Industrial and Commercial Bank of China (Malaysia) Berhad

(Registration No. 201001000001 (839839 M))

(Incorporated in Malaysia)

Directors' Report and Financial Statements
31 December 2020

DIRECTORS' REPORT
For the year ended 31 December 2020

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 2020.

PRINCIPAL ACTIVITIES

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

RESULTS

	RM'000
Profit before taxation	52,335
Tax expense	(11,743)
Profit for the year	40,592

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
Ms Sum Leng Kuang

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

DIRECTORS' INTEREST

None of the Directors holding office at 31 December 2020 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 RM29.63 thousand respectively for Directors and Officers of the Bank.

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

For the financial year ended 31 December 2020, the Bank recorded profit before tax ("PBT") of RM52.34 million, a decrease of RM4.74 million or 8.3% as compared with the previous financial year. Net interest income for the financial year contributed 77.1% to the Bank's total net operating income. As compared with the financial year ended 31 December 2019, it has decreased by RM15.19 million or 12.9% to RM102.77 million as a result of lower interest margin following a cumulative reduction in the Overnight Policy Rate ("OPR") of 125 basis points in 2020. Net fee income which constituted 6.9% of the Bank's total operating income, decreased by RM1.65 million or 15.1% to RM9.25 million in 2020. However, the Bank's net trading income grew by RM2.30 million or 12.4% to RM20.90 million, contributing 15.7% to the Bank's total net operating income for the financial year 2020.

In line with the lower operating income earned, the Bank's other operating expenses decreased by RM2.37 million or 3.2% to RM70.78 million. The decrease was mainly due to lower personnel costs of RM1.37 million, lower promotion and marketing expenses of RM0.46 million and lower administrative expenses of RM0.45 million. During the year, allowance for impairment on loans, advances and financing decreased by RM6.79 million when compared with the financial year 2019, as a result of negative loan growth in 2020. The Bank incurred a tax expense of RM11.74 million on the back of lower profit earned during the year.

As at 31 December 2020, the Bank's total assets amounted to RM4.09 billion, decreasing by RM974.67 million or 19.2% when compared with 31 December 2019. The decrease was mainly due to negative loan growth and lower cash and short-term funds at the end of the financial year 2020. Gross loans, advances and financing shrunk by RM524.08 million or 17.7% as there were greater repayments from borrowers during the year. However, the Bank's total financial investments grew by RM54.61 million or 7.7% to RM766.56 million as compared with the RM711.95 million recorded as at 31 December 2019.

The Bank's total liabilities decreased by RM1.02 billion or 26.2% and stood at RM2.88 billion as at 31 December 2020. The lower balance was contributed by reduction of deposits from customers by RM891.94 million or 31.1% when compared with the previous financial year end. In addition, deposits and placements of banks and other financial institutions decreased by RM93.66 million or 10.0% to RM840.05 million.

Given the challenging operating environment in 2020 as a result of the COVID-19 pandemic, the Bank has remained focused on prioritising its customers' needs and provided support to targeted borrowers in support of Bank Negara Malaysia ("BNM") relief measures. The Bank shall continue to provide quality customer service and maintain its capital and liquidity position in accordance with regulatory requirements.

OUTLOOK FOR 2021

Taking cognizance of the then prevailing development of global economy and pandemic situation around the world, the World Bank and International Monetary Fund had in January 2021 forecasted the global Gross Domestic Product ("GDP") would expand 4.0% and 5.5% respectively in 2021. While the world-wide economy engine was in the course of revitalization, the subsequent development revealed that the COVID-19 pandemic related risks still persisted stubbornly as there were signs of re-surgence in the number of infected cases with new variants that posed higher contagion risk. The speedy rolling out of vaccination in a safe manner is crucial, which should be complemented with focused (instead of generic) containment measures as well as supportive government policies and economy stimulus packages to revitalize the economy in a focused, balanced and sustainable manner.

Given the on-going impacts of COVID-19 pandemic and the chain effects arising from the restrictions imposed in the various stages of Movement Control Order ("MCO"), Malaysian GDP would be in the negative territory for full year of 2020 (2018: 4.7% and 2019: 4.3%) despite considerable efforts (i.e. economy stimulus packages and supportive monetary policy as adopted by the Malaysian Government) having been put in place to withstand the downside pressures.

Going into 2021, BNM and the World Bank both opined that the nation would resume growth momentum, primarily benefiting from the external demand, and internal fiscal policies such as KITA PRIHATIN and 2021 Budget Measures. However, BNM expressed its concern on the uneven recovery pace across sectors, and a slower improvement in the labour market. The balance of risks is tilted to the downside, emanating mainly from ongoing uncertainties surrounding COVID-19 globally and domestically. Again, the crucial driving factors would be timely rolling out of vaccination, the speed of recovery of the major export markets, the capability of private sectors in refining the corresponding infrastructure and tapping into opportunities arising from the new norms as well as the capacity of the Government in boosting economic activities with appropriate and consistent policies and development packages.

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 OPR (in addition to the OPR cuts in 2020) are expected to put on additional pressure to the banking system's net interest margin. Therefore, banks' earnings are expected to remain clouded by the uncertain operating landscape in 2021.

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 brought about by 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 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. Despite heightened challenges arising from the COVID-19 pandemic, the Board collectively affirms its commitment in upholding the Bank's strong corporate governance, internal processes, guidelines and systems and the implementation of appropriate risk management and internal controls. The Bank continues to abide by the principles and best practices of corporate governance, especially those prescribed by Bank Negara Malaysia's Policy Document on Corporate Governance ("BNM CG Policy") and Malaysian Code on Corporate Governance, as the basis of its governance model.

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 calibre 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)
59 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)*
51 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
64 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
71 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
* Life Member, Institute of Electrical and Electronic Engineers (IEEE), USA

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
67 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 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 2020 ("FY2020"), 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 fulfil the criteria and definition of 'Independent Director' as stipulated in BNM CG Policy.

The Bank has adopted a nine (9) years policy for the 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. As at the date of this report, none of the Bank's Independent Directors have served for a cumulative period of more than nine (9) years.

(c) **Board Responsibilities and Operation**

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.

BOARD OF DIRECTORS *(continued)*

(c) **Board Responsibilities and Operation *(continued)***

The Board is collectively responsible for effective oversight of the Bank and the helming of the Bank’s strategic direction and objectives, business plan, viability, and governance structure that will help to achieve ICBC Malaysia’s strategic growth and deliver sustainable shareholder value. The Board is also responsible to set the risk appetite and determine the principal risks for the Bank 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 (“Code”) which is in line with the requirements of BNM CG Policy and ensures that the Board continues to shape the ethical culture through its leadership. The provisions of the Code are aligned with the Code of Ethics and Conduct for Staff and the corporate culture of uncompromising integrity and exceptional performance applicable across the ICBC Group. The Code was further enhanced in October 2020 to strengthen the Bank’s commitment, efforts and measures taken to implement the requirements of the new Section 17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018 (“MACC Act”).

In 2020, ICBC Malaysia further strengthened its corporate governance by establishing the Anti-Bribery and Corruption Policy with strict emphasis on adherence to the Guidelines on Adequate Procedures issued by Prime Minister’s Department, which cover five (5) principles (i.e. Top Level Commitment, Risk Assessment, Undertake Control Measures, Systematic Review, Monitoring & Enforcement and Training & Communication). This reflects the Board and Senior Management's dedication to upholding a high level of ethics, integrity and good corporate governance in cooperation with relevant stakeholders.

(d) **Board and Board Committee Meetings**

Directors are required to attend at least 75% of all the Board/Board Committee meetings during each financial year. The attendance of Directors at a Board/Board Committee meeting by way other than physical presence, remains the exception rather than the norm and is subject to appropriate safeguards to preserve the confidentiality of deliberation.

Nonetheless, due to the COVID-19 pandemic and the resultant Movement Control Order (“MCO”) and the subsequent Conditional MCO as well as Recovery MCO, the Board/Board Committee meetings in 2020 have been convened via video-conferencing to minimise face-to-face contact between the Directors, Senior Management and employees of the Bank. This was also in line with the Bank’s precautionary measures to curb the spread of COVID-19 infection.

BOARD OF DIRECTORS *(continued)*

(d) **Board and Board Committee Meetings *(continued)***

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.

At each Board/Board Committee meeting, the Chairman of the Board/Board Committee ensures all Members of the Board/Board Committee have been given opportunities to express their views, opinions and ideas to facilitate a proper decision making process by the Board/Board Committees. In particular for Board meetings, the Board is 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/Board Committee meetings' proceedings are properly recorded and the minutes thereof are tabled at the next meeting for confirmation of the Board/Board Committees.

In between Board meetings and depending on the urgency of the matters, the Board may grant approval by way of circular resolution in writing pursuant to 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 decisions of the Board.

All Directors have demonstrated that they are able to allocate sufficient time to the Bank in discharging their duties and responsibilities, and their commitment is affirmed by their attendance at the Board and Board Committee meetings held during FY2020, as reflected below:-

Directors as at 31 December 2020	**Attendance**			
	Board	Audit Committee	Board Risk Management Committee	Nomination and Remuneration Committee
Chang Zhenwang *Chairman/NINED*	5/6	N/A	N/A	N/A
Wang Qiang *MD/CEO*	6/6	N/A	N/A	N/A
Chin Chee Kong *INED*	6/6	6/6	7/7	3/3
Ng Lip Yong *INED*	6/6	6/6	7/7	3/3
Sum Leng Kuang *INED*	6/6	6/6	7/7	3/3

BOARD OF DIRECTORS *(continued)*

(d) **Board and Board Committee Meetings *(continued)***

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and reviewed at the appropriate point in the financial and regulatory cycle. The flexibility of the schedule enables pressing matters to be dealt with in a timely manner when they arise. In FY2020, monitoring of the Bank's performances and business plan for the year remains a priority for the Board's deliberation despite a considerable amount of time and attention being devoted to review the measures and controls in mitigating the chain impacts brought about by the unprecedented COVID-19 pandemic. Apart from that, the Board continued to, among others, review and/or approve the governance, risk management and internal control related policies, quarterly risk and compliance reports, re-appointment of Directors, annual Board performance evaluation results, annual performance appraisal of Senior Management Members and internal control functions of the Bank.

(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 familiarise them with the industry as well as the business operations of the Bank in addition to the regulatory Mandatory Accreditation Programme, i.e. Financial Institutions Directors' Education Core Programme. Upon appointment, a new Director will attend the Induction Programme organised by the Bank where he/she will be briefed on 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 the 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 FY2020, were as follows:-

Director	Training Attended
Chang Zhenwang	▪ In-house: Anti-Bribery and Corruption ("AB&C") ▪ In-house: Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") ▪ ICBC Group: The China-United States Economic Relationship Analysis ▪ ICBC Group: Challenges and Opportunities in Aircraft Leasing Industry
Wang Qiang	▪ In-house: AB&C ▪ In-house: AML/CFT ▪ In-house: e-Learning on AML Standardisation Manual for Overseas Institutions ▪ In-house: e-Learning on IT Security Awareness 2020

BOARD OF DIRECTORS *(continued)*

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

Director	Training Attended
Chin Chee Kong	▪ In-house: AB&C ▪ In-house: AML/CFT ▪ In-house: A Study into Opportunities in China Market ▪ In-house: Malaysia2China: Seizing Opportunities in China's Technological Rise ▪ In-house: China Asset Management Business Opportunities ▪ Deloitte TaxMax - The 46th Series (Towards the Future with Confidence) ▪ MIA Webinar Series: COVID-19 Impact on Financial Reporting MFRS 2, 15, 102, 119, 121, 137 ▪ KPMG Tax and Business Summit ▪ PwC jointly with Bursa Malaysia: Fraud Risk Management Workshop
Ng Lip Yong	▪ In-house: AB&C ▪ In-house: AML/CFT ▪ In-house: A Study into Opportunities in China Market ▪ In-house: China Asset Management Business Opportunities
Sum Leng Kuang	▪ In-house: AB&C ▪ In-house: AML/CFT ▪ In-house: A Study into Opportunities in China Market ▪ In-house: Malaysia2China: Seizing Opportunities in China's Technological Rise ▪ In-house: China Asset Management Business Opportunities ▪ Securities Commission Consultation Session on Capital Market Plan 3 ▪ Rating Agency Malaysia Webinar on COVID-19 Impact Analysis ▪ FIDE Forum: COVID-19 & Current Economic Reality ▪ FIDE Forum: Challenging Times - What Role Must the Board Play? ▪ FIDE Forum: Risks - A Fresh Look from the Board’s Perspective ▪ FIDE Forum: Digital Financial Institutions Series - Managing Virtual Banking & Insurance Businesses ▪ FIDE Forum: Annual Dialogue with Governor of BNM ▪ FIDE Forum: Green Fintech - Ping An’s journey to becoming Environmental, Social and Governance (“ESG”) - Performing Financial Institution ▪ DBS Asia Leadership Dialogue: Climate Change and the Great Reset ▪ SIDC Forum : Social Responsible Investing (SRI) ▪ Moody's Webinar: COVID-19 Impact on Global Credit ▪ Moody's Webinar: Digital Transformation ▪ Moody's Webinar: Methodology on ESG Score ▪ HSBC's Webinar: Going Digital, the Pros and Cons for Emerging Markets ▪ HSBC's Webinar: The Biodiversity Crisis ▪ HSBC's Webinar: US China Decoupling

BOARD OF DIRECTORS *(continued)*

(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 last revision of the Governance Policy was conducted in December 2020 to maintain its relevancy based on the prevailing business environment 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 those imposed by relevant regulatory authorities before recommending an appointment proposal to the Board for approval. Independent background checks will also be conducted to verify the information disclosed in the Fit and Proper Declarations of the proposed candidates.

  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 candidates 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 fitness and propriety, 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.

BOARD OF DIRECTORS *(continued)*

(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 FY2020 to its Directors and the assessment results thereof will be compiled for presentation to NRC and the Board for review subsequently.

Apart from that, the Board, through the NRC, assessed the fitness and propriety of the Directors in accordance with the Bank's Fit and Proper Policy in conjunction with the annual BPE exercise. All Directors are required to complete a Fit & Proper Declaration annually. The Fit & Proper Declarations by the Directors are verified against independent sources. For FY2020, the Board was satisfied that each of the Directors has met the required standard of fitness and propriety.

BOARD COMMITTEES

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 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 FY2020, six (6) AC meetings, including one (1) special meeting, were held and the attendances of the AC members were reported on page 10 of the Directors' Report. The key activities carried out by AC in FY2020 covered the following:-

- reviewed the quarterly reports and financial statements of the Bank, focusing particularly on: (i) any changes in accounting policies and practices; (ii) significant matters highlighted including financial reporting issues, significant judgements made by Management, significant and unusual events or transactions, and how these matters are addressed; and (iii) compliance with accounting standards and other legal requirements;

BOARD COMMITTEES *(continued)*

(a) **Audit Committee *(continued)***

- reviewed the audit plan of the external auditors, which encompassed the detailed terms of the external auditors' responsibilities and affirmation of their independence as external auditors, audit methodology, areas of audit emphasis for the financial year and any significant issues that could be foreseen, either as a result of the past year's experience or due to new accounting standards or other changes in statutory requirements;

- reviewed the results of the audit with the external auditors, if any together with their recommendations and Management's responses, as detailed in the Audit Report in respect of the Bank's Statutory Audit for FY2020;

- met twice with the external auditors without the presence of Management for open discussions on any issues of concern of the external auditors arising from their audit;

- assessed the performance, effectiveness and independence of the external auditors based on the criteria set out in BNM's Policy Document on External Auditor and recommended the re-appointment of the external auditors for FY2020 to the Board, for consideration;

- reviewed with Chief Internal Auditor ("CIA") the internal audit plan to ensure adequacy of scope, coverage and resources required to perform audits for the identified auditable areas;

- reviewed the audit findings and recommendations highlighted by Internal Audit function and ensured that Management had taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements and policies;

- reviewed and assessed the full year performance of the Internal Audit function; and

- reviewed related party transactions entered into by the Bank and its related parties, covering the nature and amount of the transactions so as to ensure that related party transactions were undertaken on an arm's length basis, on normal commercial terms and on terms that were not more favourable to the related parties than those generally available to non-related parties.

(b) **Board Risk Management Committee**

The BRMC comprises entirely INEDs. The BRMC is entrusted by the Board to undertake the responsibilities to provide oversight and ensure governance of risks for the Bank. The Committee oversees the risk management 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 FY2020, five (5) BRMC regular meetings and two (2) special BRMC meetings were held to consider exigent matters. The details of attendance of the BRMC members are reported on page 10 of the Directors' Report. The key activities carried out by BRMC in FY2020 covered the following:-

- reviewed and recommended risk management strategies, policies and risk appetite levels for Board's approval;

BOARD COMMITTEES *(continued)*

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

- reviewed risk management reports which covered global and domestic economic developments, risk headwinds, capital adequacy assessment, integrated and thematic stress tests, credit risk, market risk, liquidity risk, operational risk, legal risk and strategic risk of the Bank;

- reviewed legal and compliance reports which included new regulation updates, legal and compliance risk incidents and Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") related updates;

- reviewed and recommended 3-year IT strategic plan for Board's approval; and

- reviewed and assessed the full year performance of the Risk Management and Compliance functions.

Apart from the above and against the backdrop of the COVID-19 crisis, the BRMC has reviewed and deliberated in detail the Management's analysis on the chain impacts of COVID-19 outbreak to the global and domestic fronts and business operations of the Bank (including the loan repayment moratorium measures introduced by BNM) as well as the proposed risk mitigation actions in relation to the Bank's credit exposures, liquidity position, market risk, operational risk and capital adequacy of the Bank.

(c) **Nomination and Remuneration Committee**

The NRC 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 FY2020, three (3) NRC meetings were held and the attendances of the NRC members are reported on page 10 of the Directors' Report. The key activities carried out by NRC in FY2020 included the following:-

- assessed the annual performance of individual Directors, the Board as a whole and Board Committees' members via an internally conducted BPE exercise;

- assessed the annual performance of Senior Management and internal control functions of the Bank;

- assessed the fitness and propriety of Directors, Senior Management and the Company Secretaries as well as the independence of Independent Directors;

- reviewed and recommended to the Board the re-appointment of Mr Chang Zhenwang as the Chairman/NINED of the Bank as well as the re-appointment of Mr Chin Chee Kong as the INED of the Bank; and

- reviewed the proposals relating to the employees' annual increment and annual total remuneration for FY2020.

RISK MANAGEMENT AND 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 FY2020 and has continued up to the date of this report.

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 Defence. The management of risk broadly takes place at different hierarchical levels and is embedded within the Bank's three Lines of Defence:-

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 both the Management and Board levels.

INTERNAL CONTROL FRAMEWORK *(continued)*

(b) **Risk Management *(continued)***

The details pertaining to the Bank's financial risk management framework are set out on pages 85 to 106 of these financial statements.

(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 the 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 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.

Training programmes 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 function is led by the CIA and aptly supported by a team with specialisation in key risk areas. To preserve the independence of the Internal Audit 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 Internal Audit function is governed and guided by the Bank's Audit Charter, regulatory guidelines and policies of Parent Bank.

Internal Audit 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 assessments on the auditable functions are conducted annually to form the risk-based audit plan for approval by the AC. The Internal Audit 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. Executions of time-bound remedial action plans are closely monitored to ensure audit issues are resolved timely. The Internal Audit 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. Therefore, 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 conducting 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 ("CECS") 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 ("Whistleblowing Policy and Procedures") 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 whistleblowers from the risk of reprisal. The policy in relation to Whistleblowing Reporting by Third Party is available on the corporate website of the Bank.

The CECS as well as the Whistleblowing Policy and Procedures has been further enhanced in 2020 to strengthen the Bank's efforts and measures on the implementation of the new Section 17A of the MACC Act.

The unprecedented COVID-19 pandemic poses a material downside risk to the economy. To date, the Bank has been monitoring the risks associated with this across multiple angles including credit exposures, business, technology, and employee safety in ensuring the continuity of the Bank's business. While it remains uncertain what the new normal will be at the end of this crisis, or the full impact of this pandemic to the Bank's business operations, the Bank will continue to monitor this risk area closely.

REMUNERATION

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

The Board recognises the importance of setting a fair and competitive remuneration package for INEDs which is 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 FY2020 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.

(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.

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 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.

The total bonus pool of the Bank is subject to adjustment upon taking into consideration of both quantitative risk measures and qualitative risk outcomes.

The subsequent allocation of bonus for individual employees is determined in accordance with the performance assessment results of the employees 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.

REMUNERATION *(continued)*

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

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.

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 employees 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 FY2020:-

Category	**Senior Management and Senior Officers (8 headcounts)**		**Other Material Risk Takers (11 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	5,388	-	3,139	-
* Shares and share-linked instruments	-	-	-	-
* Others	-	-	-	-
Variable Remuneration				
* Cash-based	2,178	250	1,600	175
* 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.

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 financial year 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 become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2020 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT, retire and do not seek re-appointment at the forthcoming Annual General Meeting of the Bank.

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: 12 May 2021

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 31 to 110 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 2020 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: 12 May 2021

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 31 to 110 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 12 May 2021

……………………………………………………………
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 2020, 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 31 to 110.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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

Chan Kah Mun
Approval Number: 03350/01/2022 J
Chartered Accountant

Petaling Jaya, Selangor
Date: 12 May 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
ASSETS			
Cash and short-term funds	4	744,489	1,177,767
Deposits and placements with banks and other financial institutions	5	129,834	171,563
Financial investments measured at fair value through other comprehensive income ("FVOCI")	6	542,881	594,788
Financial investments measured at amortised cost	7	223,679	117,163
Loans, advances and financing	8	2,379,326	2,914,539
Derivative financial assets	9	2,313	2,014
Other assets	10	16,549	15,980
Statutory deposits with Bank Negara Malaysia	11	20,402	41,317
Tax recoverable		9,163	5,850
Property and equipment	12	3,753	6,196
Right-of-use assets	13	10,800	9,936
Intangible asset	14	-	-
Deferred tax assets	15	11,158	11,905
TOTAL ASSETS		4,094,347	5,069,018
LIABILITIES			
Deposits from customers	16	1,976,414	2,868,356
Deposits and placements of banks and other financial institutions	17	840,051	933,714
Derivative financial liabilities	9	3,190	2,639
Other liabilities	18	44,599	81,268
Lease liabilities	13	10,549	9,918
Provision for commitments and contingencies	19	5,453	7,004
Provision for taxation	20	235	345
TOTAL LIABILITIES		2,880,491	3,903,244
EQUITY			
Share capital	21	832,609	832,609
Reserves	22	381,247	333,165
EQUITY ATTRIBUTABLE TO OWNER OF THE BANK		1,213,856	1,165,774
TOTAL LIABILITIES AND EQUITY		4,094,347	5,069,018
COMMITMENTS AND CONTINGENCIES	33	2,257,653	2,646,461

The notes on pages 37 to 110 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Interest income	23	150,510	201,196
Interest expense	23	(47,741)	(83,239)
Net interest income	23	102,769	117,957
Net fee income	24	9,245	10,890
Net trading income	25	20,899	18,595
Other operating income		442	102
Net operating income		133,355	147,544
Other operating expenses	26	(70,777)	(73,142)
Operating profit		62,578	74,402
Allowance for impairment on loans, advances and financing	27	(9,720)	(16,507)
Allowance for impairment on other financial assets	28	(523)	(820)
Profit before taxation		52,335	57,075
Tax expense	29	(11,743)	(6,752)
Profit for the year		40,592	50,323
Other comprehensive 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		134	34
Fair value reserve			
- Changes in fair value		9,493	11,483
- Amount transferred to profit or loss		186	849
- Deferred tax adjustment	15	(2,323)	(2,941)
		7,356	9,391
Total other comprehensive income for the year		7,490	9,425
Total comprehensive income for the year		48,082	59,748
Basic earnings per ordinary share (sen):	30	4.88	6.04

The notes on pages 37 to 110 are 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 2020

	← 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	-	34	-	-	-	34
- Currency translation differences in respect of foreign operations						
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)	

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020 *(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 2020	832,609	(261)	11,383	17,644	304,399	1,165,774
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	-	134	-	-	-	134
- Currency translation differences in respect of foreign operations						
Fair value reserve						
- Changes in fair value	-	-	9,493	-	-	9,493
- Amount transferred to profit or loss	-	-	186	-	-	186
- Deferred tax adjustment	-	-	(2,323)	-	-	(2,323)
	-	-	7,356	-	-	7,356
Total other comprehensive income for the year	-	134	7,356	-	-	7,490
Profit for the year	-	-	-	-	40,592	40,592
Total comprehensive income for the year	-	134	7,356	-	40,592	48,082
At 31 December 2020	832,609	(127)	18,739	17,644	344,991	1,213,856
	Note 21	Note 22 (a)	Note 22 (b)	Note 22 (c)	Note 22 (d)	

The notes on pages 37 to 110 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 RM'000	2019 RM'000
Cash flows (used in)/from operating activities		
Profit before taxation	52,335	57,075
Adjustments for:		
Depreciation of property and equipment	3,358	3,521
Depreciation of right-of-use assets	4,481	4,418
Interest expense on lease liabilities	263	405
Property and equipment written off	10	-
Gain on derecognition of right-of-use assets	(190)	-
Allowance for impairment on loans, advances and financing	9,720	16,507
Allowance for impairment on other financial assets	523	820
Net unrealised losses arising from derivative trading	252	994
Transfer to foreign currency translation reserve	134	34
Accretion of discounts net of amortisation of premiums of financial investments measured at FVOCI	791	544
Accretion of discounts net of amortisation of premiums of financial investments measured at amortised cost	269	106
Operating profit before working capital changes	71,946	84,424
Changes in operating assets		
Deposits and placements with banks and other financial institutions	41,729	(159,094)
Loans, advances and financing	523,942	79,488
Other assets	(569)	(769)
Statutory deposits with Bank Negara Malaysia	20,915	1,285
Changes in operating liabilities		
Deposits from customers	(891,942)	365,789
Deposits and placements of banks and other financial institutions	(93,663)	(196,328)
Other liabilities	(36,669)	9,913
Cash (used in)/from operations	(364,311)	184,708
Income taxes paid	(16,742)	(24,181)
Net cash (used in)/from operating activities	(381,053)	160,527
Cash flows (used in)/from investing activities		
Purchase of property and equipment	(925)	(1,398)
Net proceeds from financial investments measured at FVOCI	60,609	5,866
Net purchase of financial investments measured at amortised cost	(107,201)	-
Net cash (used in)/from investing activities	(47,517)	4,468

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020 *(continued)*

	Note	2020 RM'000	2019 RM'000
Cash flows used in financing activity			
Net payment of lease liabilities		(4,787)	(4,841)
Net cash used in financing activity		(4,787)	(4,841)
Net (decrease)/increase in cash and cash equivalents		(433,357)	160,154
Cash and cash equivalents at beginning of the financial year		1,177,767	1,017,586
		744,410	1,177,740
Add: Write-back of credit loss for the year		79	27
Cash and cash equivalents at end of the financial year		744,489	1,177,767
Cash and cash equivalents comprise:			
Cash and short-term funds	4	744,489	1,177,767

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

	Note	2020 RM'000	2019 RM'000
Lease liabilities			
At 1 January		9,918	14,143
Acquisition of new leases		10,054	383
Net payment of lease liabilities		(4,787)	(4,841)
Interest expense on lease liabilities		263	405
Termination of leases		(4,899)	(172)
At 31 December	13	10,549	9,918
Cash outflows for leases as a lessee			
Included in net cash (used in)/from operating activities:			
Payment relating to short-term leases	26	5	30
Payment relating to leases of low-value assets	26	35	43
		40	73
Included in net cash used in financing activity:			
Principal paid in relation to lease liabilities		4,524	4,436
Interest paid in relation to lease liabilities		263	405
		4,787	4,841
Total cash outflows for leases		4,827	4,914

The notes on pages 37 to 110 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 12 May 2021.

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 the 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 2021

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases* - *Interest Rate Benchmark Reform* - *Phase 2*

Amendment effective for annual periods beginning on or after 1 April 2021

- Amendment to MFRS 16, *Leases* - *Covid-19-Related Rent Concessions beyond 30 June 2021*

Amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018-2020)*
- Amendments to MFRS 3, *Business Combinations* - *Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018-2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018-2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment − Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets* - *Onerous Contracts* - *Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018-2020*

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

MFRSs and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current and Disclosures of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates*

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

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

The Bank plans to apply the abovementioned accounting standards and amendments:

- From the annual period beginning on 1 January 2021 those amendments that are effective for annual periods beginning on or after 1 January 2021.

- From the annual period beginning on 1 January 2022 the amendment that is effective for annual periods beginning on or after 1 April 2021.

- From the annual period beginning on 1 January 2022 those amendments that are effective for annual periods beginning on or after 1 January 2022, except for Amendments to MFRS 1, Amendments to MFRS 3, Amendments to MFRS 116, Amendments to MFRS 137 and Amendments to MFRS 141 which are not applicable to the Bank.

- From the annual period beginning on 1 January 2023 those amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17 and Amendments to MFRS 101, insofar as this standard relates to the *Classification of Liabilities as Current or Non-current* which is not applicable to the Bank.

During the financial year, the Bank has early adopted the Amendment to MFRS 16, *Covid-19-Related Rent Concessions* which is effective for annual periods beginning on or after 1 June 2020.

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.

2. Basis of preparation *(continued)*

(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.

The Bank has early adopted the Amendment to MFRS 16 issued by MASB in June 2020. The Amendment introduces optional practical expedient that simplifies how a lessee accounts for rent concessions arising as a direct consequence of the Covid-19 pandemic. The initial application of the Amendment did not have any material impact to the financial statements of the Bank.

(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.

3. Significant accounting policies *(continued)*

(a) Foreign currency

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

The assets and liabilities of operations denominated in functional currencies other than RM, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of the foreign operations are translated to RM at average exchange rates for the period.

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

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

(b) Interest recognition

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

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

(c) Fees recognition

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

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

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

3. Significant accounting policies *(continued)*

(d) 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.

(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.

3. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

(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.

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)).

3. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

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

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.

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.

3. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

(iii) Derecognition *(continued)*

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.

(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.

3. Significant accounting policies *(continued)*

(i) Property and equipment

Recognition and measurement
Items of property and equipment costing RM1,000 or more each are capitalised and 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.

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.

3. Significant accounting policies *(continued)*

(j) Leases

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
- 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.

3. Significant accounting policies *(continued)*

(j) Leases *(continued)*

Recognition and initial measurement (continued)

As a lessee *(continued)*

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.

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.

<u>Covid-19-related rent concessions</u>

The Bank has applied the Amendment to MFRS 16, *Leases - Covid-19-Related Rent Concessions* whereby rent concessions received as a direct consequence of the Covid-19 pandemic are not assessed as a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

If the above conditions are met, rent concessions are treated as variable lease payments and impact will be recognised in profit or loss for the year.

3. Significant accounting policies *(continued)*

(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.

(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.

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.

3. Significant accounting policies *(continued)*

(l) Impairment *(continued)*

(i) Financial assets *(continued)*

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.

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.

3. Significant accounting policies *(continued)*

(n) Provision for commitments and contingencies

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

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

(o) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Defined contribution plan

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

(p) 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

	2020 RM'000	2019 RM'000
Cash and balances with banks and other financial institutions	58,165	92,623
Money at call and deposit placements maturing within one month	686,344	1,085,244
	744,509	1,177,867
Less: Allowance for credit loss	(20)	(100)
	744,489	1,177,767

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 2020	1,177,867	-	-	1,177,867
New assets originated	145,913	-	-	145,913
Assets derecognised or repaid	(579,271)	-	-	(579,271)
At 31 December 2020	744,509	-	-	744,509
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

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2020	100	-	-	100
New assets originated	50	-	-	50
Assets derecognised or repaid	(141)	-	-	(141)
Changes in model/risk parameter	12	-	-	12
Foreign exchange adjustments	(1)	-	-	(1)
At 31 December 2020	20	-	-	20
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

5. Deposits and placements with banks and other financial institutions

	2020 RM'000	2019 RM'000
Licensed Malaysian banks	129,834	171,563
Less: Allowance for credit loss	-	-
	129,834	171,563

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 2020	171,563	-	-	171,563
New assets originated	89,665	-	-	89,665
Assets derecognised or repaid	(131,394)	-	-	(131,394)
At 31 December 2020	129,834	-	-	129,834
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

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2020	-	-	-	-
New assets originated	4	-	-	4
Assets derecognised or repaid	(4)	-	-	(4)
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	-	-	-	-
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	-	-	-	-

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

(i) By type

	2020 RM'000	2019 RM'000
Malaysian Government Securities	195,849	210,942
Malaysian Government Investment Issues	245,251	227,266
Malaysian Government Guaranteed Sukuk	30,771	30,366
Financial institutions' securities	-	29,638
Corporate bonds	71,010	81,463
Other debt securities		
- Cagamas bonds	-	15,113
	542,881	594,788

(ii) By maturity structure

	2020 RM'000	2019 RM'000
Within one year	116,289	74,850
More than one year to three years	217,716	172,775
More than three years to five years	208,876	347,163
	542,881	594,788

(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 2020	594,788	-	-	594,788
New assets originated or purchased	14,359	-	-	14,359
Assets derecognised or repaid	(75,759)	-	-	(75,759)
Changes in fair value	9,493	-	-	9,493
At 31 December 2020	542,881	-	-	542,881
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

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 *(continued)*

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2020	1,542	-	-	1,542
Assets derecognised or repaid	(282)	-	-	(282)
Changes due to change in credit risk	80	-	-	80
Changes in model/risk parameter	388	-	-	388
At 31 December 2020	1,728	-	-	1,728
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

The carrying amounts of financial investments measured at FVOCI are their respective 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

	2020 RM'000	2019 RM'000
Malaysian Government Investment Issues	32,127	32,207
Financial institutions' securities	45,946	-
Corporate bonds	126,121	65,049
Other debt securities		
- Cagamas bonds	20,000	20,000
	224,194	117,256
Less: Allowance for credit loss	(515)	(93)
	223,679	117,163

(ii) By maturity structure

	2020 RM'000	2019 RM'000
Within one year	50,642	-
More than one year to three years	173,552	82,256
More than three years to five years	-	35,000
	224,194	117,256

7. Financial investments measured at amortised cost *(continued)*

(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 2020	117,256	-	-	117,256
New assets originated or purchased	137,669	-	-	137,669
Assets derecognised or repaid	(30,731)	-	-	(30,731)
At 31 December 2020	224,194	-	-	224,194
At 1 January 2019	117,362	-	-	117,262
Assets derecognised or repaid	(106)	-	-	(106)
At 31 December 2019	117,256	-	-	117,256

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2020	93	-	-	93
New assets originated	382	-	-	382
Assets derecognised or repaid	(279)	-	-	(279)
Changes due to change in credit risk	273	-	-	273
Changes in model/risk parameter	40	-	-	40
Foreign exchange adjustments	6	-	-	6
At 31 December 2020	515	-	-	515
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

8. Loans, advances and financing

(i) By type

	2020 RM'000	2019 RM'000
Overdrafts	32,380	32,663
Term loans		
- Housing loans	99,943	92,228
- Syndicated term loans	554,715	871,854
- Other term loans	271,957	468,032
Bridging loans	150,293	150,360
Bills receivable	192,672	45,217
Revolving credits	1,005,863	1,163,572
Bankers' acceptances	122,140	129,072
Staff loans	1,774	1,881
Credit card loans	1,408	2,341
Gross loans, advances and financing	2,433,145	2,957,220
Less: Allowance for credit loss		
- Stage 1 (12-month ECL)	(35,616)	(27,460)
- Stage 2 (Lifetime ECL - non-credit impaired)	(17,070)	(14,104)
- Stage 3 (Lifetime ECL - credit impaired)	(1,133)	(1,117)
	(53,819)	(42,681)
Net loans, advances and financing	2,379,326	2,914,539

(ii) By type of customer

	2020 RM'000	2019 RM'000
Domestic banking institutions	30,402	41,605
Domestic non-bank financial institutions		
- Others	-	50,011
Domestic business enterprises		
- Small medium enterprises	93,461	159,574
- Others	1,728,271	1,760,138
Individuals	48,615	49,707
Foreign entities	532,396	896,185
	2,433,145	2,957,220

(iii) By interest rate sensitivity

	2020 RM'000	2019 RM'000
Fixed rate loan	3,182	4,221
Variable rate		
- Base rate/base lending rate plus	88,442	79,142
- Cost plus	2,244,870	2,770,958
- Other variable rates	96,651	102,899
	2,433,145	2,957,220

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

(iv) By sector

	2020 RM'000	2019 RM'000
Primary agriculture	30,111	52,700
Manufacturing	276,409	287,228
Electricity, gas and water	64,615	-
Construction	133,218	188,240
Real estate	417,636	465,811
Wholesale & retail trade and restaurants & hotels	406,264	672,883
Transport, storage and communication	105,371	127,928
Finance, insurance and business services	468,086	609,356
Education, health and others	413,899	440,940
Household	117,536	112,134
	2,433,145	2,957,220

(v) By purpose

	2020 RM'000	2019 RM'000
Purchase of properties		
- Non-residential	128,374	154,884
- Residential	101,352	93,762
Purchase of fixed assets (excluding properties)	-	174,162
Construction	156,650	218,733
Credit card	1,408	2,341
Personal use	1,110	1,172
Mergers and acquisitions	150,293	150,360
Working capital	1,595,483	1,838,404
Other purpose	298,475	323,402
	2,433,145	2,957,220

(vi) By geographical distribution

	2020 RM'000	2019 RM'000
Within Malaysia	1,968,584	2,300,064
Outside Malaysia	464,561	657,156
	2,433,145	2,957,220

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

(vii) By residual contractual maturity

	2020 RM'000	2019 RM'000
Maturity within one year	1,805,857	1,757,675
More than one year to three years	353,365	781,213
More than three years to five years	62,269	209,336
More than five years	211,654	208,996
	2,433,145	2,957,220

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

(viii) Impaired loans, advances and financing

(a) Movement in impaired loans, advances and financing

	2020 RM'000	2019 RM'000
At 1 January	1,117	1,188
Impaired during the financial year	74	41
Reclassified as performing during the financial year	(42)	(22)
Amount written off during the financial year	-	(73)
Exchange differences	(16)	(17)
At 31 December	1,133	1,117
As % of gross loans, advances and financing	**0.05%**	**0.04%**

(b) By sector

	2020 RM'000	2019 RM'000
Wholesale & retail trade and restaurants & hotels	1,085	1,105
Household	48	12
	1,133	1,117

(c) By purpose

	2020 RM'000	2019 RM'000
Working capital	1,085	1,105
Credit card	48	12
	1,133	1,117

(d) By geographical distribution

	2020 RM'000	2019 RM'000
Within Malaysia	48	12
Outside Malaysia	1,085	1,105
	1,133	1,117

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 2020	2,171,675	784,428	1,117	2,957,220
New assets originated	843,155	206,144	2	1,049,301
Assets derecognised or repaid	(1,342,051)	(231,309)	-	(1,573,360)
Transfer to Stage 1	165,636	(165,594)	(42)	-
Transfer to Stage 2	(794)	794	-	-
Transfer to Stage 3	-	(72)	72	-
Foreign exchange adjustments	-	-	(16)	(16)
At 31 December 2020	1,837,621	594,391	1,133	2,433,145
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

(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 2020	27,460	14,104	1,117	42,681
New assets originated	9,170	4,595	2	13,767
Assets derecognised or repaid	(10,842)	(4,515)	-	(15,357)
Transfer to Stage 1	2,821	(2,779)	(42)	-
Transfer to Stage 2	(3)	3	-	-
Changes due to change in credit risk	4,154	4,412	72	8,638
Changes in model/risk parameter	2,973	1,250	-	4,223
Foreign exchange adjustments	(117)	-	(16)	(133)
At 31 December 2020	35,616	17,070	1,133	53,819
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

9. Derivative financial assets/liabilities

	2020		
	Contract/ Nominal value RM'000	**Assets RM'000**	**Liabilities RM'000**
Foreign exchange contracts			
- Currency forwards and spots	158,625	1,565	362
- Currency swaps	285,185	748	2,828
Total recognised derivative assets/liabilities (Note 33)	443,810	2,313	3,190

	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

10. Other assets

	2020 RM'000	**2019 RM'000**
Interest receivable	11,714	12,808
Deposits	1,817	1,742
Other receivables and prepayments	3,018	1,430
	16,549	15,980

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	Office equipment, fixtures and fittings	Computer software	Improvement on leased assets	Assets under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At 1 January 2020	5,577	3,799	2,260	11,664	72	23,372
Additions	426	287	17	120	75	925
Transfer to assets	-	-	15	-	(15)	-
Written off	(646)	(126)	-	(80)	-	(852)
At 31 December 2020	5,357	3,960	2,292	11,704	132	23,445
Accumulated depreciation						
At 1 January 2020	4,159	2,547	609	9,861	-	17,176
Charge during the year	787	545	220	1,806	-	3,358
Written off	(646)	(116)	-	(80)	-	(842)
At 31 December 2020	4,300	2,976	829	11,587	-	19,692
Net carrying amount						
At 1 January 2020	1,418	1,252	1,651	1,803	72	6,196
At 31 December 2020	1,057	984	1,463	117	132	3,753

12. Property and equipment *(continued)*

	Electronic equipment	Office equipment, fixtures and fittings	Computer software	Improvement on leased assets	Assets under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	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

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 2020	12,921	854	229	203	14,207
Additions	8,459	1,553	-	42	10,054
Derecognition	(9,789)	(854)	-	(42)	(10,685)
At 31 December 2020	11,591	1,553	229	203	13,576
Accumulated depreciation					
At 1 January 2020	3,725	476	35	35	4,271
Charge during the year	3,819	511	55	96	4,481
Derecognition	(5,095)	(854)	-	(27)	(5,976)
At 31 December 2020	2,449	133	90	104	2,776
Net carrying amount					
At 1 January 2020	9,196	378	194	168	9,936
At 31 December 2020	9,142	1,420	139	99	10,800

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

Right-of-use assets (continued)

	Building premises RM'000	Motor vehicles RM'000	Equipment RM'000	Other leases RM'000	Total RM'000
Cost					
At 1 January 2019	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	-	-	-	-	-
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	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 that are of low value but with contract terms of up to five years, the Bank classified these leases as leases of low-value items. For other assets that are with contract terms of up to one year, the Bank classified these leases as short-term leases. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

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 rate before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

Lease liabilities

	2020 **RM'000**	**2019** **RM'000**
Lease liabilities	10,549	9,918

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

	2020 **RM'000**	**2019** **RM'000**
Less than 1 month	396	397
Between 1 to 3 months	791	795
Between 3 months to 1 year	3,158	3,191
Between 1 to 5 years	6,467	6,040
	10,812	10,423

14. Intangible asset

	Admission Fee	
	2020 RM'000	2019 RM'000
Cost		
At 1 January/31 December	2,600	2,600
Accumulated amortisation		
At 1 January/31 December	2,600	2,600
Carrying amounts		
At 1 January/31 December	-	-

15. Deferred tax assets

	2020 RM'000	2019 RM'000
At 1 January	11,905	10,298
Recognised in profit or loss (Note 29)	1,576	4,548
Recognised in equity	(2,323)	(2,941)
At 31 December	11,158	11,905

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

	Deferred tax assets/(liabilities)			
	At 1 January 2020 RM'000	Recognised in profit or loss (Note 29) RM'000	Recognised in equity RM'000	At 31 December 2020 RM'000
Property and equipment	154	352	-	506
Right-of-use assets	-	(2,559)	-	(2,559)
Fair value reserve	(3,594)	-	(2,323)	(5,917)
Allowance for credit loss	8,105	2,419	-	10,524
Provisions	7,240	(1,136)	-	6,104
Lease liabilities	-	2,500	-	2,500
	11,905	1,576	(2,323)	11,158

	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
	10,298	4,548	(2,941)	11,905

16. Deposits from customers

(i) By type of deposits

	2020 RM'000	2019 RM'000
Demand deposits	756,639	1,036,648
Fixed deposits	953,084	891,225
Savings deposits	161,608	121,515
Money market deposits	102,057	808,094
Others	3,026	10,874
	1,976,414	2,868,356

(ii) By type of customers

	2020 RM'000	2019 RM'000
Business enterprises	1,091,242	1,312,581
Individuals	334,206	334,556
Foreign entities	550,690	1,220,908
Others	276	311
	1,976,414	2,868,356

(iii) By maturity structure of term deposits

	2020 RM'000	2019 RM'000
Due within six months	827,006	1,427,651
More than six months to one year	228,135	271,668
	1,055,141	1,699,319

17. Deposits and placements of banks and other financial institutions

	2020 RM'000	2019 RM'000
Licensed Malaysian banks	19,525	26,878
Licensed investment banks	50,151	50,528
Licensed Islamic banks	15,365	4,776
Other financial institutions	119,020	182,655
Foreign banks	635,990	668,877
	840,051	933,714

18. Other liabilities

	2020 RM'000	2019 RM'000
Interest payable	10,985	20,189
Other payables and accruals	33,614	61,079
	44,599	81,268

19. Provision for commitments and contingencies

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January 2020	4,043	2,961	-	7,004
New commitments originated	1,799	637	-	2,436
Commitments derecognised	(2,133)	(2,707)	-	(4,840)
Transfer to Stage 1	19	(19)	-	-
Transfer to Stage 2	(369)	369	-	-
Transfer to Stage 3	-	(3)	3	-
Changes due to change in credit risk	568	(167)	(3)	398
Changes in model/risk parameter	309	146	-	455
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	4,236	1,217	-	5,453
At 1 January 2019	2,785	1,761	-	4,546
New commitments originated	2,840	508	-	3,348
Commitments derecognised	(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

20. Provision for taxation

Provision for taxation in 2020 includes 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 2021.

21. Share capital

	Number of ordinary shares		Amount	
	2020 '000	2019 '000	2020 RM'000	2019 RM'000
Ordinary shares with no par value Issued and fully paid up				
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 (debt instruments) 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.

(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. Net Interest income

	2020 RM'000	2019 RM'000
Interest income		
Loans, advances and financing	111,414	144,173
Money at call and deposits and placements with financial institutions	9,483	27,584
Financial investments measured at fair value through other comprehensive income	22,691	24,182
Financial investments measured at amortised cost	6,922	5,257
	150,510	201,196
Interest expense		
Deposits and placements of banks and other financial institutions	(17,344)	(34,353)
Deposits from customers	(30,396)	(48,883)
Others	(1)	(3)
	(47,741)	(83,239)
Net interest income	102,769	117,957

23. Net Interest income *(continued)*

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

	2020 RM'000	2019 RM'000
Financial assets measured at amortised cost	127,819	177,014
Financial assets measured at fair value through other comprehensive income	22,691	24,182
Financial assets not at fair value through profit or loss	150,510	201,196
Financial liabilities measured at amortised cost	(47,741)	(83,239)

24. Net fee income

	2020 RM'000	2019 RM'000
Fee income:		
- Commission	81	44
- Service charges and fees	2,773	2,822
- Loan processing fees	544	541
- Syndication fees	1,857	2,336
- Guarantee fees	2,873	3,920
- Commitment fees	943	1,110
- Other loan related fee income	98	111
- Other fee income	299	384
	9,468	11,268
Fee expense:		
- Brokerage fees	(124)	(120)
- Other fee expense	(99)	(258)
	(223)	(378)
Net fee income	9,245	10,890

25. Net trading income

	2020 RM'000	2019 RM'000
Net gains from dealing in foreign exchange	4,368	26,670
Net gains/(losses) arising from derivative trading	17,024	(6,699)
Net unrealised revaluation losses in foreign exchange	(241)	(382)
Net unrealised losses arising from derivative trading	(252)	(994)
	20,899	18,595

26. Other operating expenses

	2020 RM'000	2019 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	40,429	41,302
- Directors' remuneration (Note 31(c))	2,142	2,050
- Pension fund contributions	4,689	4,270
- Other staff costs	4,939	5,942
Promotion and marketing related expenses:		
- Advertising and promotion	280	421
- Others	206	528
Establishment costs:		
- Depreciation of property and equipment	3,358	3,521
- Depreciation of right-of-use assets	4,481	4,418
- Interest expense on lease liabilities	263	405
- Expenses relating to short-term leases	5	30
- Expenses relating to leases of low-value assets	35	43
- Property and equipment written off	10	-
- Others	2,325	2,151
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	270	270
• audit related services	13	108
- Professional fees	707	402
- Licence fee	331	306
- Membership fee	429	321
- Others	5,865	6,654
	70,777	73,142

27. Allowance for impairment on loans, advances and financing

	2020 RM'000	2019 RM'000
Allowance for/(Write-back of) credit loss		
- Loans, advances and financing	11,271	14,046
- Provision for commitments and contingencies	(1,551)	2,461
	9,720	16,507

28. Allowance for impairment on other financial assets

	2020 RM'000	2019 RM'000
(Write-back of)/Allowance for credit loss		
- Cash and short-term funds	(79)	(27)
- Deposits and placements with banks and other financial institutions	-	(2)
- Financial investments measured at fair value through other comprehensive income	186	849
- Financial investments measured at amortised cost	416	-
	523	820

29. Tax expense

	2020 RM'000	2019 RM'000
Current tax expense		
- Current financial year	13,497	17,273
- Overprovision in prior year	(178)	(5,973)
Total current tax recognised in profit or loss	13,319	11,300
Deferred taxation		
Origination and reversal of temporary differences	(1,576)	(4,548)
Total deferred tax recognised in profit or loss (Note 15)	(1,576)	(4,548)
	11,743	6,752

	2020 RM'000	2019 RM'000
Reconciliation of tax expense		
Profit before taxation	52,335	57,075
Income tax calculated using Malaysian tax rate of 24%	12,560	13,698
Tax effect of:		
Non-deductible expenses	841	1,442
Effect of tax rate in a different jurisdiction	(1,480)	(2,415)
Overprovision of income tax expense in prior year	(178)	(5,973)
Tax expense	11,743	6,752

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 RM40,592,000 (2019: RM50,323,000) and weighted average number of ordinary shares outstanding during the year of 832,609,000 (2019: 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:-

	2020		2019	
	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	1,142	136	2,284	2,357
Expenses				
Interest expense				
- Deposits and placements of banks and other financial institutions	(11,194)	-	(20,549)	-
Other operating expenses				
- Other charges	(20)	-	(11)	-
- Software licence fee	(55)	-	(56)	-

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

	2020		2019	
	RM'000 Holding company	**RM'000** Related companies	**RM'000** Holding company	**RM'000** Related companies
Amount due from				
- Cash and short-term funds	27,392	1,712	149,964	1,297
- Other assets	1	-	171	-
Amount due to				
- Deposits and placements of banks and other financial institutions	(635,830)	-	(668,612)	-
- Other liabilities	(1,142)	-	(3,178)	-

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 member of the Board of Directors of the Bank, during the financial year are shown below:-

	2020 RM'000	**2019 RM'000**
Executive Director and CEO		
Mr Wang Qiang		
- Salaries	959	914
- Bonus	526	687
- Other allowances	286	6
	1,771	1,607
Non-Executive Directors' fees		
YBhg Dato' Leong Khee Seong	-	57
Mr Ong Ah Tin @ Ong Chee Kwee	-	57
Mr Chin Chee Kong	124	127
Mr Ng Lip Yong	124	114
Ms Sum Leng Kuang	123	88
	371	443
	2,142	2,050
	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:-

	2020 RM'000	**2019 RM'000**
Aggregate value of outstanding credit exposures to connected parties	202,711	173,958
As a percentage of total credit exposures	4.31%	3.09%
Percentage of outstanding credit exposures to connected parties which are non-performing or in default	0%	0%

33. Commitments and contingencies

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

The commitments and contingencies comprise the following:-

	2020			
	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	92,242	-	92,242	40,140
Transaction-related contingent items	325,894	-	162,947	111,875
Short-term self-liquidating trade-related contingencies	162,483	-	32,496	20,765
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	83,240	-	41,620	39,723
- Not exceeding one year	1,108,773	-	221,755	219,376
Unutilised credit card lines	41,211	-	8,242	6,182
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	443,810	2,313	6,542	2,461
Total	2,257,653	2,313	565,844	440,522
		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)*

	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.

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:-

	2020 RM'000	2019 RM'000
Common Equity Tier 1 ("CET1") Capital/Tier 1 Capital		
Paid-up share capital	832,609	832,609
Retained earnings	344,991	304,399
Regulatory reserve	17,644	17,644
Foreign currency translation reserve	(127)	(261)
Unrealised gains on financial investments measured at FVOCI	17,010	9,841
	1,212,127	1,164,232
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Deferred tax assets	(11,158)	(11,905)
- 55% cumulative gains of financial investments measured at FVOCI	(9,356)	(5,412)
- Regulatory reserve attributable to loans, advances and financing	(17,644)	(17,644)
	(38,158)	(34,961)
Total CET1 Capital/Tier 1 Capital	1,173,969	1,129,271
Tier 2 Capital		
Allowance for credit loss	16,386	25,223
Regulatory reserve	17,644	17,644
Total Tier 2 Capital	34,030	42,867
Total Capital	1,207,999	1,172,138
CET1 capital ratio	38.629%	29.937%
Tier 1 capital ratio	38.629%	29.937%
Total capital ratio	39.749%	31.073%

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

	2020		2019	
	Exposures RM'000	Risk-weighted Assets RM'000	Exposures RM'000	Risk-weighted Assets RM'000
Total RWA for credit risk	4,699,942	2,741,626	5,800,536	3,429,422
Total RWA for market risk	-	8,266	-	14,229
Total RWA for operational risk	-	289,193	-	328,538
	4,699,942	3,039,085	5,800,536	3,772,189

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")

	Carrying Amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000
2020				
Financial assets				
Cash and short-term funds	744,489	744,489	-	-
Deposits and placements with banks and other financial institutions	129,834	129,834	-	-
Financial investments measured at FVOCI	542,881	-	-	542,881
Financial investments measured at amortised cost	223,679	223,679	-	-
Loans, advances and financing	2,379,326	2,379,326	-	-
Derivative financial assets	2,313	-	2,313	-
Other assets *	15,215	15,215	-	-
Statutory deposits with Bank Negara Malaysia	20,402	20,402	-	-
Total financial assets	4,058,139	3,512,945	2,313	542,881
Financial liabilities				
Deposits from customers	1,976,414	1,976,414	-	-
Deposits and placements of banks and other financial institutions	840,051	840,051	-	-
Derivative financial liabilities	3,190	-	3,190	-
Other liabilities	44,599	44,599	-	-
Provision for commitments and contingencies	5,453	5,453	-	-
Total financial liabilities	2,869,707	2,866,517	3,190	-

35. Financial Instruments *(continued)*

35.1 Categories of financial instruments *(continued)*

	Carrying Amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000
2019				
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 *	15,016	15,016	-	-
Statutory deposits with Bank Negara Malaysia	41,317	41,317	-	-
Total financial assets	5,034,167	4,437,365	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	-

* Excluded those balances not within the scope of MFRS9, *Financial Instruments*.

35. Financial Instruments *(continued)*

35.2 Net gains and losses arising from financial instruments

	2020 RM'000	2019 RM'000
Net gains/(losses) arising on:		
Fair value through profit or loss	20,899	18,595
Financial investments at fair value through other comprehensive income:		
- interest income from financial investments at fair value through other comprehensive income	23,482	24,726
- amortisation of premium recognised in profit or loss	(791)	(544)
- recognised in other comprehensive income	7,356	9,391
Financial investments at amortised cost		
- interest income from financial investments at amortised cost	7,191	5,363
- amortisation of premium recognised in profit or loss	(269)	(106)
Other financial assets at amortised cost	120,897	171,757
Financial liabilities at amortised cost	(47,741)	(83,239)
Net (loss)/gain on impairment on financial instruments:		
- financial assets at amortised cost	(11,608)	(14,017)
- financial assets at fair value through other comprehensive income	(186)	(849)
- provision for commitments and contingencies	1,551	(2,461)
	(10,243)	(17,327)
	120,781	128,616

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 market 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 equal to 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 carrying amounts of cash and short-term funds, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these instruments.

The table below analyses other financial instruments' fair values and their carrying amounts.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2020										
Financial assets										
Deposit and placements with banks and other financial institutions	-	-	-	-	-	-	129,834	129,834	129,834	129,834
Financial investments measured at FVOCI	-	542,881	-	542,881	-	-	-	-	542,881	542,881
Financial investments measured at amortised cost	-	-	-	-	-	197,004	30,485	227,489	227,489	223,679
Loans, advances and financing	-	-	-	-	-	-	2,378,858	2,378,858	2,378,858	2,379,326
Derivative financial assets	-	2,313	-	2,313	-	-	-	-	2,313	2,313
	-	545,194	-	545,194	-	197,004	2,539,177	2,736,181	3,281,375	3,278,033
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	1,976,414	1,976,414	1,976,414	1,976,414
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	840,051	840,051	840,051	840,051
Derivative financial liabilities	-	3,190	-	3,190	-	-	-	-	3,190	3,190
	-	3,190	-	3,190	-	-	2,816,465	2,816,465	2,819,655	2,819,655

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 fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019										
Financial assets										
Deposit 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)

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 of 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 (2019: 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

(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 classified as "Stage 2" but it is not yet deemed to be credit-impaired.

If the financial instrument is credit-impaired, the financial instrument is then classified as "Stage 3".

	Stage 1	**Stage 2**	**Stage 3**
Loss allowance updated at each reporting date	**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 the not impaired category and 1 grading level for instruments under the impaired category. Grades 1-12 are representative of lower assessed probability of default with other classifications reflecting progressively higher credit risk.

Grading Level

Grades 1-12
Grades 13-20
Grade 21

Credit Quality Analysis

	2020			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Loans, Advances and Financing to Corporates				
- Grades 1-12	930,295	453,262	-	1,383,557
- Grades 13-20	790,184	140,783	-	930,967
- Grade 21	-	-	1,085	1,085
	1,720,479	594,045	1,085	2,315,609
Allowance for credit loss	(35,104)	(17,068)	(1,085)	(53,257)
Carrying Amount	1,685,375	576,977	-	2,262,352
*Loans, Advances and Financing to Banks **				
- Grades 1-12	874,343	-	-	874,343
- Grades 13-20	-	-	-	-
- Grade 21	-	-	-	-
	874,343	-	-	874,343
Allowance for credit loss	(20)	-	-	(20)
Carrying Amount	874,323	-	-	874,323
Loans, Advances and Financing to Retails				
- Retails	117,142	346	48	117,536
	117,142	346	48	117,536
Allowance for credit loss	(512)	(2)	(48)	(562)
Carrying Amount	116,630	344	-	116,974
Financial Investments ^				
- Grades 1-12	716,459	-	-	716,459
- Grades 13-20	50,616	-	-	50,616
- Grade 21	-	-	-	-
	767,075	-	-	767,075
Allowance for credit loss	(515)	-	-	(515)
Carrying Amount	766,560	-	-	766,560

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Credit Quality Analysis *(continued)*

	2019			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Loans, Advances and Financing to Corporates				
- Grades 1-12	1,325,186	555,702	-	1,880,888
- Grades 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 **				
- Grades 1-12	1,349,430	-	-	1,349,430
- Grades 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 ^				
- Grades 1-12	651,021	-	-	651,021
- Grades 13-20	61,023	-	-	61,023
- Grade 21	-	-	-	-
	712,044	-	-	712,044
Allowance for credit loss	(93)	-	-	(93)
Carrying Amount	711,951	-	-	711,951

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

^ Allowance for credit loss relating to financial investments measured at FVOCI of RM1,728,000 (2019: RM1,542,000) is recognised in other comprehensive income and does not affect the carrying amount of the financial investments.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Significant Increase in Credit Risk

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

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

Qualitative Criteria
- If a credit exposure meets any non-mandatory triggers (as defined in the Bank's policy documents) to the extent that warrants its classification as Watch List Exposure as per 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 macroeconomic factors if there is no forecasted MEFs 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	**2020**	**2019**
Upside Scenario	0.00%	20.00%
Base Scenario	30.00%	50.00%
Downside Scenario	70.00%	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 Malaysian economy may be subjected to the neutralisation of external and internal challenges arising from on-going impacts of COVID-19 pandemic (including the chain effects of the contained measures used; i.e. Movement Control Order), limited room for fiscal and monetary policy flexibility (in Malaysia) as well as uncertainty of external policies of major economies and on-going geo-political events that may affect the growth prospects of the world economy.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

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.

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 prevailing MEFs; and
- Impact on the measurement of ECL due to changes made to models and assumptions, if any.

The changes in the loss allowance for loans, advances and financing between the beginning and the end of the reporting period are 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.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Definition of Default ***(continued)***

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

Write-off policy

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

(i) Exposure to credit risk

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

	Gross carrying amount RM'000	Allowance for credit loss RM'000	Net carrying amount RM'000
2020			
Loans, Advances and Financing to Customers			
Neither past due nor impaired	2,431,919	(52,686)	2,379,233
Past due but not impaired			
- Less than one month	93	-	93
Credit impaired	1,133	(1,133)	-
	2,433,145	(53,819)	2,379,326
Loans, Advances and Financing to Banks *			
Neither past due nor impaired	874,343	(20)	874,323
Financial Investments			
- measured at FVOCI ^			
Neither past due nor impaired	542,881	-	542,881
- measured at Amortised Cost			
Neither past due nor impaired	224,194	(515)	223,679

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

^ Allowance for credit loss relating to financial investments measured at FVOCI of RM1,728,000 is recognised in other comprehensive income and does not affect the carrying amount of the financial investments.

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

	Gross carrying amount RM'000	Allowance for credit loss RM'000	Net carrying amount RM'000
2019			
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	-	594,788
- *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.

^ Allowance for credit loss relating to financial investments measured at FVOCI of RM1,542,000 is recognised in other comprehensive income and does not affect the carrying amount of the financial investments.

In addition to the above, the Bank had entered into lending commitments of RM1.19 billion (2019: 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 RM580.62 million (2019: 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.

Statutory deposits with BNM
For Statutory deposits with BNM, the maximum exposure is represented by its carrying amount in the statement of financial position. Given that such deposits are not exposed to credit risk, the Bank has not recognised any allowance for credit loss.

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 is shown below:-

	2020 RM'000	**2019 RM'000**
*Loans, Advances and Financing to Banks **		
Carrying amount	874,323	1,349,330
Concentration of credit risk based on sector		
Financial services	726,898	1,161,511
Central bank	147,425	187,819
	874,323	1,349,330
Concentration of credit risk based on geographical location		
Malaysia	826,369	1,143,078
East Asia	8,025	6,036
South East Asia	17,511	138,814
United States of America	19,042	55,352
Europe	1,080	2,537
Oceania	2,296	3,513
	874,323	1,349,330

* 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 to Banks 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)*

	2020 RM'000	2019 RM'000
Financial Investments		
Carrying amount	766,560	711,951
Concentration of credit risk based on sector		
Financial services	45,913	29,638
Government and central bank	503,998	500,781
Others	216,649	181,532
	766,560	711,951
Concentration of credit risk based on geographical location		
Malaysia	735,940	711,951
East Asia	30,620	-
	766,560	711,951

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 its 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:-

	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
2020							
Financial assets							
Cash and short-term funds	744,509	-	-	-	-	(20)	744,489
Deposits and placements with banks and other financial institutions	-	129,834	-	-	-	-	129,834
Financial investments measured at FVOCI	-	-	116,289	426,592	-	-	542,881
Financial investments measured at amortised cost	30,642	-	20,000	173,552	-	(515)	223,679
Loans, advances and financing	687,438	671,239	447,180	415,634	211,654	(53,819)	2,379,326
Derivative financial assets	1,514	799	-	-	-	-	2,313
Other assets	8,903	3,809	686	-	-	1,817	15,215
Statutory deposits with BNM	-	-	-	-	-	20,402	20,402
Total financial assets	1,473,006	805,681	584,155	1,015,778	211,654	(32,135)	4,058,139
Financial liabilities							
Deposits from customers	1,275,735	240,178	460,501	-	-	-	1,976,414
Deposits and placements with banks and other financial institutions	81,231	86,120	70,169	602,531	-	-	840,051
Derivative financial liabilities	2,169	-	1,021	-	-	-	3,190
Other liabilities	9,069	3,573	19,676	12,281	-	-	44,599
Provision for commitments and contingencies	-	-	-	-	-	5,453	5,453
Total financial liabilities	1,368,204	329,871	551,367	614,812	-	5,453	2,869,707
Net liquidity gap	104,802	475,810	32,788	400,966	211,654	(37,588)	

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Contractual maturity of financial assets and liabilities (continued)

	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
2019							
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	8,558	3,503	1,212	-	-	1,743	15,016
Statutory deposits with BNM	-	-	-	-	-	41,317	41,317
Total financial assets	1,989,617	775,782	431,843	1,627,743	208,996	186	5,034,167
Financial liabilities							
Deposits from customers	2,316,918	128,637	412,501	10,300	-	-	2,868,356
Deposits and placements with 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	(482,042)	550,412	(115,937)	986,575	208,996	(6,818)	

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.

	Up to 1 month RM'000	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Total RM'000**
2020					
Non-derivative financial liabilities					
Deposits from customers	1,277,979	243,050	469,123	-	1,990,152
Deposits and placements with banks and other financial institutions	81,598	87,571	71,875	621,206	862,250
Other liabilities	6,688	304	15,483	11,139	33,614
	1,366,265	330,925	556,481	632,345	2,886,016
Commitments and contingencies					
Contingent liabilities	13,589	29,581	133,542	110,973	287,685
Commitments	3,364	2,136	231,039	41,620	278,159
	16,953	31,717	364,581	152,593	565,844

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)

	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Total RM'000
2019					
Non-derivative financial liabilities					
Deposits from customers	2,322,055	132,220	423,853	12,535	2,890,663
Deposits and placements with 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
Commitments 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)*

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

	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
2020			
Trading derivatives			
Foreign exchange contracts			
- Currency forwards and spots	158,625	1,565	362
- Currency swaps	285,185	748	2,828
	443,810	2,313	3,190

	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
2019			
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

(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 financial 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 the 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.

2020	Malaysia Ringgit RM'000	United States Dollar RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and short-term funds	427,121	292,693	18,809	5,866	744,489
Deposits and placements with banks and other financial institutions	-	120,506	-	9,328	129,834
Financial investments measured at FVOCI	542,881	-	-	-	542,881
Financial investments measured at amortised cost	193,059	-	30,620	-	223,679
Loans, advances and financing	1,642,241	481,560	122,527	132,998	2,379,326
Derivative financial assets	1,198	-	1,115	-	2,313
Other assets	16,413	133	1	2	16,549
Statutory deposits with Bank Negara Malaysia	20,402	-	-	-	20,402
Tax recoverable	9,163	-	-	-	9,163
Property and equipment	3,753	-	-	-	3,753
Right-of-use assets	10,800	-	-	-	10,800
Intangible asset	-	-	-	-	-
Deferred tax assets	11,158	-	-	-	11,158
TOTAL ASSETS	2,878,189	894,892	173,072	148,194	4,094,347

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk (continued)

2020	**Malaysia Ringgit RM'000**	**United States Dollar RM'000**	**Chinese Renminbi RM'000**	**Others RM'000**	**Total RM'000**
LIABILITIES					
Deposits from customers	1,542,110	333,348	85,679	15,277	1,976,414
Deposits and placements of banks and other financial institutions	202,401	602,531	35,119	-	840,051
Derivative financial liabilities	-	3,190	-	-	3,190
Other liabilities	40,049	2,795	1,732	23	44,599
Lease liabilities	10,549	-	-	-	10,549
Provision for commitments and contingencies	5,453	-	-	-	5,453
Provision for taxation	235	-	-	-	235
TOTAL LIABILITIES	1,800,797	941,864	122,530	15,300	2,880,491

2019	**Malaysia Ringgit RM'000**	**United States Dollar 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 Dollar 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

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.

2020	**Non-trading book**							
	Up to 1 month RM'000	**>1 to 3 months RM'000**	**>3 to 12 months RM'000**	**>1 to 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	725,084	-	-	-	-	19,405	-	744,489
Deposits and placements with banks and other financial institutions	-	129,834	-	-	-	-	-	129,834
Financial investment measured at FVOCI	-	-	116,289	426,592	-	-	-	542,881
Financial investments measured at amortised cost	30,642	-	20,000	173,037	-	-	-	223,679
Loans, advances and financing:								
- performing	1,363,546	760,962	199,104	53,990	1,724	-	-	2,379,326
Other assets ^	-	-	-	-	-	37,930	-	37,930
Total assets	2,119,272	890,796	335,393	653,619	1,724	57,335	-	4,058,139
Liabilities								
Deposits from customers	660,510	240,178	460,501	615,225	-	-	-	1,976,414
Deposits and placements of banks and other financial institutions	683,762	86,120	70,169	-	-	-	-	840,051
Other liabilities *	-	-	-	-	-	53,242		53,242
Total liabilities	1,344,272	326,298	530,670	615,225	-	53,242	-	2,869,707
Equity	-	-	-	-	-	1,213,856		1,213,856
Total liabilities and equity	1,344,272	326,298	530,670	615,225	-	1,267,098	-	4,083,563
On-balance sheet interest sensitivity gap	775,000	564,498	(195,277)	38,394	1,724	(1,209,763)	-	
Total interest sensitivity gap	775,000	564,498	(195,277)	38,394	1,724	(1,209,763)	-	

35. Financial Instruments *(continued)*

35.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

2019	**Non-trading book**							
	Up to 1 month RM'000	**>1 to 3 months RM'000**	**>3 to 12 months RM'000**	**>1 to 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 investment 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 ^	-	-	-	-	-	58,347	-	58,347
Total assets	2,606,452	1,430,130	222,252	696,432	1,827	77,074	-	5,034,167
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	(1,179,611)	-	
Total interest sensitivity gap	331,896	1,211,373	(300,236)	(89,837)	1,827	(1,179,611)	-	

^ Other assets include other assets (excluding non-financial instruments), 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 positions.

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 2020	12,209	(12,209)
At 31 December 2019	13,289	(13,289)

(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 2020	(12,065)	12,065
At 31 December 2019	(16,306)	16,306

* 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. Exposures to COVID-19

During the year 2020, BNM has announced various measures in support of efforts by banking institutions to assist individuals, small and medium enterprises ("SMEs") and corporations to manage the impact of the COVID-19 outbreak. First phase of the broad-based repayment assistance announced in March 2020 include automatic 6 months deferment on loans/financing repayments for eligible individuals and SMEs, conversion of credit card balances into term loans/financing and rescheduling and restructuring ("R&R") of corporate loans/financing.

Subsequently, following the gradual easing of MCO in early May 2020 and to support economy recovery, targeted repayment assistance was then introduced by BNM. This targeted repayment assistance allows additional 3 months deferment of loans/financing repayments for unemployed borrowers, proportionate reduction of loans/financing repayments for borrowers with reduced income and suspension of increase in pricing for repayment in arrears between 1 October to 31 December 2020.

Loans/financing under repayment assistance are exempted from "rescheduled and restructured" and "credit impaired" tagging in the Central Credit Reference Information Systems ("CCRIS").

The Bank has supported the above BNM measures in offering and providing assistance to eligible borrowers during the year 2020. The table below presents the loan, advances and financing (net of impairment) by industry sectors identified as directly vulnerable affected by COVID-19:-

(a) Exposures to Covid-19 Impacted Sectors

	Loans, advances and financing On-balance sheet (net of impairment)	
	2020	**2019**
	RM'000	**RM'000**
Manufacturing	5,718	5,678
Wholesale & retail trade and restaurants & hotels	28,403	42,361
Finance, insurance and business services	105,553	109,368
Household	65,803	65,014
	205,477	222,421

Similar industry sectors are presented for 31 December 2019 for comparative purposes.

(b) Relief and Support Measures for Retail Customers

	As at 31 December 2020			
	Housing Loan	**Personal Loan**	**Credit Card**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total payment moratoriums, repayment assistances, R&R granted	57,943	8,145	-	66,088
- Resumed repayments	55,447	7,207	-	62,654
- Extended and repaying as per revised schedules	2,496	938	-	3,434
- Missed payments	-	-	-	-

37. Exposures to COVID-19 *(continued)*

(b) Relief and Support Measures for Retail Customers *(continued)*

	As at 31 December 2020			
	Housing Loan RM'000	Personal Loan RM'000	Credit Card RM'000	Total RM'000
As a percentage of total:				
- Resumed repayments	96%	88%	0%	95%
- Extended and repaying as per revised schedules	4%	12%	0%	5%
- Missed payments	0%	0%	0%	0%
	100%	100%	0%	100%

During the year 2020, payment moratoriums, repayment assistances and R&R were granted to retail customers with outstanding balances amounted to RM65.06 million when such support measures were granted.

(c) Relief and Support Measures for Non-Retail Customers

	As at 31 December 2020		
	Corporate RM'000	SMEs RM'000	Total RM'000
Total payment moratoriums, repayment assistances, R&R granted	61,790	83,151	144,941
- Resumed repayments	61,790	53,102	114,892
- Extended and repaying as per revised Schedules	-	30,049	30,049
- Missed payments	-	-	-

	As at 31 December 2020		
	Corporate RM'000	SMEs RM'000	Total RM'000
As a percentage of total:			
- Resumed repayments	100%	64%	79%
- Extended and repaying as per revised Schedules	0%	36%	21%
- Missed payments	0%	0%	0%
	100%	100%	100%

During the year 2020, payment moratoriums, repayment assistances and R&R were granted to non-retail customers with outstanding balances amounted to RM154.60 million when such support measures were granted.

37. Exposures to COVID-19 *(continued)*

Adjustment for ECL amid COVID-19 environment

The Bank’s ECL model has incorporated the following considerations to reflect the possible impact arising from the on-going COVID-19 pandemic:-

1. The forward-looking macroeconomic factors adopted have considered the impact of the COVID-19 outbreak globally and domestically including spill over effects of the MCO since middle of March 2020 as well as a series of stimulus packages announced by the Government.

2. The probability of occurrence of upside, base case and downside scenarios for the state of economy has been adjusted from 20%, 50% and 30% to 0%, 30% and 70% respectively after considering the growth forecasts for the economies domestically and globally due to the COVID-19 pandemic.