4,829,695 |
| On-balance sheet interest sensitivity gap | 668,728 | 330,170 | (637,345) | 527,971 | 198,535 | (1,088,059) | - | |
| **Total interest sensitivity gap** | 668,728 | 330,170 | (637,345) | 527,971 | 198,535 | (1,088,059) | - | |

**37. Financial Instruments *(continued)***

**37.4 Financial risk management *(continued)***

**(d) Market risk *(continued)***

*Interest rate risk (continued)*

| **2017** | **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 | 1,048,733 | - | - | - | - | 14,126 | - | 1,062,859 |
| Deposits and placements with banks and other financial institutions | - | 150,000 | - | - | - | - | - | 150,000 |
| Financial investments AFS | - | - | - | 251,206 | 120,888 | - | - | 372,094 |
| Financial investments HTM | - | - | - | 32,349 | - | - | - | 32,349 |
| Loans, advances and financing: | | | | | | | | |
| - performing | 1,254,723 | 1,275,038 | 650,752 | 2,761 | 2,397 | - | - | 3,185,671 |
| Other assets ^ | - | - | - | - | - | 63,231 | - | 63,231 |
| **Total assets** | 2,303,456 | 1,425,038 | 650,752 | 286,316 | 123,285 | 77,357 | - | 4,866,204 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 1,689,959 | 889,300 | 241,166 | - | - | 19,100 | - | 2,839,525 |
| Deposits and placements of banks and other financial institutions | 149,902 | 529,538 | 227,540 | - | - | - | - | 906,980 |
| Other liabilities * | - | - | - | - | - | 93,966 | - | 93,966 |
| **Total liabilities** | 1,839,861 | 1,418,838 | 468,706 | - | - | 113,066 | - | 3,840,471 |
| **Equity** | - | - | - | - | - | 1,025,733 | - | 1,025,733 |
| **Total liabilities and equity** | 1,839,861 | 1,418,838 | 468,706 | - | - | 1,138,799 | - | 4,866,204 |
| On-balance sheet interest sensitivity gap | 463,595 | 6,200 | 182,046 | 286,316 | 123,285 | (1,061,442) | - | |
| **Total interest sensitivity gap** | 463,595 | 6,200 | 182,046 | 286,316 | 123,285 | (1,061,442) | - | |

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

* Other liabilities include other liabilities, derivative financial liabilities, provision for commitments and contingencies and provision for taxation as disclosed in the statement of financial position.

**37. Financial Instruments *(continued)***

**37.4 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, is as follows:

**(i) Sensitivity of projected net interest income**

| | 100 bps* Parallel Increase RM'000 | 100 bps* Parallel Decrease RM'000 |
|---|---|---|
| At 31 December 2018 | 11,776 | (11,776) |
| At 31 December 2017 | 13,688 | (13,688) |

**(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 2018 | (14,005) | 14,005 |
| At 31 December 2017 | (13,587) | 13,587 |

* 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 inherent in its material products, activities, processes and systems. They are responsible for the management of operational risk on a day-to-day basis. The Bank has adopted the following standards and management measures in managing operational risk:

- requirement for appropriate segregation of duties, including independent authorisation of transactions
- requirement for 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

## 38. 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 the assessment of the 3-year financial projection. 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 an 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 will 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 following:

- Common Equity Tier 1 ("CET1") Capital, which includes ordinary share capital, 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 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.

## 39. Significant changes in accounting policies

### Accounting for financial instruments

#### (a) Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the Standard have been adopted:

(i) The Bank has not restated comparative information for prior periods with respect to the classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement* .

(ii) The determination assessment of the business model within which a financial asset is held has been made based on the facts and circumstances that existed at the date of initial application.

(iii) If an investment in a debt security had low credit risk at the date of initial application of MFRS 9, the Bank has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(iv) Impairment losses for receivables (other than loans, advances and financing) is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

## 39. Significant changes in accounting policies *(continued)*

### Accounting for financial instruments *(continued)*

### (b) Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Bank's financial assets and financial liabilities as at 1 January 2018:

| | | 1 January 2018 | | | |
|---|---|---|---|---|---|
| | | | Reclassification to new MFRS 9 category | | |
| **Category under MFRS 139** | **31 December 2017** | **Re-measurement** | **Amortised Cost** | **FVTPL** | **FVOCI - debt instruments** |
| **Financial assets** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| *Loans and receivables* | | | | | |
| Loans, advances and financing | 3,185,671 | 8,035 | 3,193,706 | - | - |
| Cash and short-term funds | 1,062,859 | (22) | 1,062,837 | - | - |
| Deposits and placements with bank and other financial institutions | 150,000 | (27) | 149,973 | - | - |
| Other assets | 11,175 | - | 11,175 | - | - |
| Statutory deposits with Bank Negara Malaysia | 20,378 | - | 20,378 | - | - |
| | 4,430,083 | 7,986 | 4,438,069 | - | - |
| *Available-for-sale* | | | | | |
| Financial investments | 372,094 | (601) | - | - | 371,493 |
| *Held-to-maturity* | | | | | |
| Financial investments | 32,349 | - | 32,349 | - | - |
| *Fair-value through profit or loss* | | | | | |
| Derivative financial assets | 15,939 | - | - | 15,939 | - |

**39. Significant changes in accounting policies *(continued)***

**Accounting for financial instruments *(continued)***

**(b) Classification of financial assets and financial liabilities on the date of initial application of MFRS 9 *(continued)***

| | | 1 January 2018 | | | |
|---|---|---|---|---|---|
| | | | Reclassification to new MFRS 9 category | | |
| **Category under MFRS 139** | **31 December 2017** | **Re-measurement** | **Amortised Cost** | **FVTPL** | **FVOCI - debt instruments** |
| **Financial Liabilities** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| *Fair-value through profit or loss* | | | | | |
| Derivative financial liabilities | 15,760 | - | - | 15,760 | - |
| *Financial liabilities measured at amortised cost* | | | | | |
| Deposits from customers | 2,839,525 | - | 2,839,525 | - | - |
| Deposits and placements of banks and other financial institutions | 906,980 | - | 906,980 | - | - |
| Other liabilities | 65,132 | - | 65,132 | - | - |
| | 3,811,637 | - | 3,811,637 | - | - |
| *Others* | | | | | |
| Provision for commitments and contingencies | - | 7,910 | 7,910 | - | - |

**39. Significant changes in accounting policies *(continued)***

**Accounting for financial instruments *(continued)***

**(b) Classification of financial assets and financial liabilities on the date of initial application of MFRS 9 *(continued)***

**(i)** ***Reclassification from loans and receivables to amortised cost***
Loan, advances and financing that were classified as "loans and receivables" under MFRS 139 are now reclassified as measured at "amortised cost". A decrease of RM8.04 million in allowance for impairment was recognised in opening retained earnings of the Bank at 1 January 2018 on transition to MFRS 9.

Cash and short-term funds that were classified as "loans and receivables" under MFRS 139 are now reclassified as measured at "amortised cost". Allowance for impairment of RM22,000 was recognised in opening retained earnings of the Bank at 1 January 2018 on transition to MFRS 9.

Deposits and placements with banks and other financial institutions that were classified as "loans and receivables" under MFRS 139 are now reclassified as measured at "amortised cost". Allowance for impairment of RM27,000 was recognised in opening retained earnings of the Bank at 1 January 2018 on transition to MFRS 9.

**(ii)** ***Reclassification from AFS to FVOCI***
Financial investments previously classified as "available-for-sale" were held by the Bank primarily for collecting contractual cash flows and selling them if the need arose to meet liquidity requirements. These investments are now reclassified as "financial assets measured at FVOCI".

**(iii)** ***Reclassification from HTM to amortised cost***
Financial investments that were previously classified as "held-to-maturity" are now classified as measured at "amortised cost" because the Bank intends to hold the assets to maturity to collect contractual cash flows.

**(iv)** ***Remeasurement of provision for commitments and contingencies***
Financial guarantees are remeasured on transition to MFRS 9 (see Note 20). The Bank has provided a loss allowance of RM7.91 million on its financial guarantee contracts at 1 January 2018.

**39. Significant changes in accounting policies *(continued)***

**Accounting for financial instruments *(continued)***

**(b) Classification of financial assets and financial liabilities on the date of initial application of MFRS 9 *(continued)***

| **ASSETS** | **31 December 2017** | **Re-classification** | **Impairment** | **1 January 2018** |
|---|---|---|---|---|
| Cash and short-term funds | 1,062,859 | - | (22) | 1,062,837 |
| Deposits and placements with banks and other financial institutions | 150,000 | - | (27) | 149,973 |
| Financial investments measured at FVOCI | - | 372,094 | - | 372,094 |
| Financial investments available-for-sale | 372,094 | (372,094) | - | - |
| Financial investments measured at amortised cost | - | 32,349 | - | 32,349 |
| Financial investments held-to-maturity | 32,349 | (32,349) | - | - |
| Loans, advances and financing | 3,185,671 | - | 8,035 | 3,193,706 |
| Derivative financial assets | 15,939 | - | - | 15,939 |
| Other assets | 11,175 | - | - | 11,175 |
| Statutory deposits with Bank Negara Malaysia | 20,378 | - | - | 20,378 |
| Plant and equipment | 9,691 | - | - | 9,691 |
| Intangible asset | - | - | - | - |
| Deferred tax assets | 6,048 | - | - | 6,048 |
| **TOTAL ASSETS** | 4,866,204 | - | 7,986 | 4,874,190 |
| | | | | |
| **LIABILITIES** | | | | |
| Deposits from customers | 2,839,525 | - | - | 2,839,525 |
| Deposits and placements of banks and other financial institutions | 906,980 | - | - | 906,980 |
| Derivative financial liabilities | 15,760 | - | - | 15,760 |
| Other liabilities | 65,132 | - | - | 65,132 |
| Provision for commitments and contingencies | - | - | 7,910 | 7,910 |
| Provision for taxation | 13,074 | - | - | 13,074 |
| **TOTAL LIABILITIES** | 3,840,471 | - | 7,910 | 3,848,381 |
| | | | | |
| **EQUITY** | | | | |
| Share capital | 832,609 | - | - | 832,609 |
| Reserves | 193,124 | - | 76 | 193,200 |
| **EQUITY ATTRIBUTABLE TO OWNER OF THE BANK** | 1,025,733 | - | 76 | 1,025,809 |
| **TOTAL LIABILITIES AND EQUITY** | 4,866,204 | - | 7,986 | 4,874,190 |