Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

Directors' Report and Financial Statements
31 December 2019

Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

DIRECTORS' REPORT
For the year ended 31 December 2019

The Directors have pleasure in submitting their report and the audited financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad ("the Bank") for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

RESULTS

	RM'000
Profit before taxation	57,075
Tax expense	(6,752)
Profit for the year	50,323

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
Mr Chin Chee Kong
Mr Ng Lip Yong (Appointed on 7 February 2019)
Ms Sum Leng Kuang (Appointed on 15 April 2019)
YBhg Dato' Leong Khee Seong (Retired on 2 June 2019)
Mr Ong Ah Tin @ Ong Chee Kwee (Retired on 2 June 2019)

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

DIRECTORS' INTEREST

None of the Directors holding office at 31 December 2019 has 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 31(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.

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 ("Parent Bank"), 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 RM57.08 million for the financial year 2019, representing a decrease of RM38.57 million or 40.3% as compared with the previous financial year. Net interest income which contributed 79.9% to the Bank’s total operating income decreased RM5.57 million or 4.5% to RM117.96 million in 2019 when compared to the financial year 2018 as a result of lower interest margin earned. Net trading income which contributed 12.6% of the Bank’s total operating income decreased by 42.9% or RM13.96 million to RM18.60 million in 2019 caused by lower volume of foreign exchange transactions. Net fee income which constituted 7.4% of the Bank’s total operating income decreased RM14.77 million or 57.6% to RM10.89 million in 2019.

The Bank’s other operating expenses decreased by RM7.78 million or 9.6% to RM73.14 million largely due to lower personnel costs incurred. During the year, allowance for impairment on loans, advances and financing increased by RM11.53 million when compared with the financial year 2018 resulted from a change in the credit grading of certain borrowers. The Bank recorded tax expense of RM6.75 million with lower profit earned during the year and taking into account the lower tax rate for its Labuan operation.

Overall, the Bank’s total assets stood at RM5.07 billion as at 31 December 2019, increased by RM239.32 million or 5.0% when compared to 31 December 2018. The increase was contributed by higher cash and short-term funds by RM160.18 million and higher deposits and placements with banks and other financial institutions by RM159.10 million. However, the Bank’s gross loans, advances and financing registered a negative growth of RM79.64 million or 2.6% to RM2.96 billion as compared to the RM3.04 billion recorded as at 31 December 2018.

As at 31 December 2019, the Bank’s total liabilities increased by RM179.58 million or 4.8% and stood at RM3.90 billion. The higher balance was mainly contributed by growth in deposits from customers by RM365.79 million or 14.6% when compared to previous year end. On the other hand, deposits and placements of banks and other financial institutions decreased by RM196.33 million or 17.4% to RM933.71 million.

Despite the many challenges in the financial year 2020, the Bank will continue to strengthen its core business by growing both loans and deposits, as well as source opportunity to grow its fee income and trading income with a view to sustaining business and enhancing profitability for the foreseeable future.

OUTLOOK FOR 2020

The World Bank and International Monetary Fund in January 2020, taking cognizance of the then prevailing development of global trade and investment environment, forecasted the global Gross Domestic Product ("GDP") would grow by 2.5% and 3.3% respectively in 2020. The evolving development of the novel coronavirus (which was named COVID-19 on 11 February 2020) outbreak since January 2020 has, however, triggered economists and strategists to repeatedly lower their global growth forecasts, the lower end of which could go down to as low as -2.0%. Given this scenario, coordinated actions by policy makers of major economies would be integral in revitalising the global GDP into the positive momentum.

Malaysian GDP grew 4.3% for the full year of 2019 (2017: 5.9% and 2018: 4.7%), supported by higher private sector spending. However, the growth was affected by the decline in net export. Considering the impacts of COVID-19 outbreak under a scenario where the large-scale disruption of economic activities would extend for most of the year 2020, the World Bank had in March lowered Malaysia's GDP forecast to -0.1%.

While the economy stimulus package announced by the Malaysian Government in March 2020 could help in mitigating the immediate impacts of the outbreak, World Bank opined that more targeted fiscal policy interventions would be needed to help mitigate the impact of the prolonged outbreak on vulnerable households and businesses. Moreover, the plunge in commodity prices (e.g. crude oil prices) would put additional strain on Malaysia's fiscal space and in turn may increase the burden on monetary policy as a key policy tool.

On another note, while the banking system in Malaysia remained sound as evidenced by its healthy asset quality and strong capitalisation, the downside risks become imminent amid the chain impacts of COVID-19 outbreak to the domestic economy and abroad, which would ultimately add on the credit costs of the banks. Stiffer competitions for acquiring customer deposits and quality lending deals as well as the possibility of further cut in Overnight Policy Rate ("OPR") (in addition to OPR cuts in January and March 2020) are expected to put on additional pressure to the banking system's net interest margin. Therefore, banks' earnings are expected to soften this year.

While being cautious in dealing with the downside risks that broadly affect the banking industry, 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 capitalising on the ICBC Group's established business network and service channels globally. Notwithstanding the challenging operating environment coupled with the chain effects of the COVID-19 outbreak, the Bank will continue to uphold its commitment to grow the business and manage the financial position in a sustainable manner.

CORPORATE GOVERNANCE STATEMENT

ICBC Malaysia aspires to uphold the highest standard of corporate governance as it believes that good governance is vital to the long-term success and sustainability of the Bank's business with the ultimate objective of safeguarding the interests of all stakeholders and enhancing shareholder's value. To this end, the Board of Directors ("the Board") is committed to provide effective leadership in ensuring that responsible and sustainable business practices as well as the highest level of corporate integrity are promoted throughout the Bank. The Bank's corporate governance practices are guided by the principles and standards as set out in Bank Negara Malaysia's Policy Document on Corporate Governance ("BNM CG Policy") and Malaysian Code on Corporate Governance.

BOARD OF DIRECTORS

(a) **Board Composition**

The Board of the Bank is currently represented by five (5) Members, comprising the Non-Independent Non-Executive Chairman, the Managing Director and three (3) Independent Non-Executive Directors ("INEDs"). The Board is constituted of individuals of high caliber with relevant experience and skills, which allows a breadth of perspective and is viewed as optimal based on the complexity, size and scope of the business operations of the Bank. A brief profile of each member of the Board is presented below:-

(i) **Mr Chang Zhenwang**
Chairman/Non-Independent Non-Executive Director *(appointed to the Board on 28 October 2016)*
58 years old/Chinese

Academic/Professional Qualification
* Master of Business Administration, Fudan University and University of Hong Kong (International), China

Skills and Experience
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.

Other Directorships
* ICBC (Almaty) Joint Stock Company (Chairman)
* ICBC Financial Leasing Co. Ltd (Chairman)
* ICBC International Holdings Limited

BOARD OF DIRECTORS *(continued)*

(a) **Board Composition *(continued)***

(ii) **Mr Wang Qiang**
Managing Director/Chief Executive Officer *(appointed to the Board on 22 November 2017)*
50 years old/Chinese

Academic/Professional Qualification
* Master of Business Administration (International), University of Hong Kong
* Bachelor of Investment Management, Central University of Finance and Economics, China

Skills and Experience
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 Managing Director/Chief Executive Officer ("MD/CEO") of ICBC Malaysia.

Other Directorships
Nil

(iii) **Mr Chin Chee Kong**
Independent Non-Executive Director *(appointed to the Board on 10 August 2017)*
Chairman of Audit Committee
Member of Board Risk Management Committee
Member of Nomination and Remuneration Committee
63 years old/Malaysian

Academic/Professional Qualification
* Member of the Malaysian Institute of Accountants (MIA)
* Member of the Malaysian Institute of Certified Public Accountants (MICPA)

Skills and Experience
Mr Chin Chee Kong is a Chartered Accountant and a Certified Public Accountant. He 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.

Other Directorships
* Naim Holdings Berhad
* Perdana Petroleum Berhad
* Kebajikan Dayang Fatimah Berhad

BOARD OF DIRECTORS *(continued)*

(a) **Board Composition *(continued)***

(iv) **Mr Ng Lip Yong**
Independent Non-Executive Director *(appointed to the Board on 7 February 2019)*
Chairman of Nomination and Remuneration Committee
Member of Audit Committee
Member of Board Risk Management Committee
70 years old/Malaysian

Academic/Professional Qualification
* Master of Science in Microwave and Communications Engineering, University of Leeds, UK
* Bachelor of Engineering (Hons) in Electronic Engineering, University of Sheffield, UK

Skills and Experience
Mr Ng Lip Yong has broad experiences through various positions/advisory roles held in the government agencies and corporate sector. He held various technical and management positions in several established companies, which included as Engineer of Standard Telephone & Cables Ltd, England and Telecommunications Authority of Singapore, Resident Manager of GTE International Incorporated, USA (Malaysia Representative Office), Managing Director of Hai-O Marketing Sdn Bhd and Hai-O Energy Sdn Bhd and Business Advisor of Hiap Teck Venture Berhad.

Mr Ng Lip Yong has 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. He is currently the Honourary Advisor of Malaysia-China Chamber of Commerce.

Other Directorships
Nil

(v) **Ms Sum Leng Kuang**
Independent Non-Executive Director *(appointed to the Board on 15 April 2019)*
Chairman of Board Risk Management Committee
Member of Audit Committee
Member of Nomination and Remuneration Committee
66 years old/Malaysian

Academic/Professional Qualification
* Bachelor of Commerce in Finance, University of Canterbury, New Zealand
* Certified Financial Planner

Skills and Experience
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.

BOARD OF DIRECTORS *(continued)*

(a) **Board Composition *(continued)***

(v) **Ms Sum Leng Kuang *(continued)***

Other Directorships
* AmFunds Management Berhad
* AmIslamic Funds Management Sdn Bhd

As at the date of this report, none of the Directors have any shareholding in the Bank nor they have any conflict of interest or personal interest in any business arrangement involving the Bank.

(b) **Tenure and Independence**

The Board recognises the importance of having a strong element of independence on the Board so as to provide effective check and balance in the functioning of the Board to safeguard the interests of the Bank and all stakeholders. The current Independent Directors of the Bank account for 60% 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 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 2019, 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 BNM CG Policy.

The Bank has adopted a nine (9) years policy for tenure of Independent Directors. 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.

The past financial year saw the Board bidding farewell to two (2) Independent Directors, YBhg Dato' Leong Khee Seong and Mr Ong Ah Tin, who have retired from the Board on 2 June 2019 after having served the Bank for nine (9) years. The departure of YBhg Dato' Leong Khee Seong and Mr Ong Ah Tin paved the way for the appointment of Mr Ng Lip Yong and Ms Sum Leng Kuang as new Independent Directors of the Bank.

BOARD OF DIRECTORS *(continued)*

(c) **Board Responsibilities**

In discharging its roles and responsibilities, the Board is guided by its Board Charter which outlines, among others, the respective roles, responsibilities and authorities of the Board (both individually and collectively), the Chairman and MD/CEO of the Bank. This Charter serves as the basis of the principles that govern the Board's conduct and its relationship with the stakeholders of the Bank.

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 regulatory 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.

The business and affairs of the Bank are managed under the direction and oversight of the Board, with the goal of enhancing the long-term value of shareholder, safeguarding the interests of all stakeholders and contributing to the success of the Bank. The Board is responsible to review and approve the Bank's business strategies and policies while at the same time, through the established Board Committees, to provide effective oversight of the Bank's performance, risk assessment and controls over business operations, and compliance with regulatory requirements.

The day-to-day business operation of the Bank is managed by the MD/CEO who is assisted by the Senior Management team. The MD/CEO and his Senior Management team are accountable to the Board for the performance of the Bank. Apart from that, the Board has established Board Committees which operate within clearly defined TORs primarily to support the execution of its duties and responsibilities.

The Board acknowledges the importance of a clear division of responsibilities between the Chairman and MD/CEO. The roles of Chairman and MD/CEO are therefore exercised by separate individuals to ensure optimal balance, resulting in increased accountability and enhanced decision-making. The roles and responsibilities of the Chairman and MD/CEO are also specified clearly in the Board Charter of the Bank.

The Bank has also adopted 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.

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

The Board meets on a scheduled basis 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.

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

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

The Chairman of the Bank manages the affairs of the Board with the objective to ensure 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.

All Directors holding office during the financial year ended 31 December 2019 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	**Attendance**
Chang Zhenwang (Chairman) NINED	5/5
Wang Qiang MD/CEO	5/5
Chin Chee Kong INED	5/5
Ng Lip Yong (1) INED	5/5
Sum Leng Kuang (2) INED	3/3
Dato' Leong Khee Seong (3) INED	3/3
Ong Ah Tin (3) INED	3/3

Note:-

(1) Appointed to the Board on 7 February 2019

(2) Appointed to the Board on 15 April 2019

(3) Retired from the Board on 2 June 2019

BOARD OF DIRECTORS *(continued)*

(e) **Training and Development of Directors**

The Board recognises the importance of ensuring the Directors are continuously being developed to acquire or enhance the requisite knowledge and skills to discharge their duties effectively.

To this end, 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 and Ms Sum Leng Kuang who were appointed as Independent Directors of the Bank on 7 February 2019 and 15 April 2019, respectively 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 training programmes and seminars organised internally (including those organised by ICBC Group) or externally by relevant regulatory authorities and professional bodies to broaden their knowledge and keep abreast with the relevant changes in law, regulations and the business environment.

The training programmes, conferences and forums attended by the Directors of the Bank during the financial year 2019, were as follows:-

Director	Training Attended
Chang Zhenwang	▪ In-house: Risk Management in Shipping Industry (organised by ICBC Group) ▪ In-house: Anti-Bribery and Corruption ▪ In-house: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) ▪ In-house: Briefing on BNM Policy Document on Credit Risk
Wang Qiang	▪ In-house: Seminar on Macroeconomic Condition in China and China-Malaysia Bilateral ▪ In-house: Anti-Bribery and Corruption ▪ In-house: AML/CFT ▪ In-house: Briefing on BNM Policy Document on Credit Risk ▪ In-house: China/HK Capital Market Performance and Opportunities Conference ▪ In-house: Trade-Based Money Laundering ▪ BNM Financial Industry Conference: Shifting Tides - Future of Finance
Chin Chee Kong	▪ In-house: Seminar on Macroeconomic Condition in China and China-Malaysia Bilateral ▪ In-house: Anti-Bribery and Corruption ▪ In-house: AML/CFT ▪ In-house: Briefing on BNM Policy Document on Credit Risk ▪ BNM Financial Industry Conference: Shifting Tides - Future of Finance ▪ Corporate Liability Provision on Corruption under Malaysian Anti-Corruption Commission Act 2009 ("MACC Act") ▪ Malaysian Financial Reporting Standard (MFRS) Updates 2019/2020 Seminar ▪ Tax and Business Seminar ▪ Seminar on Fraud Risk Management

BOARD OF DIRECTORS *(continued)*

(e) **Training and Development of Directors *(continued)***

Director	Training Attended
Ng Lip Yong	▪ In-house: Seminar on Macroeconomic Condition in China and China-Malaysia Bilateral ▪ In-house: Anti-Bribery and Corruption ▪ In-house: AML/CFT ▪ In-house: Briefing on BNM Policy Document on Credit Risk ▪ In-house: Directors' Induction Programme ▪ In-house: China/HK Capital Market Performance and Opportunities Conference ▪ FIDE Core Programme (Module A & B)
Sum Leng Kuang	▪ In-house: Seminar on Macroeconomic Condition in China and China-Malaysia Bilateral ▪ In-house: Anti-Bribery and Corruption ▪ In-house: AML/CFT ▪ In-house: Briefing on BNM Policy Document on Credit Risk ▪ In-house: Directors' Induction Programme ▪ In-house: China/HK Capital Market Performance and Opportunities Conference ▪ Section 17A of MACC Act ▪ Post National Budget 2020 Forum ▪ Leadership in a Disruptive World: The Changing Role of Boards ▪ Khazanah Megatrend 2019 ▪ Moody's Credit Trend ▪ Artificial Intelligence and Its Role in Financial Institutions ▪ Nomura Conference on Financial Market ▪ Digital Assets: Global Trends, Legal Requirements and Opportunities for Financial Institutions ▪ FIDE Forum: Reading the Signs: The Next Financial Crisis and Potential Impact on Asia ▪ DBS Pulse of Asia Conference

(f) **Appointment and Re-election of Directors**

▪ 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.

BOARD OF DIRECTORS *(continued)*

(f) Appointment and Re-election of Directors *(continued)*

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 to 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.

- 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.

(g) Board Performance Evaluation

The Bank conducts an annual Board Performance Evaluation (“BPE”) exercise with the objective of assessing the performance of the Board as a whole, Board Committees and individual Directors. The results of the BPE form part of the basis for evaluation by the NRC for the re-appointment of Directors.

The BPE is a questionnaire based self-assessment exercise where Directors assess the performance of the Board, Board Committees and individual Directors. The assessment results will be tabled at the NRC and the Board for review to enable the Board to identify and put in place actions to address areas for improvement. 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 2019 to its Directors and the assessment results thereof will be compiled for presentation to NRC and the Board for review subsequently.

BOARD COMMITEES

The Board has established Audit Committee ("AC"), Board Risk Management Committee ("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.

(a) **Audit Committee**

The AC currently comprises entirely INEDs. The AC supports the Board with matters relating to financial reporting, external audit, internal audit, internal control processes and related party transactions. It also works closely with BRMC in connection with assessing the effectiveness of the risk management and internal control framework. The details of AC's duties and responsibilities are set out in its TOR which is published on the Bank's corporate website.

During the financial year ended 2019, five (5) AC meetings were held and the attendances of the AC members were as follows:-

Member	**Attendance**
Chin Chee Kong (Chairman) (1) INED	5/5
Ng Lip Yong (2) INED	2/2
Sum Leng Kuang (2) INED	2/2
Dato' Leong Khee Seong (3) INED	3/3
Ong Ah Tin (4) INED	3/3

Note:-
(1) Appointed as Chairman on 2 June 2019
(2) Appointed as Member on 2 June 2019
(3) Ceased as Chairman on 2 June 2019
(4) Ceased as Member on 2 June 2019

BOARD COMMITEES *(continued)*

(b) **Board Risk Management Committee**

The BRMC currently comprises entirely INEDs. 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. It assists the Board to ensure that the risk exposures and outcomes affecting the Bank are effectively managed and addressed. The details of the BRMC's duties and responsibilities are set out in its TOR which is available on the Bank's corporate website.

For the financial year ended 2019, six (6) BRMC meetings were held. Five (5) were regular meetings scheduled before the start of financial year while one (1) was ad-hoc meeting convened to consider exigency matters. The details of attendance of the BRMC members are recorded as follows:-

Member	Attendance
Sum Leng Kuang (Chairman) (1) INED	3/3
Chin Chee Kong INED	6/6
Ng Lip Yong (2) INED	3/3
Ong Ah Tin (3) INED	3/3
Dato' Leong Khee Seong (4) INED	3/3

Note:-

(1) Appointed as Chairman on 2 June 2019

(2) Appointed as Member on 2 June 2019

(3) Ceased as Chairman on 2 June 2019

(4) Ceased as Member on 2 June 2019

BOARD COMMITEES *(continued)*

(c) **Nomination and Remuneration Committee**

The NRC currently comprises entirely INEDs. 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 and remuneration policies of the Bank. The details of NRC's duties and responsibilities are set out in its TOR which is available on the Bank's corporate website.

During the financial year ended 2019, five (5) NRC meetings were held and the attendances of the NRC members were as follows:-

Member	Attendance
Ng Lip Yong (Chairman) (1) INED	2/2
Chin Chee Kong INED	5/5
Sum Leng Kuang (2) INED	2/2
Dato' Leong Khee Seong (3) INED	3/3
Ong Ah Tin (4) INED	3/3

Note:-
(1) Appointed as Chairman on 2 June 2019
(2) Appointed as Member on 2 June 2019
(3) Ceased as Chairman on 2 June 2019
(4) Ceased as Member on 2 June 2019

INTERNAL CONTROL FRAMEWORK

The Board affirms its commitment on its overall responsibility and oversight of the Bank's system of risk management and internal control. In acknowledging that having a sound risk management and internal control system is imperative, the Board has established a governance structure that ensures effective oversight of risk and internal controls in the Bank at all levels. To this end, the Board is assisted by the BRMC and AC, which have been delegated with primary oversight responsibilities on the Bank's risk management and internal control system.

The Bank has implemented an ongoing process to identify, evaluate, monitor, manage and respond to significant risks faced by the Bank in its achievement of the business goals and objectives amidst the dynamic and challenging business environment and increasing regulatory scruitinisation. This ongoing process has been in place throughout the financial year ended 31 December 2019 and has continued up to date as of the date of this report.

INTERNAL CONTROL FRAMEWORK ***(continued)***

The key processes that the Board has established to provide effective governance and oversight of risk management and internal control of the Bank include, among others, the following:-

(a) **Risk Governance and Oversight**

The risk governance model provides a formalised, transparent and effective governance structure that promotes active involvement from the Board and Senior Management in the risk management process to ensure an integrated view of risk across the Bank. The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the three Lines of Defense. The management of risk broadly takes place at different hierarchical levels and is embedded within the Bank's three Lines of Defense:-

Lines of Defense	Functions	Key Responsibilities
1st Line	Business, Operation and Support Units which own and manage day-to-day risks inherent in business and activities.	Responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable.
2nd Line	Risk Management, Compliance and other middle / back office departments	Responsible for developing and implementing the risk management framework and independent control functions, which cover the identified risks that the Bank is exposed to.
3rd Line	Internal Audit	Responsible for providing independent and reasonable assurance over the comprehensiveness and robustness of the internal control system, risk management practices and governance framework.

(b) **Risk Management**

The Chief Risk Officer ("CRO") and risk management function are responsible for establishing and facilitating the implementation of the Bank's risk management framework as well as performing periodic assessment of the consistency of the Bank's risk profile with risk appetite statement as approved by the Board. The risk management function is guided by the Bank's risk management framework based on the guidelines issued by relevant regulatory authorities, Parent Bank and the best practices in governing banking business.

Based on the risk management framework, the risk management processes have been defined to effectively manage the identification, assessment, monitoring and controlling of material risks. The outcomes of the risk management processes have been adequately reported periodically for supervision and decision making purposes at Management and Board level.

The details pertaining to the Bank's financial risk management framework are set out on pages 83 to 104 of these financial statements.

INTERNAL CONTROL FRAMEWORK ***(continued)***

(c) **Compliance**

The Chief Compliance Officer ("CCO") is the central point of authority for the Bank's compliance matters and is responsible for providing an institution-wide view on the management of compliance risk. The CCO is supported by Legal and Compliance Department ("LCD") which undertakes the function of identification, assessment, monitoring and reporting of compliance risk. In carrying out the activities, LCD has adopted risk based approach in management of compliance risk.

The Bank has appointed compliance liaison officers at department and branch level who act as the liaison in attending to compliance matters, promoting general compliance awareness among employees of the respective departments/branches and highlighting any compliance gaps and issues.

The Bank is committed to the compliance with the Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") requirements by putting in place AML/CFT programme as well as comprehensive policies, procedures and manuals. The AML/CFT programme continues to be reviewed and updated to reflect changes in the operational needs, business environment and regulatory requirements. This covers areas on risk profiling of customers, submission of cash threshold and suspicious transaction reports, and handling of the investigation orders issued by law enforcement authorities.

Trainings are constantly arranged for employees of the Bank on relevant legal and regulatory requirements governing the Bank's activities. This aims to provide guidance to employees on the implementation of internal controls to manage compliance risk.

(d) **Internal Audit**

The Internal Audit ("IA") function is led by the Chief Internal Audit ("CIA") and aptly supported by a team with specialisation in key risk areas. To preserve the independence of the IA function, the CIA has a functional reporting line to the AC, and administratively to the MD/CEO and Internal Audit Bureau of the Parent Bank. The IA function is governed and guided by the Bank's Audit Charter, regulatory guidelines and policies of Parent Bank.

IA function adopts a risk-based approach, driven by a systematic and comprehensive risk assessment model in managing 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.

Risk assessment on the auditable functions are conducted annually to form the risk-based audit plan for approval by the AC. The IA function focuses its efforts on performing audits and reviews in accordance with the approved audit plan to provide independent assessment over adequacy and effectiveness of risk management, internal control system and governance structure of the auditable functions. Execution of time-bound remedial action plans are closely monitored to ensure audit issues are resolved timely. The IA function is also taking advisory role to add-value to the design and application of operating processes and risk controls.

INTERNAL CONTROL FRAMEWORK ***(continued)***

(e) **Human Capital Management**

One of the key constituents of any internal control system is its people and that the system of risk management and internal control is dependent on the sound judgment, integrity and strong sense of accountability that employees apply to their work. Hence, the Bank has put in place relevant policies and procedures that govern all aspects of human capital management from talent acquisition and development, performance and consequence management to cessation of employment.

The Bank is committed to conduct its business with integrity, sincerity and honesty in compliance with the relevant governing laws, regulations and guidelines. To this end, the Bank has established a Compliance Handbook encompassing, among others, the Code of Ethics and Conduct for Staff, Data Secrecy and Protection and Management of Customer Information and Permitted Disclosures which sets out the requirements imposed by the Bank and the regulatory authorities to be observed and complied by all employees.

The Code of Ethics and Conduct for Staff which sets out sound principles and standards of good practice to be observed and complied by all employees aimed at upholding the proper working and ethical standards that are expected by the Bank in its business dealings.

The Bank has established the Whistleblowing Policy and Procedures for Whistleblowing Reporting which provide an avenue for employees and third parties to raise or report concerns in relation to any illegal, unethical or questionable practices. At the same time, the Bank is wholly committed to ensure strict confidentiality and to protect the whistleblower from the risk of reprisal. The policy in relation to Whistleblowing Reporting by Third Party is available on the corporate website of the Bank.

REMUNERATION

(a) **Independent Non-Executive Directors**

The Board recognises the importance of setting a fair and competitive remuneration package for INEDs which commensurate with their expertise, skills, responsibilities, risks and time commitments being a Director of the Bank. The determination of the INEDs’ remuneration is a matter for the Board as a whole and is subject to the approval of the shareholder. The level of remuneration of INEDs is linked to their level of responsibilities.

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/CEO and Non-Executive Directors for the financial year ended 31 December 2019 are disclosed in Note 31(c) to the financial statements. In addition, Non-Executive Directors also receive other benefits including Directors & Officers Liability Insurance, provided that such Director has not acted negligently, fraudulently or dishonestly, or in breach of his/her duty of trust.

REMUNERATION ***(continued)***

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

The Bank has established a remuneration policy which has been approved by the Board and is subject to periodic review of the Board, including when material changes are made to the policy. The remuneration policy provides a framework that can be implemented and 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 stakeholder 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.

There are two (2) main components, i.e. fixed remuneration and variable remuneration which form the total cash payable to employees of the Bank. The fixed remuneration refers to basic salary and fixed allowances while the variable remuneration refers to the discretionary bonus which is cash based.

The allocation of total cash, i.e. basic salary, fixed allowances and bonus is subject to the approval of the Board on an annual basis based on the overall financial performance of the Bank and in alignment with group wide pre-defined guideline and formula set by the Parent Bank.

Being a performance driven organisation, the performance measurement through quantitative indicators, qualitative indicators and penalty point which includes both financial and non-financial goals, short term and long term perspectives and incorporates measures related to risk, compliance and process control aims to support a performance based culture which promotes prudent risk taking and long term sustainability of the Bank.

The total bonus pool of the Bank is determined based on the overall financial performance of the Bank in alignment with group wide pre-defined guideline and formula set by Parent Bank which is subject to adjustment upon taking into consideration of both quantitative risk measures and qualitative risk outcomes.

The subsequent allocation of bonus for individual is determined in accordance with the performance assessment results of the individual and the department or branch based on the pre-defined matrix and may be adjusted based on the accountability of audit, risk and compliance findings or disciplinary action.

In order to reinforce strong internal governance and to safeguard the independence and authority of control functions, i.e. internal audit, compliance and risk management of the Bank, the performance and remuneration of the control functions are measured and assessed independently from the departments and branches they support to avoid any conflict of interests.

From the perspective of prudent risk taking and long term sustainability as well as the alignment between risk and reward of the Bank, a portion of bonus for Senior Management, Senior Officers and Other Material Risk Takers of the Bank is subject to deferment of six (6) to twelve (12) months from the financial year end with the deferred portion increasing in tandem with the individual's level of accountability.

REMUNERATION ***(continued)***

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

The vesting of bonus or deferred bonus is subject to final results of individual performance assessment and the overall financial performance of the Bank. The Board and Senior Management of the Bank reserve the discretion to make potential adjustment, forfeiture or through malus on any bonus or deferred bonus that has not been paid to or vested to the individual within thirteen (13) months from the financial year end in the event of resignation or cessation of employment with the Bank or ICBC Group, misconduct or material restatement of financial results of the Bank.

All the Senior Management, Senior Officers and Other Material Risk Takers of the Bank are required to commit not to undertake activities such as personal hedging strategies and liability related insurance that will undermine the risk alignment effects embedded in their remuneration.

The following depicts the remuneration awarded to the Senior Management, Senior Officers and Other Material Risk Takers of the Bank for the financial year ended 31 December 2019.

Category	Senior Management and Senior Officers (8 headcounts)		Other Material Risk Takers (13 headcounts)	
Total Value of remuneration awards for the financial year	**Unrestricted RM'000**	**Deferred RM'000**	**Unrestricted RM'000**	**Deferred RM'000**
Fixed Remuneration				
* Cash-based	4,494	-	3,837	-
* Shares and share-linked instruments	-	-	-	-
* Others	-	-	-	-
Variable Remuneration				
* Cash-based	2,372	-	1,145	-
* Shares and share-linked instruments	-	-	-	-
* Others	-	-	-	-

The Senior Management and Senior Officers of the Bank are defined as the MD/CEO, Deputy CEO, Assistant CEO, CCO, CIA and CRO.

Other Material Risk Takers of the Bank are defined as individuals whose responsibilities have a material impact on the performance and risk profile of the Bank and individuals whose responsibilities require them to take on material risk exposure on behalf of the Bank.

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.

ACCOUNTABILITY AND AUDIT *(continued)*

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 TOR.

OTHER STATUTORY INFORMATION

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

(a) all known bad debts have been written off and adequate provision has been made for doubtful debts; and

(b) 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:-

(a) 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

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

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

(d) 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:-

(a) 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

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than those arising from the ordinary course of the banking business.

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.

OTHER STATUTORY INFORMATION *(continued)*

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2019 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.

SUBSEQUENT EVENTS

Subsequent events after the financial year are disclosed in Note 38 to the financial statements.

AUDITORS

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

The auditors' remuneration is disclosed in Note 26 to the financial statements.

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

…………………………………………………………

Chin Chee Kong
Director

…………………………………………………………

Sum Leng Kuang
Director

Kuala Lumpur, Malaysia
Date: 13 May 2020

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

We, Chin Chee Kong and Sum Leng Kuang 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 107 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 2019 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:-

…………………………………………………………
Chin Chee Kong
Director

…………………………………………………………
Sum Leng Kuang
Director

Kuala Lumpur, Malaysia
Date: 13 May 2020

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 107 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 13 May 2020

…………………………………………………………
Wang Qiang

BEFORE ME:

…………………………………………………………

Independent Auditors' Report to the Members of
Industrial and Commercial Bank of China (Malaysia) Berhad
Registration No. 201001000001 (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 2019, 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 107.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, 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: 13 May 2020

Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
ASSETS			
Cash and short-term funds	4	1,177,767	1,017,586
Deposits and placements with banks and other financial institutions	5	171,563	12,467
Financial investments measured at fair value through other comprehensive income ("FVOCI")	6	594,788	589,715
Financial investments measured at amortised cost	7	117,163	117,269
Loans, advances and financing	8	2,914,539	3,008,073
Derivative financial assets	9	2,014	8,155
Other assets	10	15,980	15,211
Statutory deposits with Bank Negara Malaysia	11	41,317	42,602
Tax recoverable		5,850	-
Property and equipment	12	6,196	8,319
Right-of-use assets	13	9,936	-
Intangible asset	14	-	-
Deferred tax assets	15	11,905	10,298
TOTAL ASSETS		5,069,018	4,829,695
LIABILITIES			
Deposits from customers	16	2,868,356	2,502,567
Deposits and placements of banks and other financial institutions	17	933,714	1,130,042
Derivative financial liabilities	9	2,639	7,786
Other liabilities	18	81,268	71,352
Lease liabilities	13	9,918	-
Provision for commitments and contingencies	19	7,004	4,546
Provision for taxation	20	345	7,376
TOTAL LIABILITIES		3,903,244	3,723,669
EQUITY			
Share capital	21	832,609	832,609
Reserves	22	333,165	273,417
EQUITY ATTRIBUTABLE TO OWNER OF THE BANK		1,165,774	1,106,026
TOTAL LIABILITIES AND EQUITY		5,069,018	4,829,695
COMMITMENTS AND CONTINGENCIES	33	2,646,461	4,084,834

The notes set out on pages 36 to 107 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RM'000	2018 RM'000
Interest income	23	201,196	201,925
Interest expense	23	(83,239)	(78,394)
Net interest income	23	117,957	123,531
Net fee income	24	10,890	25,660
Net trading income	25	18,595	32,552
Other operating income		102	70
Net operating income		147,544	181,813
Other operating expenses	26	(73,142)	(80,925)
Operating profit		74,402	100,888
Allowance for impairment on loans, advances and financing	27	(16,507)	(4,976)
Allowance for impairment on other financial assets	28	(820)	(263)
Profit before taxation		57,075	95,649
Tax expense	29	(6,752)	(16,831)
Profit for the year		50,323	78,818
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to/(from) profit or loss			
Foreign currency translation reserve			
- Currency translation differences in respect of foreign operations		34	(548)
Fair value reserve			
- Changes in fair value		11,483	2,683
- Amount transferred to profit or loss		849	93
- Deferred tax adjustment	15	(2,941)	(829)
		9,391	1,947
Total other comprehensive income for the year		9,425	1,399
Total comprehensive income for the year		59,748	80,217
Basic earnings per ordinary share (sen):	30	6.04	9.47

The notes set out on pages 36 to 107 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Non-distributable				Distributable	
	Share Capital 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 2018	832,609	253	45	17,644	175,258	1,025,809
Total comprehensive (expense)/income for the year						
Other comprehensive (expense)/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)	-	-	-	(548)
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

Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 *(continued)*

	Non-distributable				Distributable	
	Share Capital 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 2019	832,609	(295)	1,992	17,644	254,076	1,106,026
Total comprehensive (expense)/income for the year						
Other comprehensive (expense)/income, net of tax						
Items that are or may be reclassified subsequently to profit or loss						
Foreign currency translation reserve						
- Currency translation differences in respect of foreign operations	-	34	-	-	-	34
Fair value reserve						
- Changes in fair value	-	-	11,483	-	-	11,483
- Amount transferred to profit or loss	-	-	849	-	-	849
- Deferred tax adjustment	-	-	(2,941)	-	-	(2,941)
	-	-	9,391	-	-	9,391
Total other comprehensive income for the year	-	34	9,391	-	-	9,425
Profit for the year	-	-	-	-	50,323	50,323
Total comprehensive income for the year	-	34	9,391	-	50,323	59,748
At 31 December 2019	832,609	(261)	11,383	17,644	304,399	1,165,774
	Note 21	Note 22 (a)	Note 22 (b)	Note 22 (c)	Note 22 (d)	

The notes set out on pages 36 to 107 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

Registration No. 201001000001 (839839 M)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RM'000	2018 RM'000
Cash flows from operating activities		
Profit before taxation	57,075	95,649
Adjustments for:		
Depreciation of property and equipment	3,521	3,793
Depreciation of right-of-use assets	4,418	-
Interest expense on lease liabilities	405	-
Property and equipment written off	-	44
Loss on disposal of property and equipment	-	1
Allowance for impairment on loans, advances and financing	16,507	4,976
Allowance for impairment on other financial assets	820	263
Net unrealised losses/(gains) arising from derivative trading	994	(190)
Transfer to/(from) foreign currency translation reserve	34	(548)
Accretion of discounts net of amortisation of premiums of financial investments measured at FVOCI	544	398
Accretion of discounts net of amortisation of premiums of financial investments measured at amortised cost	106	(742)
Operating profit before working capital changes	84,424	103,644
Changes in operating assets		
Deposits and placements with banks and other financial institutions	(159,094)	137,534
Loans, advances and financing	79,488	177,291
Other assets	(769)	(4,036)
Statutory deposits with Bank Negara Malaysia	1,285	(22,224)
Changes in operating liabilities		
Deposits from customers	365,789	(336,958)
Deposits and placements of banks and other financial institutions	(196,328)	223,062
Other liabilities	9,913	6,222
Cash from operations	184,708	284,535
Income taxes paid	(24,181)	(27,608)
Net cash from operating activities	160,527	256,927
Cash flows from/(used in) investing activities		
Purchase of property and equipment	(1,398)	(2,466)
Net proceeds from/(purchase of) financial investments measured at FVOCI	5,866	(215,336)
Net purchase of financial investments measured at amortised cost	-	(84,271)
Net cash from/(used in) investing activities	4,468	(302,073)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 *(continued)*

	Note	2019 RM'000	2018 RM'000
Cash flows used in financing activity			
Net payment of lease liabilities		(4,841)	-
Net cash used in financing activity		(4,841)	-
Net increase/(decrease) in cash and cash equivalents		160,154	(45,146)
Cash and cash equivalents at beginning of the financial year		1,017,586	1,062,837
		1,177,740	1,017,691
Add/(Less): Write-back of/(Allowance for) credit loss for the year		27	(105)
Cash and cash equivalents at end of the financial year		1,177,767	1,017,586
Cash and cash equivalents comprise:			
Cash and short-term funds	4	1,177,767	1,017,586

Reconciliation of movement of liabilities to cash flows arising from financing activity:

Lease liabilities	Note	2019 RM'000
At 1 January 2019		-
Impact on adoption of MFRS16		14,143
At 1 January 2019, Restated		14,143
Acquisition of new leases		383
Net payment of lease liabilities		(4,841)
Interest expense on lease liabilities		405
Termination of leases		(172)
At 31 December 2019	13	9,918

Cash outflows for leases as a lessee

	Note	2019 RM'000
Included in net cash from operating activities:		
Payment relating to short-term leases	26	30
Payment relating to leases of low-value assets	26	43
		73
Included in net cash used in financing activity:		
Principal paid in relation to lease liabilities		4,436
Interest paid in relation to lease liabilities		405
		4,841
Total cash outflows for leases		4,914

The notes set out on pages 36 to 107 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 13 May 2020.

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, interpretations and amendments that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank:-

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* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures - Interest Rate Benchmark Reform*

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 1 January 2022

- Amendments to MFRS 101, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

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

The Bank does not plan to apply MFRS 17, *Insurance Contracts* and Amendments to MFRS 101 that are effective for annual periods beginning on 1 January 2021 and 1 January 2022 respectively as they are not applicable to the Bank.

The initial applications of the accounting standards and amendments are not expected to have any material financial impact to the current period and prior period financial statements of the Bank.

(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 35.3 - Valuation of financial instruments
- Note 35.4(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 unless otherwise stated.

Arising from the adoption of MFRS 16, *Leases*, there is a change to the accounting policy applied to lease contracts entered into by the Bank as compared to those applied in previous financial statements. The impacts arising from the change are disclosed in Note 37.

(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.

3. Significant accounting policies *(continued)*

(b) Interest recognition *(continued)*

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.

(d) Income tax expense

Income tax expense comprises current tax 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 temporary differences arising from 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.

3. Significant accounting policies *(continued)*

(e) Financial instruments

(i) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits and debt securities issued on the date they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the 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 or minus, for a financial instrument not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issuance.

(ii) Financial instrument categories and subsequent measurement

Financial Assets

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 at 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 and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. 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.

3. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

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

Financial Assets *(continued)*

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 are 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)).

Financial Liabilities
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 group 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.

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.

3. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

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

Financial Liabilities *(continued)*

Fair value through profit or loss (continued)
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 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.

(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.

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.

3. Significant accounting policies *(continued)*

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances with banks and other financial institutions and money at call and deposits and placements 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).

(g) 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).

(h) 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.

(i) Property and equipment

Recognition and measurement
All purchases above RM1,000 are capitalised. Items of property 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 property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs
The cost of replacing a component of an item of property and 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 property and equipment are recognised in profit or loss when incurred.

3. Significant accounting policies *(continued)*

(i) Property and equipment *(continued)*

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The property 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

Property 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 an item of property and 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 an item of property and equipment is no longer in use, it will be written off.

(j) Leases

The Bank has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year

Definition of a lease
A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:-

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

3. Significant accounting policies *(continued)*

(j) Leases *(continued)*

Current financial year *(continued)*

Definition of a lease (continued)

- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Bank is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Recognition and initial measurement

As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:-

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Bank is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The Bank excludes variable lease payments that are linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Significant accounting policies *(continued)*

(j) Leases *(continued)*

Current financial year *(continued)*

Subsequent measurement

As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Previous financial year

As a lessee

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

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

(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 assesses impairment by using a forward looking “expected credit loss” (“ECL”) model. The ECL model applies to financial assets measured at amortised cost, contract 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.

3. Significant accounting policies *(continued)*

(l) Impairment *(continued)*

(i) Financial assets *(continued)*

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 asset have occurred.

(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.

3. Significant accounting policies *(continued)*

(p) Earnings 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.

(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

	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	92,623	470,089
Money at call and deposits and placements maturing within one month	1,085,244	547,624
	1,177,867	1,017,713
Less: Allowance for credit loss	(100)	(127)
	1,177,767	1,017,586

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 2019	1,017,713	-	-	1,017,713
New assets originated	883,875	-	-	883,875
Assets derecognised or repaid	(723,721)	-	-	(723,721)
At 31 December 2019	1,177,867	-	-	1,177,867
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

4. Cash and short-term funds *(continued)*

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2019	127	-	-	127
New assets originated	139	-	-	139
Assets derecognised or repaid	(203)	-	-	(203)
Changes in model/risk parameter	37	-	-	37
At 31 December 2019	100	-	-	100
At 1 January 2018	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

	2019 RM'000	2018 RM'000
Foreign banks	-	12,473
Licensed Malaysian banks	171,563	-
	171,563	12,473
Less: Allowance for credit loss	-	(6)
	171,563	12,467

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 2019	12,473	-	-	12,473
New assets originated	171,563	-	-	171,563
Assets derecognised or repaid	(12,473)	-	-	(12,473)
At 31 December 2019	171,563	-	-	171,563
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

5. Deposits and placements with banks and other financial institutions *(continued)*

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2019	6	-	-	6
New assets originated	4	-	-	4
Assets derecognised or repaid	(6)	-	-	(6)
Foreign exchange adjustments	(4)	-	-	(4)
At 31 December 2019	-	-	-	-
At 1 January 2018	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

	2019 RM'000	2018 RM'000
Malaysian Government Securities	210,942	206,162
Malaysian Government Investment Issues	227,266	222,374
Malaysian Government Guaranteed Sukuk	30,366	29,799
Financial institutions' securities	29,638	30,630
Corporate bonds	81,463	80,747
Other debt securities		
- Cagamas bonds	15,113	20,003
	594,788	589,715

(ii) By maturity structure

	2019 RM'000	2018 RM'000
Within one year	74,850	4,993
More than one year to three years	172,775	191,800
More than three years to five years	347,163	196,311
More than five years	-	196,611
	594,788	589,715

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

(iii) Movement of gross carrying amount and the allowance for credit loss to other comprehensive income

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount				
At 1 January 2019	589,715	-	-	589,715
New assets originated	476	-	-	476
Assets derecognised or repaid	(6,886)	-	-	(6,886)
Changes in fair value	11,483			11,483
At 31 December 2019	594,788	-	-	594,788
At 1 January 2018	372,094	-	-	372,094
New assets originated or purchased	216,388	-	-	216,388
Changes in fair value	2,683			2,683
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 2019	693	-	-	693
New assets originated	507	-	-	507
Assets derecognised or repaid	(28)	-	-	(28)
Changes in model/risk parameter	370	-	-	370
At 31 December 2019	1,542	-	-	1,542
At 1 January 2018	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

The carrying amount of financial investments measured at FVOCI is their fair values. Accordingly, the recognition of allowance for credit loss does not affect the carrying amount of those assets, but is reflected as a debit to profit or loss and credit to other comprehensive income.

7. Financial investments measured at amortised cost

(i) By type

	2019 RM'000	2018 RM'000
Malaysian Government Investment Issues	32,207	32,283
Corporate bonds	65,049	65,079
Other debt securities		
- Cagamas bonds	20,000	20,000
	117,256	117,362
Less: Allowance for credit loss	(93)	(93)
	117,163	117,269

(ii) By maturity structure

	2019 RM'000	2018 RM'000
More than one year to three years	82,256	20,000
More than three years to five years	35,000	97,362
	117,256	117,362

(iii) Movement of gross carrying amount and 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 2019	117,362	-	-	117,362
Assets derecognised or repaid	(106)	-	-	(106)
At 31 December 2019	117,256	-	-	117,256
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 2019	93	-	-	93
New assets originated	45	-	-	45
Assets derecognised or repaid	(12)	-	-	(12)
Changes in model/risk parameter	(33)	-	-	(33)
At 31 December 2019	93	-	-	93
At 1 January 2018	-	-	-	-
New assets originated or purchased	93	-	-	93
At 31 December 2018	93	-	-	93

8. Loans, advances and financing

(i) By type

	2019 RM'000	2018 RM'000
Overdrafts	32,663	57,299
Term loans		
- Housing loans	92,228	76,641
- Syndicated term loans	871,854	935,364
- Other term loans	468,032	534,029
Bridging loans	150,360	-
Bills receivable	45,217	21,123
Revolving credits	1,163,572	1,268,287
Bankers' acceptances	129,072	139,984
Staff loans	1,881	2,004
Credit card loans	2,341	2,124
Gross loans, advances and financing	2,957,220	3,036,855
Less: Allowance for credit loss		
- Stage 1 (12-month ECL)	(27,460)	(15,954)
- Stage 2 (Lifetime ECL - non-credit impaired)	(14,104)	(11,640)
- Stage 3 (Lifetime ECL - credit impaired)	(1,117)	(1,188)
	(42,681)	(28,782)
Net loans, advances and financing	2,914,539	3,008,073

(ii) By type of customer

	2019 RM'000	2018 RM'000
Domestic banking institutions	41,605	52,806
Domestic non-bank financial institutions		
- Others	50,011	140,278
Domestic business enterprises		
- Small medium enterprises	159,574	65,029
- Others	1,760,138	1,530,081
Individuals	49,707	46,452
Foreign entities	896,185	1,202,209
	2,957,220	3,036,855

(iii) By interest rate sensitivity

	2019 RM'000	2018 RM'000
Fixed rate loans	4,221	4,128
Variable rate		
- Base rate/base lending rate plus	79,142	82,817
- Cost plus	2,770,958	2,808,749
- Other variable rates	102,899	141,161
	2,957,220	3,036,855

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

(iv) By sector

	2019 RM'000	2018 RM'000
Primary agriculture	52,700	86,591
Manufacturing	287,228	206,698
Electricity, gas and water	-	65,414
Construction	188,240	100,554
Real estate	465,811	476,939
Wholesale & retail trade and restaurants & hotels	672,883	835,595
Transport, storage and communication	127,928	108,308
Finance, insurance and business services	609,356	685,675
Education, health and others	440,940	372,592
Household	112,134	98,489
	2,957,220	3,036,855

(v) By purpose

	2019 RM'000	2018 RM'000
Purchase of properties		
- Non residential	154,884	155,994
- Residential	93,762	78,184
Purchase of transport vehicles	-	4
Purchase of fixed assets (excluding properties)	174,162	208,266
Construction	218,733	88,539
Credit card	2,341	2,124
Personal use	1,172	1,332
Mergers and acquisitions	150,360	-
Working capital	1,838,404	1,870,754
Other purpose	323,402	631,658
	2,957,220	3,036,855

(vi) By geographical distribution

	2019 RM'000	2018 RM'000
Within Malaysia	2,300,064	2,140,728
Outside Malaysia	657,156	896,127
	2,957,220	3,036,855

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

(vii) By residual contractual maturity

	2019 RM'000	2018 RM'000
Maturity within one year	1,757,675	1,850,954
More than one year to three years	781,213	457,459
More than three years to five years	209,336	518,431
More than five years	208,996	210,011
	2,957,220	3,036,855

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

(viii) Impaired loans, advances and financing

(a) Movement in impaired loans, advances and financing	**2019 RM'000**	**2018 RM'000**
At 1 January	1,188	1,127
Impaired during the financial year	41	816
Reclassified as performing during the financial year	(22)	(794)
Amount written off during the financial year	(73)	-
Exchange differences	(17)	39
At 31 December	1,117	1,188
As % of gross loans, advances and financing	**0.04%**	**0.04%**

(b) By sector	**2019 RM'000**	**2018 RM'000**
Wholesale & retail trade and restaurants & hotels	1,105	1,123
Household	12	65
	1,117	1,188

(c) By purpose	**2019 RM'000**	**2018 RM'000**
Working capital	1,105	1,123
Credit card	12	65
	1,117	1,188

(d) By geographical distribution	**2019 RM'000**	**2018 RM'000**
Within Malaysia	12	65
Outside Malaysia	1,105	1,123
	1,117	1,188

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

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

(ix) Movements in gross loans, advances and financing

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January 2019	2,758,952	276,715	1,188	3,036,855
New assets originated	1,506,969	113,636	9	1,620,614
Assets derecognised or repaid	(1,417,642)	(282,459)	(1)	(1,700,102)
Transfer to Stage 1	1,868	(1,847)	(21)	-
Transfer to Stage 2	(678,415)	678,415	-	-
Transfer to Stage 3	-	(32)	32	-
Write-offs	-	-	(73)	(73)
Foreign exchange adjustments	(57)	-	(17)	(74)
At 31 December 2019	2,171,675	784,428	1,117	2,957,220
At 1 January 2018	3,212,407	663	1,127	3,214,197
New assets originated	991,012	28,629	816	1,020,457
Assets derecognised or repaid	(1,149,648)	(47,306)	(794)	(1,197,748)
Transfer to Stage 1	75	(75)	-	-
Transfer to Stage 2	(294,804)	294,804	-	-
Foreign exchange adjustments	(90)	-	39	(51)
At 31 December 2018	2,758,952	276,715	1,188	3,036,855

(x) Movements in allowance for credit loss on loans, advances and financing

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January 2019	15,954	11,640	1,188	28,782
New assets originated	21,171	1,859	9	23,039
Assets derecognised or repaid	(10,151)	(13,771)	(1)	(23,923)
Transfer to Stage 1	489	(468)	(21)	-
Transfer to Stage 2	(3,064)	3,064	-	-
Transfer to Stage 3	-	(1)	1	-
Changes due to change in credit risk	2,923	12,085	31	15,039
Changes in model/risk parameter	195	(304)	-	(109)
Write-offs	-	-	(73)	(73)
Foreign exchange adjustments	(57)	-	(17)	(74)
At 31 December 2019	27,460	14,104	1,117	42,681
At 1 January 2018	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

9. Derivative financial assets/liabilities

	2019		
	Contract/ Nominal value RM'000	**Assets RM'000**	**Liabilities RM'000**
Foreign exchange contracts			
- Currency forwards and spots	235,776	1,148	399
- Currency swaps	322,939	866	2,240
Total recognised derivative assets/liabilities (Note 33)	558,715	2,014	2,639

	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 33)	1,695,586	8,155	7,786

10. Other assets

	2019 RM'000	**2018 RM'000**
Interest receivable	12,808	11,657
Deposits	1,742	1,785
Other receivables and prepayments	1,430	1,769
	15,980	15,211

11. 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 to satisfy the Statutory Reserve Requirement, the amount of which is determined based on a set percentage of total eligible liabilities.

12. Property 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 2019	4,691	3,583	1,361	11,591	748	21,974
Additions	886	216	143	73	80	1,398
Transfer to assets	-	-	756	-	(756)	-
At 31 December 2019	5,577	3,799	2,260	11,664	72	23,372
Accumulated depreciation						
At 1 January 2019	3,416	2,058	434	7,747	-	13,655
Charge during the year	743	489	175	2,114	-	3,521
At 31 December 2019	4,159	2,547	609	9,861	-	17,176
Net carrying amount						
At 1 January 2019	1,275	1,525	927	3,844	748	8,319
At 31 December 2019	1,418	1,252	1,651	1,803	72	6,196

12. Property and equipment *(continued)*

	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

13. Right-of-use assets and lease liabilities

Right-of-use assets

	Building premises RM'000	Motor vehicles RM'000	Equipment RM'000	Other leases RM'000	Total RM'000
Cost					
At 1 January 2019	-	-	-	-	-
Impact on adoption of MFRS16	12,921	979	145	98	14,143
At 1 January 2019, Restated	12,921	979	145	98	14,143
Additions	-	96	84	203	383
Derecognition	-	(221)	-	(98)	(319)
At 31 December 2019	12,921	854	229	203	14,207
Accumulated depreciation					
At 1 January 2019	-	-	-	-	-
Impact on adoption of MFRS16	-	-	-	-	-
At 1 January 2019, Restated	-	-	-	-	-
Charge during the year	3,725	542	35	116	4,418
Derecognition	-	(66)	-	(81)	(147)
At 31 December 2019	3,725	476	35	35	4,271
Net carrying amount					
At 1 January 2019, Restated	12,921	979	145	98	14,143
At 31 December 2019	9,196	378	194	168	9,936

13. Right-of-use assets and lease liabilities *(continued)*

Right-of-use assets (continued)

The Bank leases a number of branch and office premises. The leases typically run for a period of 2 to 6 years, with an option to renew the lease after that date. For some leases, rentals are renegotiated every three years in accordance with the market then prevailing.

The Bank also leases a few motor vehicles, equipment and other assets. The leases typically run for a period of 3 to 5 years, with an option to renew the lease after that date.

For certain equipment with contract terms of one to five years, the Bank classified these leases as short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases. Previously, these leases were classified as operating leases under MFRS 117.

Significant judgements and assumptions in relation to leases

The Bank assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. The Bank considers all facts and circumstances including its past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help it determines the lease term.

The Bank also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. The Bank first determines the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

Lease liabilities

	2019 RM'000
Lease liabilities	9,918

The maturity profile of the Bank's lease liabilities based on undiscounted contractual payments is as follows:

	2019 RM'000
Less than 1 month	397
Between 1 to 3 months	795
Between 3 months to 1 year	3,191
Between 1 to 5 years	6,040
	10,423

14. Intangible asset

	Admission Fee 2019 RM'000	Admission Fee 2018 RM'000
Cost		
At 1 January/31 December	2,600	2,600
Accumulated amortisation		
At 1 January/31 December	2,600	2,600
Net carrying amount		
At 1 January/31 December	-	-

15. Deferred tax assets

	2019 RM'000	2018 RM'000
At 1 January	10,298	6,048
Recognised in profit or loss (Note 29)	4,548	5,079
Recognised in equity	(2,941)	(829)
At 31 December	11,905	10,298

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

	Deferred tax assets/(liabilities)			
	At 1 January 2019 RM'000	Recognised in profit or loss (Note 29) RM'000	Recognised in equity RM'000	At 31 December 2019 RM'000
Property and equipment	762	(608)	-	154
Fair value reserve	(653)	-	(2,941)	(3,594)
Allowance for credit loss	4,982	3,123	-	8,105
Provisions	5,207	2,033	-	7,240
Total	10,298	4,548	(2,941)	11,905

	Deferred tax assets/(liabilities)			
	At 1 January 2018 RM'000	Recognised in profit or loss (Note 29) RM'000	Recognised in equity RM'000	At 31 December 2018 RM'000
Property 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

16. Deposits from customers

(i) By type of deposits

	2019 RM'000	2018 RM'000
Demand deposits	1,036,648	623,220
Fixed deposits	891,225	1,025,739
Savings deposits	121,515	118,052
Money market deposits	808,094	719,447
Others	10,874	16,109
	2,868,356	2,502,567

(ii) By type of customer

	2019 RM'000	2018 RM'000
Business enterprises	1,312,581	1,156,312
Individuals	334,556	251,923
Foreign entities	1,220,908	1,093,295
Others	311	1,037
	2,868,356	2,502,567

(iii) By maturity structure of term deposits

	2019 RM'000	2018 RM'000
Due within six months	1,427,651	1,517,854
More than six months to one year	271,668	227,332
	1,699,319	1,745,186

17. Deposits and placements of banks and other financial institutions

	2019 RM'000	2018 RM'000
Licensed Malaysian banks	26,878	154,526
Licensed investment banks	50,528	50,329
Licensed Islamic banks	4,776	2,851
Other financial institutions	182,655	166,114
Foreign banks	668,877	756,222
	933,714	1,130,042

18. Other liabilities

	2019 RM'000	2018 RM'000
Interest payable	20,189	15,015
Other payables and accruals	61,079	56,337
	81,268	71,352

19. Provision for commitments and contingencies

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January 2019	2,785	1,761	-	4,546
New assets originated	2,840	508	-	3,348
Assets derecognised or repaid	(2,042)	(706)	-	(2,748)
Transfer to Stage 1	291	(291)	-	-
Transfer to Stage 2	(1,101)	1,101	-	-
Changes due to change in credit risk	1,228	546	-	1,774
Changes in model/risk parameter	45	42	-	87
Foreign exchange adjustments	(3)	-	-	(3)
At 31 December 2019	4,043	2,961	-	7,004
At 1 January 2018	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

20. Provision for taxation

Provision for taxation in 2019 included tax payable by the Bank's branch, Industrial and Commercial Bank of China (Malaysia) Berhad, Labuan International Branch, where the Branch is subject to tax at 3% of the chargeable profit pursuant to Section 4(1) of the Labuan Business Activity Tax Act, 1990 for the year of assessment 2020.

21. Share capital

	Number of ordinary shares		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'000
Ordinary Shares Issued and fully paid				
At 1 January/31 December	832,609	832,609	832,609	832,609

22. Reserves

(a) Foreign currency translation reserve

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

(b) Fair value reserve

Fair value reserve captures the fair value adjustment on financial investments which are measured at fair value through other comprehensive income, its corresponding effect on deferred tax and allowance for credit loss arising on financial investments measured at fair value through other comprehensive income. The reserve is non-distributable and cumulative fair value adjustments will be reversed to profit or loss upon disposal of the assets.

(c) 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 (2018: RM17.644 million) from the retained earnings as of 31 December 2019 has been reserved for this purpose.

(d) 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

	2019 RM'000	2018 RM'000
Loans, advances and financing:		
- Interest income other than from impaired loans	144,173	140,339
Money at call and deposits and placements with financial institutions	27,584	36,942
Financial investments measured at fair value through other comprehensive income	24,182	20,226
Financial investments measured at amortised cost	5,257	4,418
	201,196	201,925
Interest expense		
Deposits and placements of banks and other financial institutions	(34,353)	(25,101)
Deposits from customers	(48,883)	(53,023)
Others	(3)	(270)
	(83,239)	(78,394)
Net interest income	117,957	123,531

23. Interest income *(continued)*

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

	2019 RM'000	2018 RM'000
Financial assets measured at amortised cost	177,014	181,699
Financial assets measured at fair value through other comprehensive income	24,182	20,226
Financial assets not at fair value through profit or loss	201,196	201,925
Financial liabilities measured at amortised cost	(83,239)	(78,394)

24. Net fee income

	2019 RM'000	2018 RM'000
Fee income:		
- Commission	44	52
- Service charges and fees	2,822	2,352
- Loan processing fees	541	7,209
- Syndication fees	2,336	3,663
- Guarantee fees	3,920	4,862
- Commitment fees	1,110	1,037
- Other loan related fee income	111	3,301
- Other fee income	384	3,705
	11,268	26,181
Fee expense:		
- Brokerage fees	(120)	(95)
- Other fee expense	(258)	(426)
	(378)	(521)
Net fee income	10,890	25,660

25. Net trading income

	2019 RM'000	2018 RM'000
Net gains from dealing in foreign exchange	26,670	22,297
Net (losses)/gains arising from derivative trading	(6,699)	10,211
Net unrealised revaluation losses in foreign exchange	(382)	(146)
Net unrealised (losses)/gains arising from derivative trading	(994)	190
	18,595	32,552

26. Other operating expenses

	2019 RM'000	2018 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	41,302	46,101
- Directors' remuneration (Note 31(c))	2,050	1,987
- Pension fund contributions	4,270	4,564
- Other staff costs	5,942	6,716
Promotion and marketing related expenses:		
- Advertising and promotion	421	469
- Others	528	547
Establishment costs:		
- Depreciation of property and equipment	3,521	3,793
- Depreciation of right-of-use assets	4,418	-
- Interest expense on lease liabilities	405	-
- Rental of premises, motor vehicles, equipment and others	-	5,698
- Expenses relating to short-term leases	30	-
- Expenses relating to leases of low-value assets	43	-
- Others	2,151	1,785
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	270	270
• audit related services	108	458
- Professional fees	402	721
- Licence fee	306	311
- Membership fee	321	240
- Property and equipment written off	-	44
- Loss on disposal of property and equipment	-	1
- Others	6,654	7,220
	73,142	80,925

27. Allowance for impairment on loans, advances and financing

	2019 RM'000	2018 RM'000
Allowance for/(Write-back of) credit loss		
- Loans, advances and financing	14,046	8,342
- Provision for commitments and contingencies	2,461	(3,366)
	16,507	4,976

28. Allowance for impairment on other financial assets

	2019 RM'000	2018 RM'000
(Write-back of)/Allowance for credit loss		
- Cash and short-term funds	(27)	105
- Deposits and placements with banks and other financial institutions	(2)	(28)
- Financial investments measured at fair value through other comprehensive income	849	93
- Financial investments measured at amortised cost	-	93
	820	263

29. Tax expense

	2019 RM'000	2018 RM'000
Current tax expense		
- Current financial year	17,273	26,825
- Overprovision in prior year	(5,973)	(4,915)
Total current tax recognised in profit or loss	11,300	21,910
Deferred taxation		
Origination and reversal of temporary differences	(4,548)	(5,079)
Total deferred tax recognised in profit or loss (Note 15)	(4,548)	(5,079)
	6,752	16,831

	2019 RM'000	2018 RM'000
Reconciliation of tax expense		
Profit before taxation	57,075	95,649
Income tax using Malaysian tax rate @ 24%	13,698	22,956
Tax effect of:		
Non-deductible expenses	1,442	3,393
Effect of tax rate in a different jurisdiction	(2,415)	(4,603)
Overprovision of income tax expense in prior year	(5,973)	(4,915)
Tax expense	6,752	16,831

30. 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 RM50,323,000 (2018: RM78,818,000) and weighted average number of ordinary shares outstanding during the year of 832,609,000 (2018: 832,609,000).

31. Significant related party transactions and balances

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

	2019		2018	
	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	2,284	2,357	2,906	3,150
Expenses				
Interest expense				
- Deposits and placements of banks and other financial institutions	(20,549)	-	(14,878)	(450)
Other operating expenses				
- Other charges	(11)	-	(69)	-
- Software licence fee	(56)	-	(53)	-

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

	2019		2018	
	RM'000 Holding company	**RM'000** Related companies	**RM'000** Holding company	**RM'000** Related companies
Amount due from				
- Cash and short-term funds	149,964	1,297	440,358	3,363
- Deposits and placements with banks and other financial institutions	-	-	12,467	-
- Other assets	171	-	75	-
Amount due to				
- Deposits and placements of banks and other financial institutions	(668,612)	-	(754,290)	-
- Other liabilities	(3,178)	-	(4,040)	-

31. 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:-

	2019 RM'000	2018 RM'000
Executive Director and CEO		
Mr Wang Qiang		
- Salaries	914	934
- Bonus	687	661
- Other allowances	6	6
	1,607	1,601
Non-Executive Directors' fees		
YBhg Dato' Leong Khee Seong	57	130
Mr Ong Ah Tin @ Ong Chee Kwee	57	129
Mr Chin Chee Kong	127	127
Mr Ng Lip Yong	114	-
Ms Sum Leng Kuang	88	-
	443	386
	2,050	1,987
	Note 26	Note 26

32. Credit exposures 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:-

	2019 RM'000	2018 RM'000
Aggregate value of outstanding credit exposures to connected parties	173,958	273,694
As a percentage of total credit exposures	3.09%	5.26%
Percentage of outstanding credit exposures to connected parties which are non-performing or in default	0%	0%

33. 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:-

	2019			
	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	73,674	-	73,674	14,735
Transaction-related contingent items	528,489	-	264,244	186,131
Short term self-liquidating trade-related contingencies	127,550	-	25,510	21,238
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	206,672	-	103,336	69,814
- Not exceeding one year	1,110,377	-	222,076	200,122
Unutilised credit card lines	40,984	-	8,197	6,148
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	558,715	2,014	6,643	2,741
Total	2,646,461	2,014	703,680	500,929
		Note 9		

^ 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.

33. Commitments and contingencies *(continued)*

	2018			
	Principal Amount RM'000	**Positive Value of Derivative Contracts ^ RM'000**	**Credit Equivalent Amount * RM'000**	**Risk-Weighted Assets * RM'000**
<u>Credit-related exposures</u>				
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
<u>Derivative financial contracts</u>				
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 9		

^ 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. 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:-

	2019 RM'000	2018 RM'000
Common Equity Tier 1 ("CET1") Capital		
Paid-up share capital	832,609	832,609
Retained earnings	304,399	254,076
Regulatory reserve	17,644	17,644
Foreign currency translation reserve	(261)	(295)
Unrealised gains on financial investments measured at FVOCI	9,841	1,299
	1,164,232	1,105,333
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Deferred tax assets	(11,905)	(10,298)
- 55% cumulative gains of financial investments measured at FVOCI	(5,412)	(714)
- Regulatory reserve attributable to loans, advances and financing	(17,644)	(17,644)
	(34,961)	(28,656)
Total CET1 Capital	1,129,271	1,076,677
Tier 2 Capital		
Allowance for credit loss	25,223	27,684
Regulatory reserve	17,644	17,644
Total Tier 2 Capital	42,867	45,328
Total Capital	1,172,138	1,122,005
CET1 capital ratio	29.937%	27.370%
Tier 1 capital ratio	29.937%	27.370%
Total capital ratio	31.073%	28.523%

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

	2019		2018	
	Principal RM'000	Risk-weighted Assets RM'000	Principal RM'000	Risk-weighted Assets RM'000
Total RWA for credit risk	5,800,536	3,429,422	5,733,813	3,626,253
Total RWA for market risk	-	14,229	-	1,973
Total RWA for operational risk	-	328,538	-	305,504
	5,800,536	3,772,189	5,733,813	3,933,730

35. Financial Instruments

35.1 Categories of financial instruments

The table below provides an analysis of financial instruments at the end of the reporting period categorised as follows:-

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

2019	Carrying Amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000
Financial assets				
Cash and short-term funds	1,177,767	1,177,767	-	-
Deposits and placements with banks and other financial institutions	171,563	171,563	-	-
Financial investments measured at FVOCI	594,788	-	-	594,788
Financial investments measured at amortised cost	117,163	117,163	-	-
Loans, advances and financing	2,914,539	2,914,539	-	-
Derivative financial assets	2,014	-	2,014	-
Other assets	15,980	15,980	-	-
Statutory deposits with Bank Negara Malaysia	41,317	41,317	-	-
Total financial assets	5,035,131	4,438,329	2,014	594,788
Financial liabilities				
Deposits from customers	2,868,356	2,868,356	-	-
Deposits and placements of banks and other financial institutions	933,714	933,714	-	-
Derivative financial liabilities	2,639	-	2,639	-
Other liabilities	81,268	81,268	-	-
Provision for commitments and contingencies	7,004	7,004	-	-
Total financial liabilities	3,892,981	3,890,342	2,639	-

35. Financial Instruments *(continued)*

35.1 Categories of financial instruments *(continued)*

2018	Carrying Amount RM’000	AC RM’000	FVTPL RM’000	FVOCI RM’000
Financial assets				
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				
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	-

35. Financial Instruments *(continued)*

35.2 Net gains and losses arising from financial instruments

	2019 RM'000	2018 RM'000
Net gains/(losses) arising on:		
Fair value through profit or loss	18,595	32,552
Financial investments at fair value through other comprehensive income:		
- interest income from financial investments at fair value through other comprehensive income	24,726	20,624
- amortisation of premium recognised in profit or loss	(544)	(398)
- recognised in other comprehensive income	9,391	1,947
Financial investments at amortised cost		
- interest income from financial investments at amortised cost	5,363	3,676
- (amortisation of premium)/accretion of discount recognised in profit or loss	(106)	742
Other financial assets at amortised cost	171,757	177,281
Financial liabilities at amortised cost	(83,239)	(78,394)
Net loss on impairment on financial instruments:		
- financial assets at amortised cost	(14,017)	(8,512)
- financial assets at fair value through other comprehensive income	(849)	(93)
- provision for commitment and contingencies	(2,461)	3,366
	(17,327)	(5,239)
	128,616	152,791

35. Financial Instruments *(continued)*

35.3 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.

35. Financial Instruments *(continued)*

35.3 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
2019										
Financial assets										
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	171,563	171,563	171,563	171,563
Financial investments measured at FVOCI	-	565,150	29,638	594,788	-	-	-	-	594,788	594,788
Financial investments measured at amortised cost	-	-	-	-	-	120,009	-	120,009	120,009	117,163
Loans, advances and financing	-	-	-	-	-	-	2,914,027	2,914,027	2,914,027	2,914,539
Derivative financial assets	-	2,014	-	2,014	-	-	-	-	2,014	2,014
	-	567,164	29,638	596,802	-	120,009	3,085,590	3,205,599	3,802,401	3,800,067
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	2,868,356	2,868,356	2,868,356	2,868,356
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	933,714	933,714	933,714	933,714
Derivative financial liabilities	-	2,639	-	2,639	-	-	-	-	2,639	2,639
	-	2,639	-	2,639	-	-	3,802,070	3,802,070	3,804,709	3,804,709

35. Financial Instruments *(continued)*

35.3 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				Total	Carrying
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	fair value	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	-	559,085	30,630	589,715	-	-	-	-	589,715	589,715
Financial investments measured at amortised cost	-	-	-	-	-	117,830	-	117,830	117,830	117,269
Loans, advances and financing	-	-	-	-	-	-	3,007,517	3,007,517	3,007,517	3,008,073
Derivative financial assets	-	8,155	-	8,155	-	-	-	-	8,155	8,155
	-	567,240	30,630	597,870	-	117,830	3,019,984	3,137,814	3,735,684	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	-	7,786	-	7,786	-	-	-	-	7,786	7,786
	-	7,786	-	7,786	-	-	3,632,609	3,632,609	3,640,395	3,640,395

35. Financial Instruments *(continued)*

35.3 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 hierarchy
There has been no transfer in any levels of the fair values during the financial year (2018: no transfer in either directions).

35. Financial Instruments *(continued)*

35.4 Financial risk management

(a) Introduction and overview

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 Senior Management Committee, Management Risk Management Committee ("MRMC"), various functional committees 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 develop 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.

The Bank has exposure to the following material risks, among others, from financial instruments:-

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

(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. Credit exposures are managed in a prudent manner and collaterals are taken whenever required as risk mitigation measures. Periodic credit reviews are 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.

35. Financial Instruments *(continued)*

35.4 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
- Reviewing 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 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.

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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

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".

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 ii) DPD>30 days; <90 days iii) Significant downgrade in credit rating	i) DPD=>90 days 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 = PiT 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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

ECL Measurement *(continued)*

The Bank's credit 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

Credit Quality Analysis

	2019			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Loans, Advances and Financing to Corporates				
- Grade 1-12	1,325,186	555,702	-	1,880,888
- Grade 13-20	734,406	228,686	-	963,092
- Grade 21	-	-	1,105	1,105
	2,059,592	784,388	1,105	2,845,085
Allowance for credit loss	(26,962)	(14,104)	(1,105)	(42,171)
Carrying Amount	2,032,630	770,284	-	2,802,914
*Loans, Advances and Financing to Banks **				
- Grade 1-12	1,349,430	-	-	1,349,430
- Grade 13-20	-	-	-	-
- Grade 21	-	-	-	-
	1,349,430	-	-	1,349,430
Allowance for credit loss	(100)	-	-	(100)
Carrying Amount	1,349,330	-	-	1,349,330
Loans, Advances and Financing to Retails				
- Retails	112,083	40	12	112,135
	112,083	40	12	112,135
Allowance for credit loss	(498)	-	(12)	(510)
Carrying Amount	111,585	40	-	111,625
Financial Investments				
- Grade 1-12	651,021	-	-	651,021
- Grade 13-20	61,023	-	-	61,023
- Grade 21	-	-	-	-
	712,044	-	-	712,044
Allowance for credit loss	(1,635)	-	-	(1,635)
Carrying Amount	710,409	-	-	710,409

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Credit Quality Analysis *(continued)*

	2018			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
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	(786)	-	-	(786)
Carrying Amount	706,291	-	-	706,291

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

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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Significant Increase in Credit Risk *(continued)*

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	2019	2018
Upside Scenario	20.00%	30.00%
Base Scenario	50.00%	40.00%
Downside Scenario	30.00%	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 neutralisation 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. For corporate portfolio, the Bank adopts the prescribed LGD of 45% for unsecured senior claims on corporates as stated in BNM's Capital Adequacy Framework if the LGD derived from the aforementioned approach is lower than 45%, in order to mitigate the risk of underestimation of ECL.

35. Financial Instruments *(continued)*

35.4 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 reporting period are as disclosed under Note 8(x) 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 or 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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

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.

(i) Exposure to credit risk

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

2019	**Gross Carrying Amount RM'000**	**Allowance for credit loss RM'000**	**Net Carrying Amount RM'000**
Loans, Advances and Financing to Customers			
Neither past due nor impaired	2,955,945	(41,563)	2,914,382
Past due but not impaired			
- Less than one month	137	(1)	136
- Between one to two months	19	-	19
- Between two to three months	2	-	2
	158	(1)	157
Credit impaired	1,117	(1,117)	-
	2,957,220	(42,681)	2,914,539
Loans, Advances and Financing to Banks *			
Neither past due nor impaired	1,349,430	(100)	1,349,330
Financial Investments			
- measured at FVOCI			
Neither past due nor impaired	594,788	(1,542)	593,246
- measured at Amortised Cost			
Neither past due nor impaired	117,256	(93)	117,163

* 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 RM1.36 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 RM729.71 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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Exposure to credit risk (continued)

2018	Gross Carrying Amount RM'000	Allowance for credit loss RM'000	Net Carrying Amount RM'000
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.

35. Financial Instruments *(continued)*

35.4 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:-

	2019 RM'000	2018 RM'000
*Loans, Advances and Financing to Banks **		
Carrying amount	1,349,330	1,030,053
Concentration of credit risk based on sector		
Financial services	1,161,511	654,032
Government and central bank	187,819	376,021
	1,349,330	1,030,053
Concentration of credit risk based on geographical location		
Malaysia	1,143,078	564,166
East Asia	6,036	31,261
South East Asia	138,814	391
United States of America	55,352	428,612
Europe	2,537	4,653
Oceania	3,513	970
	1,349,330	1,030,053

* 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 8(iv) and 8(vi) to the financial statements.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

(ii) Concentration by sector and geographical location *(continued)*

	2019 RM'000	2018 RM'000
Financial Investments		
Carrying amount	711,951	706,984
Concentration of credit risk based on sector		
Financial services	29,638	30,630
Government and central bank	500,781	490,617
Others	181,532	185,737
	711,951	706,984
Concentration of credit risk based on geographical location		
Malaysia	711,951	706,984

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

(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. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawals, overdue repayments from counterparties, mismatch gap 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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Contractual maturity of financial assets and liabilities

The table below analyses financial assets and liabilities of the Bank based on the remaining contractual maturity at the end of the reporting period in accordance with BNM's Guidelines on Financial Reporting:-

2019	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	No specific maturity RM'000	Total RM'000
Financial assets							
Cash and short-term funds	1,177,867	-	-	-	-	(100)	1,177,767
Deposits and placements with banks and other financial institutions	-	171,563	-	-	-	-	171,563
Financial investments measured at FVOCI	-	20,036	54,814	519,938	-	-	594,788
Financial investments measured at amortised cost	-	-	-	117,256	-	(93)	117,163
Loans, advances and financing	802,100	580,002	375,573	990,549	208,996	(42,681)	2,914,539
Derivative financial assets	1,092	678	244	-	-	-	2,014
Other assets	1,443	509	1,931	10,354	-	1,743	15,980
Statutory deposits with BNM	-	-	-	-	-	41,317	41,317
Total financial assets	1,982,502	772,788	432,562	1,638,097	208,996	186	5,035,131
Financial liabilities							
Deposits from customers	2,316,918	128,637	412,501	10,300	-	-	2,868,356
Deposits and placements of banks and other financial institutions	119,658	90,120	109,987	613,949	-	-	933,714
Derivative financial liabilities	654	1,799	186	-	-	-	2,639
Other liabilities	34,429	4,814	25,106	16,919	-	-	81,268
Provision for commitments and contingencies	-	-	-	-	-	7,004	7,004
Total financial liabilities	2,471,659	225,370	547,780	641,168	-	7,004	3,892,981
Net liquidity gap	(489,157)	547,418	(115,218)	996,929	208,996	(6,818)	

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Contractual maturity of financial assets and liabilities (continued)

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**	**No specific maturity RM'000**	**Total RM'000**
Financial assets							
Cash and short-term funds	1,017,713	-	-	-	-	(127)	1,017,586
Deposits and placements with banks and other financial institutions	-	-	12,473	-	-	(6)	12,467
Financial investments measured at FVOCI	-	-	4,993	388,111	196,611	-	589,715
Financial investments measured at amortised cost	-	-	-	117,362	-	(93)	117,269
Loans, advances and financing	1,026,605	582,209	242,139	975,891	210,011	(28,782)	3,008,073
Derivative financial assets	1,425	69	6,661	-	-	-	8,155
Other assets	6,090	3,209	4,126	-	-	1,786	15,211
Statutory deposits with BNM	-	-	-	-	-	42,602	42,602
Total financial assets	2,051,833	585,487	270,392	1,481,364	406,622	15,380	4,811,078
Financial 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
Derivative financial liabilities	1,074	67	6,645	-	-	-	7,786
Other liabilities	35,886	5,448	21,213	8,805	-	-	71,352
Provision for commitments and contingencies	-	-	-	-	-	4,546	4,546
Total financial liabilities	1,666,453	1,298,567	727,613	19,114	-	4,546	3,716,293
Net liquidity gap	385,380	(713,080)	(457,221)	1,462,250	406,622	10,834	

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Contractual maturity of financial liabilities on an undiscounted basis

Non-derivative financial liabilities

The following tables show the contractual undiscounted cash flows payable for non-derivative financial liabilities by remaining contractual maturity. The amounts disclosed in the tables below will not agree to the carrying amounts reported in the statement of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and 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.

2019	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Total RM'000**
Non-derivative financial liabilities					
Deposits from customers	2,322,055	132,220	423,853	12,535	2,890,663
Deposits and placements of banks and other financial institutions	120,342	92,218	114,295	665,217	992,072
Other liabilities	29,259	396	17,686	13,738	61,079
	2,471,656	224,834	555,834	691,490	3,943,814
Commitment and contingencies					
Contingent liabilities	38,003	54,356	64,782	206,287	363,428
Commitments	1,360	4,220	231,336	103,336	340,252
	39,363	58,576	296,118	309,623	703,680

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Contractual maturity of financial liabilities on an undiscounted basis (continued)

Non-derivative financial liabilities (continued)

2018	Up to 1 month RM’000	>1 - 3 months RM’000	>3 - 12 months RM’000	1 - 5 years RM’000	Total RM’000
Non-derivative financial liabilities					
Deposits from customers	1,519,530	641,640	353,806	10,309	2,525,285
Deposits and placements of banks and other financial institutions	115,147	664,199	366,944	-	1,146,290
Other liabilities	31,692	356	15,484	8,805	56,337
	1,666,369	1,306,195	736,234	19,114	3,727,912
Commitment and contingencies					
Contingent liabilities	33,369	21,871	123,795	209,103	388,138
Commitments	4,318	601	238,484	263,210	506,613
	37,687	22,472	362,279	472,313	894,751

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

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

2019	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	235,776	1,148	399
- Currency swaps	322,939	866	2,240
	558,715	2,014	2,639

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

(d) Market risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, foreign exchange rates or prices of any form of instruments.

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 acceptable range 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 managed 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.

35. Financial Instruments *(continued)*

35.4 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, New Zealand Dollars and Singapore Dollars.

2019	Malaysia Ringgit RM'000	United States Dollars RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and short-term funds	496,424	608,229	65,777	7,337	1,177,767
Deposits and placements with banks and other financial institutions	160,000	-	-	11,563	171,563
Financial investments measured at FVOCI	565,150	-	29,638	-	594,788
Financial investments measured at amortised cost	117,163	-	-	-	117,163
Loans, advances and financing	1,779,050	945,381	21,118	168,990	2,914,539
Derivative financial assets	1,362	261	391	-	2,014
Other assets	14,609	700	654	17	15,980
Statutory deposits with Bank Negara Malaysia	41,317	-	-	-	41,317
Tax recoverable	5,850	-	-	-	5,850
Property and equipment	6,196	-	-	-	6,196
Right-of-use assets	9,936	-	-	-	9,936
Intangible asset	-	-	-	-	-
Deferred tax assets	11,905	-	-	-	11,905
TOTAL ASSETS	3,208,962	1,554,571	117,578	187,907	5,069,018

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk (continued)

2019	**Malaysia Ringgit RM'000**	**United States Dollars RM'000**	**Chinese Renminbi RM'000**	**Others RM'000**	**Total RM'000**
LIABILITIES					
Deposits from customers	1,768,850	994,758	90,518	14,230	2,868,356
Deposits and placements of banks and other financial institutions	272,786	613,949	32,294	14,685	933,714
Derivative financial liabilities	-	2,639	-	-	2,639
Other liabilities	51,318	29,234	708	8	81,268
Lease liabilities	9,918	-	-	-	9,918
Provision for commitments and contingencies	7,004	-	-	-	7,004
Provision for taxation	345	-	-	-	345
TOTAL LIABILITIES	2,110,221	1,640,580	123,520	28,923	3,903,244

2018	**Malaysia Ringgit RM'000**	**United States Dollars RM'000**	**Chinese Renminbi RM'000**	**Others RM'000**	**Total RM'000**
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
Property 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

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk (continued)

2018	**Malaysia Ringgit RM’000**	**United States Dollars RM’000**	**Chinese Renminbi RM’000**	**Others RM’000**	**Total RM’000**
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

35. Financial Instruments *(continued)*

35.4 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 reporting dates and the periods in which they reprice or mature, whichever is earlier.

	Non-trading book							
2019	**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	1,159,040	-	-	-	-	18,727	-	1,177,767
Deposits and placements with banks and other financial institutions	-	171,563	-	-	-	-	-	171,563
Financial investments measured at FVOCI	-	20,036	54,814	519,938	-	-	-	594,788
Financial investments measured at amortised cost	-	-	-	117,163	-	-	-	117,163
Loans, advances and financing:								
- performing	1,447,412	1,238,531	167,438	59,331	1,827	-	-	2,914,539
Other assets ^	-	-	-	-	-	59,311	-	59,311
Total assets	2,606,452	1,430,130	222,252	696,432	1,827	78,038	-	5,035,131
Liabilities								
Deposits from customers	1,540,949	128,637	412,501	786,269	-	-	-	2,868,356
Deposits and placements of banks and other financial institutions	733,607	90,120	109,987	-	-	-	-	933,714
Other liabilities *	-	-	-	-	-	90,911	-	90,911
Total liabilities	2,274,556	218,757	522,488	786,269	-	90,911	-	3,892,981
Equity	-	-	-	-	-	1,165,774	-	1,165,774
Total liabilities and equity	2,274,556	218,757	522,488	786,269	-	1,256,685	-	5,058,755
On-balance sheet interest sensitivity gap	331,896	1,211,373	(300,236)	(89,837)	1,827	(1,178,647)	-	
Total interest sensitivity gap	331,896	1,211,373	(300,236)	(89,837)	1,827	(1,178,647)	-	

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

2018	**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	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 ^	-	-	-	-	-	65,968	-	65,968
Total assets	2,298,221	1,623,222	62,410	538,280	198,535	90,410	-	4,811,078
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 *	-	-	-	-	-	83,684	-	83,684
Total liabilities	1,629,493	1,293,052	699,755	10,309	-	83,684	-	3,716,293
Equity	-	-	-	-	-	1,106,026	-	1,106,026
Total liabilities and equity	1,629,493	1,293,052	699,755	10,309	-	1,189,710	-	4,822,319
On-balance sheet interest sensitivity gap	668,728	330,170	(637,345)	527,971	198,535	(1,099,300)	-	
Total interest sensitivity gap	668,728	330,170	(637,345)	527,971	198,535	(1,099,300)	-	

^ Other assets include other assets, statutory deposits with BNM and derivative financial assets as disclosed in the statement of financial position.

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

35. Financial Instruments *(continued)*

35.4 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 2019	13,289	(13,289)
At 31 December 2018	11,776	(11,776)

(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 2019	(16,306)	16,306
At 31 December 2018	(14,005)	14,005

* 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 risks.

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

36. 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 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 and stress testing. 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 lending direction and business strategies for the coming year according to the approved risk appetite. Senior Management is responsible for 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 for a 3-year period. 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.

37. Significant changes in accounting policies

During the financial year, the Bank adopted MFRS 16.

Definition of a lease

On transition to MFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, *Determining whether an Arrangement contains a Lease* were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

The Bank applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application, if any, as an adjustment to the opening balance of retained earnings at 1 January 2019.

At 1 January 2019, for leases that were previously classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. The weighted-average rate applied is 3.25%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:-

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on financial statements

Since the Bank applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 January 2019, there are no adjustments made to the prior period comparatives.

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	RM'000
Operating lease commitments at 31 December 2018 as disclosed in the Bank's financial statements	9,900
Discounted using the incremental borrowing rate at 1 January 2019	9,633
Recognition exemption for short-term leases	(30)
Recognition exemption for leases of low-value assets	(100)
Operating lease recognised	129
Extension and termination options reasonably certain to be exercised	4,511
Lease liabilities recognised at 1 January 2019	14,143

38. Subsequent events

The existence of a novel coronavirus was confirmed in early 2020. The virus (which was named COVID-19 on 11 February 2020) has since spread across mainland China and beyond. The outbreak of COVID-19 has resulted in the occurrence of a multitude of associated events such as movement restrictions and quarantine measures taken by governments, causing disruption to businesses and economic activities. In addition, the economic meltdown is exacerbated by the significant decline in oil prices following the failure of the Organisation of the Petroleum Exporting Countries ("OPEC") and Russia to come into consensus on the additional production cuts at their meeting in March 2020.

The Bank considers these economic events as non-adjusting subsequent events. As the situation is fluid and rapidly evolving, the Bank does not consider it practicable to provide a quantitative estimate of the potential impact of these economic events on the Bank. The impact of these economic events on the macroeconomic forecast will be incorporated into the Bank's MFRS 9 estimates of expected credit loss allowances in 2020.