Industrial and Commercial Bank of China (Malaysia) Berhad

(Registration No. 201001000001 (839839 M))

(Incorporated in Malaysia)

Directors' Report and Financial Statements
31 December 2023

DIRECTORS' REPORT
For the year ended 31 December 2023

The Directors have pleasure in submitting their report and the audited financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad ("ICBC Malaysia" or "the Bank") for the financial year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Bank is engaged principally in the provision of banking and other related financial services. There have been no significant changes in the nature of the principal activities during the financial year.

RESULTS

	RM'000
Profit before taxation	88,552
Tax expense	(20,702)
Profit for the year	67,850

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year under review other than those 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

The Directors of the Bank who have held office during the financial year and during the period from the end of the financial year to the date of this report are:-

Ms Wei Quanhong	Chairperson, Non-Independent Non-Executive Director	Appointed on 8 February 2023
Mr Chang Zhenwang	Chairperson, Non-Independent Non-Executive Director	Resigned on 8 February 2023
Mr Xie Shaoxiong	Non-Independent Executive Director	
Mr Chin Chee Kong	Independent Non-Executive Director	
Mr Ng Lip Yong	Independent Non-Executive Director	
Ms Sum Leng Kuang	Independent Non-Executive Director	

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

DIRECTORS' INTEREST

According to the Register of Directors' Shareholdings kept by the Bank under Section 59 of the Companies Act 2016, none of the Directors holding office at the end of the financial year (i.e. 31 December 2023) has any beneficial interests in the ordinary shares and/or options over ordinary shares of the Bank and/or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Bank received or became entitled to receive any benefit 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, other than the benefits included in the aggregate amount of remuneration received or due and receivable by the Directors or as the fixed salary of a full-time employee of the Bank as disclosed under Directors' Remuneration in Note 30 (c) to the financial statements and as shown below:

	2023 RM'000	2022 RM'000
Executive Directors	1,712	1,474
Non-Executive Directors	371	372
	2,083	1,846

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party, with the object or objects of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

BANK RATINGS

The Bank has not been rated by any external agencies.

HOLDING CORPORATION

The Directors regard Industrial and Commercial Bank of China Limited ("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 RM10,000,000.00 and RM37,199.62 respectively for the Directors and Officers of the Bank.

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

The Bank recorded a profit before tax of RM88.55 million for the financial year ended 31 December 2023, an increase of RM12.95 million or 17.1% as compared with the previous financial year. Net interest income which contributed 76.9% to the Bank's total net operating income increased by RM37.70 million or 39.5% as compared to the financial year ended 31 December 2022 as a result of higher interest margin consequential on the policy rate hikes during the year 2023. Net non-interest income which constituted 23.1% of the Bank's total operating income, grew to RM39.91 million. The increase was mainly contributed by net fee income, which was higher than the previous financial year by RM3.66 million.

The Bank's other operating expenses increased by RM4.22 million or 5.9% to RM75.18 million due to higher personnel costs of RM4.11 million and higher administrative expenses of RM0.83 million, mitigated by lower establishment costs of RM0.63 million, and lower promotion and marketing expenses of RM0.10 million. During the year, there was an allowance for impairment on loans, advances and financing amounting to RM10.67 million due to loan growth while a write-back of impairment on other financial assets of RM1.35 million due to lower short-term interbank placements and financial investments measured at amortised cost.

As at 31 December 2023, the Bank's total assets amounted to RM4.93 billion, which increased by RM832.11 million or 20.3% when compared with 31 December 2022. The increase was mainly due to greater net loan disbursement of RM609.05 million or 24.9% to RM3,054.83 million and higher cash and short-term funds of RM366.30 million or 170.1% to RM581.66 million as compared with the financial year ended 31 December 2022. The Bank's total financial investments decreased by RM138.04 million or 11.3% to RM1,088.66 million as compared with RM1,226.70 million as at 31 December 2022.

The Bank's total liabilities increased by RM758.78 million or 27.1% and stood at RM3.56 billion as at 31 December 2023. The higher balance was attributed to growth of deposits from customers by RM217.11 million or 9.5% and deposits and placements of banks and other financial institutions by RM527.79 million or 119.9% when compared with the previous financial year end.

CORPORATE GOVERNANCE STATEMENT

ICBC Malaysia has always been committed to upholding the Bank's corporate governance standards and adhering to the principles and best practices of corporate governance as the basis of its governance model by complying with and practising the core values set out in Bank Negara Malaysia's policy document on Corporate Governance ("BNM CG Policy") and the Malaysian Code on Corporate Governance ("MCCG"). The commitment from the top paves the way for the Management and all employees to ensure that the Bank's businesses and affairs are effectively managed in the best interest of all stakeholders with the ultimate aim of fostering the long-term sustainability of the Bank.

The Board of Directors ("Board") is pleased to present this statement with an overview of the corporate governance ("CG") practices of the Bank which supports the three (3) key principles of the MCCG 2021, namely board leadership and effectiveness; effective audit and risk management; and integrity in corporate reporting and meaningful relationship with stakeholders.

The Board also reviewed the manner in which the BNM CG Policy is applied in the Bank, where applicable, as set out below.

BOARD OF DIRECTORS

(a) **Board Composition**

The Bank recognises the importance of having a diverse Board in terms of experience, skills, competence, ethnicity, gender, culture and age. The size and composition of the Board should be appropriate and well-balanced to ensure the long-term sustainable success of the Bank.

The Board currently consists of five (5) Members, including the Non-Independent Non-Executive Director/Chairperson ("NINED"), the MD/CEO and three (3) Independent Non-Executive Directors ("INEDs"). With Ms Wei Quanhong and Ms Sum Leng Kuang on the Board, the Board is now more gender diverse, comprising two (2) female and three (3) male Directors. A board with heterogeneous expertise and experience would contribute to the well-functioning of the board, leading to the achievement of the Bank's long-term strategies and sustainability.

The profile of each member of the Board is as follows:-

(i) **Ms Wei Quanhong**
Chairperson/Non-Independent Non-Executive Director
56 years old

Ms Wei Quanhong ("Ms Wei"), a Chinese, was appointed as a Non-Independent Non-Executive Director and Chairperson of ICBC Malaysia on 8 February 2023. She holds a Bachelor's Degree in Economics (major in Trade Economics) from Renmin University, China in 1991. She has further obtained a Master's Degree in Business Administration (major in International Banking and Finance) from The University of Birmingham, United Kingdom in 2000.

Ms Wei, who started her career at the Industrial and Commercial Bank of China Limited ("ICBC Ltd") in July 1991, has over 30 years of extensive experience in the banking industry. She has held various senior positions since joining ICBC Ltd and prior to her current role, Ms Wei was the Senior Expert of the Corporate Strategy and Investor Relations Department of the said Bank.

BOARD OF DIRECTORS *(continued)*

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

(ii) **Mr Xie Shaoxiong**
Managing Director/Chief Executive Officer
57 years old

Mr Xie Shaoxiong ("Mr Xie"), a Chinese, was appointed as Managing Director/Chief Executive Officer ("MD/CEO") of ICBC Malaysia on 19 January 2022. He holds a Master's Degree in Business Administration (EMBA) from Hunan University, China and a Bachelor's Degree in Economics (major in International Finance) from Xiamen University, China.

Mr Xie has more than 30 years of experience in the financial services industry having held various senior positions within ICBC Group. Prior to his current role, Mr Xie was the General Manager of ICBC Turkey Bank Anonim Sirketi ("ICBC Turkey") and also served as a Member of its Board. He was also the Board Chairman of ICBC Turkey Yatırım Menkul Değerler A.Ş., a subsidiary of ICBC Turkey.

(iii) **Mr Chin Chee Kong**
Independent Non-Executive Director
67 years old

Mr Chin Chee Kong ("Mr Chin"), a Malaysian, was appointed to the Board on 10 August 2017. He is currently the Chairman of the Audit Committee ("AC") as well as a Member of the Board Risk Management Committee ("BRMC") and the Nomination and Remuneration Committee ("NRC").

Mr Chin 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 held various positions before being promoted to a Partner of KPMG Malaysia in 1990. He was subsequently appointed as Partner-in-Charge of KPMG East Malaysia in 2007 and a member of the Executive Council of KPMG Malaysia in 2011 until his retirement from the Firm on 1 January 2014.

Mr Chin currently sits on the Board of Naim Holdings Berhad and Perdana Petroleum Berhad as a Non-Independent Non-Executive Director.

(iv) **Mr Ng Lip Yong**
Independent Non-Executive Director
74 years old

Mr Ng Lip Yong ("Mr Ng"), a Malaysian, was appointed to the Board on 7 February 2019. He is currently the Chairman of the NRC as well as a Member of the AC and the BRMC.

Mr Ng holds a Bachelor of Engineering (Hons) in Electronic Engineering from the University of Sheffield and a Master of Science in Microwave and Communications Engineering from University of Leeds, UK. He is a Life Member of the Institute of Electrical and Electronic Engineers (IEEE), USA.

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

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

(iv) **Mr Ng Lip Yong** ***(continued)***

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.

(v) **Ms Sum Leng Kuang**
Independent Non-Executive Director
70 years old

Ms Sum Leng Kuang ("Ms Sum"), a Malaysian, was appointed to the Board on 15 April 2019. She is currently the Chairperson of the BRMC as well as a Member of the AC and the NRC.

Ms Sum holds a Bachelor of Commerce Degree in Finance from the University of Canterbury, New Zealand. She is also a Certified Financial Planner. Ms Sum 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 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 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 was appointed by Credit Guarantee Corporation Malaysia Berhad as an Investment Advisor following her retirement from HLAM in 2014.

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 an 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 NRC assesses the Independent Directors' independence annually. In the annual assessment of the Independent Directors of the Bank for the financial year 2023 ("FY2023"), the Board was satisfied that each of the Independent Directors of the Bank continues to be independent and free from any business or other relationship, which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank. All the Independent Directors also continue to fulfill the criteria and definition of 'Independent Director' as stipulated in BNM CG Policy.

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

(b) **Tenure and Independence** ***(continued)***

The Bank has adopted a policy to limit the tenure of INEDs to a cumulative term of nine (9) years. Upon completion of the nine (9) years, an INED 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 INED 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 INED of this nature is subject to the approval of BNM. As at the date of this report, none of the Bank's INEDs have served for a cumulative term 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 Chairperson and MD/CEO of the Bank. The Board 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 so as to maintain its relevance with the business operations of the Bank and in line with the 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 guide to the Board in discharging its duties effectively.

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 for setting the risk appetite and determining the principal risks for the Bank while at the same time, through the established Board Committees, providing 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 Chairperson and MD/CEO. The roles of Chairperson 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 Chairperson 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 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 of Ethics for Directors are aligned with the Code of Ethics and Conduct for Staff (collectively referred to as "Codes") and the corporate culture of uncompromising integrity and exceptional performance applicable across the ICBC Group.

BOARD OF DIRECTORS *(continued)*

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

The Bank adopts a zero-tolerance stance toward any acts of bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships. To complement the existing Codes, the Bank has established the Anti-Bribery and Corruption Policy, which emphasises adherence to the Guidelines on Adequate Procedures issued under the Malaysian Anti-Corruption Commission Act 2009, covering 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**

The Board meets at least 5 times a year. The dates of Board/Board Committee meetings are scheduled well in advance to enable the Directors to plan ahead whilst an annual schedule of rolling agenda items has been determined to ensure that all matters are given due consideration and reviewed at the appropriate point in the financial and regulatory cycle. In addition to the scheduled meetings, ad-hoc meetings may be convened as and when required to deliberate on any urgent proposals or matters. The agenda together with the management reports and proposal papers are furnished to the Directors between 3 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 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 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/Chairperson 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 by 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 resolutions 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.

The 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 FY2023, as reflected below:-

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

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

Directors as at 31 December 2023	**Attendance**			
	Board	Audit Committee	Board Risk Management Committee	Nomination and Remuneration Committee
Wei Quanhong *Chairperson/NINED* *(Appointed on 8 February 2023)*	7/8	N/A	N/A	N/A
Xie Shaoxiong *MD/CEO*	6/8	N/A	N/A	N/A
Chin CheeKong *INED*	8/8	6/6	7/7	5/5
Ng Lip Yong *INED*	8/8	6/6	7/7	5/5
Sum Leng Kuang *INED*	7/8	6/6	7/7	5/5

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

The Bank recognises the importance of ensuring the Directors are continuously acquiring or enhancing 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 requiring them to attend 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 the 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 FY2023, were as follows:-

- Financial Institutions Directors' Education (FIDE) Core Programme
- 2023 ICBC Overseas Institution Corporate Governance Forum
- In-house: Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT")
- In-house: Climate Risk Management and Scenario Analysis Training
- In-house: Cybersecurity Briefing
- Invest Malaysia 2023 Special Series – Launch of the National Energy Roadmap
- Nomura: Conference on Fixed Income Environmental, Social and Governance ("ESG")
- Nomura: Investment Forum Asia 2023
- Singapore Fintech Festival 2023
- ICBC Group: Various training courses including Strategic Management, Risk Management, Data Governance, etc
- KPMG Tax and Business Summit
- KPMG 2023 Board and Audit Committee Priorities
- Driving Sustainable Success: Sustainability for Senior Executives - A Board-of-Directors Engagement Session

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

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

- ESG, Climate and Trust: The Board’s Role
- Audit Committee Conference 2023
- A Net Zero Remit for Finance Functions
- MFRS Update 2023
- Conflict of Interest: Obligations of Directors, Key Officers, Nominating and Audit Committees
- KPMG Annual Budget Webinar
- Integration of Corporate Social Due Diligence Directive
- Mandatory Accreditation Programme Part II: Leading for Impact
- 2023 China's Economic Outlook & Opening-up of China Bond Market
- CIBM Online Event: 2022 Market Review and Outlook of 2023
- CGS-CIMB Market Talk: What's Next for Singapore Market After the Banking Crisis in US
- KPMG Board Leadership Centre Webinar: 2023 Board & Audit Committee Priorities
- KPMG Webinar: MFRS Updates 2023
- Online forums, webinars and teach-ins on economics, finance, banking, technology, artificial intelligence, geopolitics and other related topics

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

- Appointment/Re-Appointment of Directors

  The Bank has in place a Governance Policy on the Nomination and Appointment of Directors and Succession Planning (“Governance Policy”), which sets out a clear and transparent process for the nomination of directors as well as the minimum criteria and qualifications for director candidates of the Bank.

  The primary goal of the nomination process is to nominate individuals, who offer a range of specialised knowledge, skills and expertise and who, as a group, can make the greatest contribution to the strengthening of the Board, and thereby achieve success in existing and future circumstances. The said policy also aims to develop a systematic approach to the orderly identification and selection of new Directors in the event vacancies arise due to planned retirements, unplanned departures, Board expansion or other reasons, 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 written approval of BNM for a specified term of appointment. The NRC is responsible for undertaking a thorough assessment of 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 INEDs, prior to recommending to the Board for consideration, interview session(s) will also be held by the 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.

BOARD OF DIRECTORS *(continued)*

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

- Appointment/Re-Appointment of Directors *(continued)*

  For the reappointment 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 on the basis of their performance, contribution to the Board and Board Committees, fitness and propriety, independence of decision-making perspectives, where deemed appropriate, and time commitment. Once approved by the Board, the application for the reappointment 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 shall then be eligible for re-election. In addition, one-third of the Directors or the number nearest to one-third of the Directors for the time being shall retire by rotation from office and shall be eligible for re-election at each AGM. It is also stated that the CEO so appointed where he/she is a director shall not, while holding that office, be subject to retirement by rotation or be taken into account in determining the retirement by rotation of directors.

(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 reappointment 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 distributed the assessment questionnaire for FY2023 to the Directors and the assessment results had been compiled and subsequently submitted to the NRC and the Board for review.

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 self-declared Fit & Proper Declaration annually. The Fit & Proper Declarations by the Directors are verified against independent sources. For FY2023, the Board was satisfied that each of the Directors has met the required standard of fitness and propriety to continue to serve as Directors of the Bank.

BOARD COMMITTEES

The Board has established AC, BRMC and NRC to complement the Board in the execution of its roles and responsibilities. Each Board Committee operates within its TOR, which clearly defines its functions and authorities. The aforesaid TORs are reviewed as and when deemed appropriate so as to maintain their relevance with the business operation of the Bank and in line with the regulatory requirements.

BOARD COMMITTEES *(continued)*

(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 FY2023, five (5) regular meetings and one (1) special meeting were held to consider exigent matters. The details of the attendance of the AC members are reported on page 9 of the Directors' Report. The key activities carried out by AC in FY2023 covered the following:-

i. 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;

ii. 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;

iii. 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 FY2023;

iv. 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;

v. assessed the performance, effectiveness and independence of the external auditors based on the criteria set out in BNM's Policy Document on External Auditors and recommended the reappointment of the external auditors for FY2023 to the Board;

vi. reviewed the internal audit plan to ensure the adequacy of scope, coverage and resources required to perform audits for the identified auditable areas;

vii. reviewed the audit findings and recommendations highlighted by the Internal Audit Department and ensured that Management had taken the necessary corrective actions in a timely manner to address control lapses and weaknesses identified;

viii. reviewed and assessed the annual performance of the Internal Audit function of the Bank;

ix. 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;

x. reviewed the Independent Credit Review ("ICR") Report of the Bank; and

xi. reviewed the revisions to the TOR of the AC and recommended the same to the Board for approval.

BOARD COMMITTEES *(continued)*

(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, and 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.

During FY2023, five (5) regular meetings and two (2) special meetings were held to consider exigent matters. The details of the attendance of the BRMC members are reported on page 9 of the Directors' Report.

The BRMC carried out the following activities in the discharge of its duties in accordance with its TOR during the FY2023:-

i. 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, operational risk, technology risk, liquidity risk, compliance risk, legal risk, strategic risk, reputational risk, climate risk and country risk of the Bank;

ii. reviewed legal and compliance risks reports which included departmental organisation and staffing, recent development of applicable laws and regulations, legal and compliance risk incidents/management, compliance work/issues/gaps and AML/CFT-related updates;

iii. reviewed the revisions to and/or establishment of the risk management and compliance-related policies/framework/statement of the Bank and recommended the same to the Board for approval.

iv. reviewed and recommended the risk management and compliance-related proposal papers/reports to the Board for approval.

v. reviewed the revisions to the TOR of the BRMC and recommended the same to the Board for approval;

vi. reviewed the ICR Report of the Bank;

vii. reviewed and endorsed the Compliance & Internal Control Department Work Plan for 2023;

viii. reviewed a bank-wide Compliance Risk Assessment for 2022; and

ix. reviewed and assessed the annual performance of the Risk Management and Compliance functions of the Bank.

(c) **Nomination and Remuneration Committee**

The NRC comprises entirely INEDs. The NRC is responsible for supporting 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.

BOARD COMMITTEES *(continued)*

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

During FY2023, five (5) NRC meetings were held and the attendances of the NRC members are reported on page 9 of the Directors' Report. The key activities carried out by NRC in FY2023 included the following:-

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

ii. assessed the annual performance of Senior Management and Internal Control functions of the Bank;

iii. assessed and endorsed the 2023 key performance indicators setting of the internal control functions of the Bank;

iv. assessed the fitness and propriety of Directors, Senior Management and the Company Secretary as well as the independence of Independent Directors of the Bank;

v. reviewed the proposals relating to the employees' annual increment and annual total remuneration for FY2023;

vi. reviewed the proposal relating to the Proposed Revision of the Performance Management Policy of the Bank; and

vii. reviewed revisions to the TOR of the NRC and recommended the same to the Board for approval.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board affirms its commitment to 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 the 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 the achievement of its business goals and objectives amidst the dynamic and challenging business environment and increasing regulatory supervision. This ongoing process has been in place throughout FY2023 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 risks 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 risks broadly takes place at different hierarchical levels and is embedded within the Bank's three Lines of Defence:-

BOARD COMMITTEES *(continued)*

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK *(continued)*

(a) **Risk Governance and Oversight *(continued)***

Lines of Defense	Functions	Key Responsibilities
1st Line	Business, Operation and Support Functions	Primarily responsible for managing risks inherent in the day-to-day activities, processes and systems for their respective functions, for which they are accountable.
2nd Line	Risk Management and Compliance	Responsible for establishing appropriate governance of risk management and through the use of risk methodology, undertakes the roles of risk identification, assessment and monitoring in managing risks.
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 acting 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 assessments 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 the 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 reported periodically for supervision and decision-making purposes at both the Management and Board levels.

The details pertaining to the Bank's financial risk management framework are set out on pages 83 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 the Compliance and Internal Control Department ("CIC") which undertakes the function of identification, assessment, monitoring and reporting of compliance risk. In carrying out the activities, CIC has adopted a risk-based approach in the management of compliance risk.

The Bank has established the position of Compliance Liaison Officer ("CLO") at Business, Operation and Support Functions to undertake and assist CIC in the management of compliance and AML Risks that reside in the first line of defence, as may be assigned by CIC from time to time. The appointed CLOs are also tasked to promote general compliance awareness cascaded by CIC to their respective functions.

BOARD COMMITTEES *(continued)*

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK *(continued)*

(c) **Compliance *(continued)***

The Bank is committed to 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 regularly 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 Chief Internal Auditor ("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 the Parent Bank.

The 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 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 an independent assessment of the 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.

(e) **Human Capital Management**

One of the key constituents of any internal control system is its people and 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 ("CECS"), 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 with by all employees.

BOARD COMMITTEES *(continued)*

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK *(continued)*

(e) **Human Capital Management *(continued)***

The CECS which sets out sound principles and standards of good practice to be observed and complied with by all employees aims 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 ensuring strict confidentiality and to protect whistleblowers from the risk of reprisal. The policy in relation to Whistleblowing Reporting by a Third Party is available on the corporate website of the Bank.

REMUNERATION

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

The Board recognises the importance of setting a fair and competitive remuneration package for INEDs which is commensurate with their expertise, skills, responsibilities, risks and time commitments being Directors 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 FY2023 are disclosed in Note 30(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 that has been approved by the Board and is subject to periodic reviews by the Board, including when material changes are made to the policy. The Remuneration Policy provides a framework that can be implemented and is replicable year after year. This is to ensure all employees are compensated fairly, transparently and with a proper governance process across all levels of jobs.

Being a performance-driven organisation, the performance measurement, incorporating quantitative indicators, qualitative indicators and penalty point, both financial and non-financial goals, short-term and long-term perspectives as well as 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. Fixed remuneration refers to basic salary and fixed allowances while variable remuneration refers to the discretionary bonus which is cash-based.

REMUNERATION *(continued)*

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

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 guidelines and formulae set by the Parent Bank.

The total bonus pool of the Bank is subject to adjustment upon taking into consideration 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.

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 of 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 the bonus for Senior Management 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 a bonus or deferred bonus is subject to the 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 a 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 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 and Other Material Risk Takers of the Bank for FY2023:-

Category	**Senior Management (6 headcounts)**		**Other Material Risk Takers (13 headcounts)**	
Total Value of remuneration awards for the financial year	**Unrestricted RM'000**	**Deferred RM'000**	**Unrestricted RM'000**	**Deferred RM'000**
Fixed Remuneration				
* Cash-based	3,371	-	4,592	-
* Shares and share-linked instruments	-	-	-	-
* Others	-	-	-	-
Variable Remuneration				
* Cash-based	1,515	138	1,664	189
* Shares and share-linked instruments	-	-	-	-
* Others	-	-	-	-

REMUNERATION *(continued)*

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

The Senior Management of the Bank is defined as the MD/CEO, Deputy 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 the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016 and other regulatory requirements in Malaysia in all material respects.

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 have 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 2023 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, Deloitte PLT have indicated their willingness to accept re-appointment as auditors.

The auditors' remuneration for the financial year ended 31 December 2023 amounted to RM238,000.

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: 20 May 2024

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 accompanying financial statements set out on pages 28 to 106 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 2023 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: 20 May 2024

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

I, Xie Shaoxiong, 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 28 to 106 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 provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Xie Shaoxiong, (PP no. PE2221429), at Kuala Lumpur in the state of Wilayah Persekutuan, Malaysia on 20 May 2024.

……………………………………………………………
Xie Shaoxiong

BEFORE ME:

……………………………………………………………

Independent Auditor's Report to the Member 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 2023, 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 28 to 106.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our 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.

(Forward)

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 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 other information 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 other information and, in doing so, consider whether the other information 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 this other information, 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 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 Bank's ability 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.

(Forward)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment 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 Bank's internal control.

- 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 Bank's ability 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 achieves fair presentation.

We communicate with the Directors, 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.

(Forward)

Other Matter

This report is made solely to the member 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.

DELOITTE PLT (LLP0010145-LCA)
Chartered Accountants (AF 0080)

WONG KAR CHOON
Partner –03153/08/2024 J
Chartered Accountant

20 May 2024

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note	2023 RM'000	2022 RM'000
ASSETS			
Cash and short-term funds	4	581,663	215,359
Deposits and placements with banks and other financial institutions	5	126,716	123,070
Financial investments measured at fair value through other comprehensive income ("FVOCI")	6	683,548	802,808
Financial investments measured at amortised cost	7	405,107	423,892
Loans, advances and financing	8	3,054,830	2,445,778
Derivative financial assets	9	6,734	17,620
Other assets	10	16,131	18,637
Statutory deposits with Bank Negara Malaysia	11	30,266	33,093
Tax recoverable		3,961	1,819
Property and equipment	12	3,351	3,509
Right-of-use assets	13	10,620	5,770
Intangible asset	14	-	-
Deferred tax assets	15	10,586	10,051
TOTAL ASSETS		4,933,513	4,101,406
LIABILITIES			
Deposits from customers	16	2,509,680	2,292,568
Deposits and placements of banks and other financial institutions	17	968,042	440,257
Derivative financial liabilities	9	6,385	14,147
Other liabilities	18	58,298	42,049
Lease liabilities	13	10,385	5,687
Provision for commitments and contingencies	19	2,885	2,293
Provision for taxation	20	215	113
TOTAL LIABILITIES		3,555,890	2,797,114
EQUITY			
Share capital	21	832,609	832,609
Reserves	22	545,014	471,683
EQUITY ATTRIBUTABLE TO OWNER OF THE BANK		1,377,623	1,304,292
TOTAL LIABILITIES AND EQUITY		4,933,513	4,101,406
COMMITMENTS AND CONTINGENCIES	32	2,543,650	2,654,061

The notes on pages 34 to 106 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 RM'000	2022 RM'000
Interest income	23	204,242	131,623
Interest expense	23	(71,096)	(36,178)
Net interest income	23	133,146	95,445
Net non-interest income	24	39,907	39,905
Net operating income		173,053	135,350
Other operating expenses	25	(75,177)	(70,962)
Operating profit		97,876	64,388
(Allowance for)/Write-back of impairment on loans, advances and financing	26	(10,670)	13,053
Write-back of/(Allowance for) impairment on other financial assets	27	1,346	(1,842)
Profit before taxation		88,552	75,599
Tax expense	28	(20,702)	(19,015)
Profit for the year		67,850	56,584
Other comprehensive income/(expense), net of tax			
Items that are or may be reclassified subsequently to/(from) profit or loss			
Foreign currency translation reserve			
- Currency translation differences in respect of foreign operations		2,192	2,193
Fair value reserve			
- Changes in fair value		4,328	(4,265)
- Amount transferred from loss		-	(125)
- Deferred tax adjustment	15	(1,039)	1,054
		3,289	(3,336)
Total other comprehensive income/(expense) for the year		5,481	(1,143)
Total comprehensive income for the year		73,331	55,441
Basic earnings per ordinary share (sen):	29	8.15	6.80

The notes on pages 34 to 106 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	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 2022	832,609	1,186	6,542	17,644	390,870	1,248,851
Total comprehensive income/(expense) for the year						
Other comprehensive income/(expense), net of tax						
Items that are or may be reclassified subsequently to/(from) profit or loss						
Foreign currency translation reserve	-	2,193	-	-	-	2,193
- Currency translation differences in respect of foreign operations						
Fair value reserve						
- Changes in fair value	-	-	(4,265)	-	-	(4,265)
- Amount transferred to profit or loss	-	-	(125)	-	-	(125)
- Deferred tax adjustment	-	-	1,054	-	-	1,054
	-	-	(3,336)	-	-	(3,336)
Total other comprehensive income/(expense) for the year	-	2,193	(3,336)	-	-	(1,143)
Profit for the year	-	-	-	-	56,584	56,584
Total comprehensive income/(expense) for the year	-	2,193	(3,336)	-	56,584	55,441
At 31 December 2022	832,609	3,379	3,206	17,644	447,454	1,304,292
	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 2023 *(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 2023	832,609	3,379	3,206	17,644	447,454	1,304,292
Total comprehensive income/(expense) for the year						
Other comprehensive income/(expense), net of tax						
Items that are or may be reclassified subsequently to/(from) profit or loss						
Foreign currency translation reserve	-	2,192	-	-	-	2,192
- Currency translation differences in respect of foreign operations						
Fair value reserve						
- Changes in fair value	-	-	4,328	-	-	4,328
- Deferred tax adjustment	-	-	(1,039)	-	-	(1,039)
	-	-	3,289	-	-	3,289
Total other comprehensive income for the year	-	2,192	3,289	-	-	5,481
Profit for the year	-	-	-	-	67,850	67,850
Total comprehensive income for the year	-	2,192	3,289	-	67,850	73,331
At 31 December 2023	832,609	5,571	6,495	17,644	515,304	1,377,623
	Note 21	Note 22 (a)	Note 22 (b)	Note 22 (c)	Note 22 (d)	

The notes on pages 34 to 106 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RM'000	2022 RM'000
Cash flows from/(used in) operating activities		
Profit before taxation	88,552	75,599
Adjustments for:		
Depreciation of property and equipment	1,716	1,965
Depreciation of right-of-use assets	4,283	4,611
Interest expense on lease liabilities	123	130
Property and equipment written off	1	2
Gain on derecognition of right-of-use assets	(6)	(10)
Allowance for/(Write-back of) impairment on loans, advances and financing	10,670	(13,053)
(Write-back of)/Allowance for impairment on other financial assets	(1,346)	1,842
Net unrealised losses/(gains) arising from derivative trading	3,123	(667)
Transfer to foreign currency translation reserve	2,192	2,193
Accretion of discounts net of amortisation of premiums of financial investments measured at FVOCI	929	1,552
Accretion of discounts net of amortisation of premiums of financial investments measured at amortised cost	4,082	5,260
Operating profit before working capital changes	114,319	79,424
Changes in operating assets		
Deposits and placements with banks and other financial institutions	(2,682)	21,367
Loans, advances and financing	(619,128)	(187,970)
Other assets	2,506	(1,027)
Statutory deposits with Bank Negara Malaysia	2,827	(14,287)
Changes in operating liabilities		
Deposits from customers	217,112	368,675
Deposits and placements of banks and other financial institutions	527,785	(448,237)
Other liabilities	16,249	1,623
Cash from/(used in) operations	258,988	(180,432)
Income taxes paid	(24,961)	(13,481)
Income taxes refunded	645	-
Net cash from/(used in) operating activities	234,672	(193,913)
Cash flows from/(used in) investing activities		
Purchases of property and equipment	(1,559)	(365)
Net proceeds from/(purchases of) financial investments measured at FVOCI	122,659	(343,540)
Net proceeds from financial investments measured at amortised cost	14,925	21,916
Net cash from/(used in) investing activities	136,025	(321,989)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

	Note	2023 RM'000	2022 RM'000
Cash flows used in financing activity			
Net payment of lease liabilities		(4,553)	(4,672)
Net cash used in financing activity		(4,553)	(4,672)
Net increase/(decrease) in cash and cash equivalents		366,144	(520,574)
Cash and cash equivalents at beginning of the financial year		215,359	736,272
		581,503	215,698
Add: Write-back of/(Allowance for) credit loss for the year		160	(339)
Cash and cash equivalents at end of the financial year		581,663	215,359
Cash and cash equivalents comprise:			
Cash and short-term funds	4	581,663	215,359

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

	Note	2023 RM'000	2022 RM'000
Lease liabilities			
At 1 January		5,687	8,021
Acquisition of new leases		9,145	2,407
Net payment of lease liabilities		(4,553)	(4,673)
Interest expense on lease liabilities		123	130
Termination of leases		(17)	(198)
At 31 December	13	10,385	5,687
Cash outflows for leases as a lessee			
Included in net cash (used in)/from operating activities:			
Payment relating to leases of low-value assets	25	111	5
Included in net cash used in financing activity:			
Principal paid in relation to lease liabilities		4,430	4,543
Interest paid in relation to lease liabilities		123	130
		4,553	4,673
Total cash outflows for leases		4,664	4,678

The notes on pages 34 to 106 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 20 MAY 2024.

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 accounting policies adopted in the preparation of the audited financial statements are consistent with those followed in the preparation of the audited financial statements for the year ended 31 December 2022, except for the adoption of the amendments to standards effective as of 1 January 2023 as follows:

Amendments to MFRSs effective for annual periods beginning on or after 1 January 2023

- Amendments to MFRS 101 and MFRS Practice Statement 2 – *Disclosure of Accounting Policies*
- Amendments to MFRS 108 – *Definition of Accounting Estimates*
- Amendments to MFRS 112 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The initial application of the amendments to the above standards does not have any significant impact to the financial statements of the Bank.

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

As at the reporting date, the following are relevant amendments to standards issued by the Malaysian Accounting Standards Board ("MASB") but not yet effective, up to the date of issuance of the Bank's financial statements. The Bank intend to adopt them when they become effective:-

Amendments effective for annual periods beginning on or after 1 January 2024

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

Amendments effective for annual periods beginning on or after 1 January 2025

- Amendments to MFRS 121, *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

- Note 34.3 - Valuation of financial instruments
- Note 34.4(b) - Expected credit loss ("ECL") measurement

3. Material accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising from the retranslation of equity instruments designated as measured at fair value through other comprehensive income ("FVOCI") which are recognised in other comprehensive income.

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

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

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

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

(b) Interest recognition

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

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

3. Material accounting policies *(continued)*

(c) Fees recognition

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

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

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

(d) Income tax expense

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

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

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

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

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

(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. Material 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. Material 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 a financial liability that is 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. Material 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 realise 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. Material 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	20.00
Computer software	10.00
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. Material 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 the 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

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

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

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

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

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

3. Material accounting policies *(continued)*

(j) Leases *(continued)*

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

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.

(k) Intangible asset

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

3. Material accounting policies *(continued)*

(l) Impairment

(i) Financial assets

The Bank assesses impairment by using a forward looking "expected credit loss" ("ECL") model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at fair value through other comprehensive income.

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

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

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

Stage 1: 12-month ECL - non-credit impaired
For exposures where there has not been a significant increase in credit risk since initial recognition that are not credit impaired upon origination and with a day past due ("DPD") of equal to 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 90 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 more than 90 days. For financial assets that are credit impaired, a lifetime ECL will be recognised.

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

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

At the end of 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.

3. Material accounting policies *(continued)*

(l) Impairment *(continued)*

(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. Material 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

	2023 RM'000	2022 RM'000
Cash and balances with banks and other financial institutions	85,924	38,060
Money at call and deposit placements maturing within one month	495,995	177,715
	581,919	215,775
Less: Allowance for credit loss	(256)	(416)
	581,663	215,359

An analysis of changes in the allowance for credit loss is as follows:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2023	416	-	-	416
New assets originated	252	-	-	252
Assets derecognised or repaid	(412)	-	-	(412)
At 31 December 2023	256	-	-	256
At 1 January 2022	72	-	-	72
New assets originated	457	-	-	457
Assets derecognised or repaid	(118)	-	-	(118)
Foreign exchange adjustments	5	-	-	5
At 31 December 2022	416	-	-	416

5. Deposits and placements with banks and other financial institutions

	2023 RM'000	2022 RM'000
Licensed Malaysian banks	75,000	8,730
Foreign banks	52,124	115,712
	127,124	124,442
Less: Allowance for credit loss	(408)	(1,372)
	126,716	123,070

An analysis of changes in the allowance for credit loss is as follows:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2023	1,372	-	-	1,372
Assets derecognised or repaid	(964)	-	-	(964)
At 31 December 2023	408	-	-	408

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2022	-	-	-	-
New assets originated	1,372	-	-	1,372
At 31 December 2022	1,372	-	-	1,372

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

(i) By type

	2023 RM'000	2022 RM'000
Malaysian Government Securities	321,596	369,755
Malaysian Government Investment Issues	361,952	433,053
	683,548	802,808

(ii) By maturity structure

	2023 RM'000	2022 RM'000
Within one year	266,112	153,735
More than one year to three years	112,395	266,791
More than three years to five years	233,376	210,644
More than five years	71,665	171,638
	683,548	802,808

(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 2023	802,808	-	-	802,808
New assets originated or purchased	31,094	-	-	31,094
Assets derecognised or repaid	(154,682)	-	-	(154,682)
Changes in fair value	4,328	-	-	4,328
At 31 December 2023	683,548	-	-	683,548
At 1 January 2022	465,085	-	-	465,085
New assets originated or purchased	382,921	-	-	382,921
Assets derecognised or repaid	(40,933)	-	-	(40,933)
Changes in fair value	(4,265)	-	-	(4,265)
At 31 December 2022	802,808	-	-	802,808

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 2023	-	-	-	-
At 31 December 2023	-	-	-	-
At 1 January 2022	125	-	-	125
Assets derecognised or repaid	(125)	-	-	(125)
At 31 December 2022	-	-	-	-

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

	2023 RM'000	2022 RM'000
Financial institutions' securities	45,292	61,156
Corporate bonds	261,007	264,118
Other debt securities		
- Cagamas bonds	100,073	100,105
	406,372	425,379
Less: Allowance for credit loss	(1,265)	(1,487)
	405,107	423,892

(ii) By maturity structure

	2023 RM'000	2022 RM'000
Within one year	241,284	75,155
More than one year to three years	145,088	310,224
More than three years to five years	20,000	40,000
	406,372	425,379

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 2023	425,379	-	-	425,379
New assets originated or purchased	60,061	-	-	60,061
Assets derecognised or repaid	(79,068)	-	-	(79,068)
At 31 December 2023	406,372	-	-	406,372
At 1 January 2022	452,555	-	-	452,555
New assets originated or purchased	125,066	-	-	125,066
Assets derecognised or repaid	(152,242)	-	-	(152,242)
At 31 December 2022	425,379	-	-	425,379

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Allowance for credit loss				
At 1 January 2023	1,487	-	-	1,487
New assets originated	87	-	-	87
Assets derecognised or repaid	(118)	-	-	(118)
Changes due to change in credit risk	(40)	-	-	(40)
Changes in model/risk parameter	(151)	-	-	(151)
At 31 December 2023	1,265	-	-	1,265
At 1 January 2022	1,231	-	-	1,231
New assets originated	891	-	-	891
Assets derecognised or repaid	(196)	-	-	(196)
Changes due to change in credit risk	(209)	-	-	(209)
Changes in model/risk parameter	(230)	-	-	(230)
At 31 December 2022	1,487	-	-	1,487

8. Loans, advances and financing

(i) By type

	2023 RM'000	2022 RM'000
Overdrafts	7,570	24,049
Term loans		
- Housing loans	108,740	109,794
- Syndicated term loans	843,419	472,545
- Other term loans	846,649	457,564
Bills receivable	88,664	414,488
Revolving credits	1,093,156	800,522
Bankers' acceptances	96,298	187,782
Staff loans	1,835	1,541
Credit card loans	3,020	1,821
Gross loans, advances and financing	3,089,351	2,470,106
Less: Allowance for credit loss		
- Stage 1 (12-month ECL)	(26,145)	(18,871)
- Stage 2 (Lifetime ECL - non-credit impaired)	(7,020)	(4,178)
- Stage 3 (Lifetime ECL - credit impaired)	(1,356)	(1,279)
	(34,521)	(24,328)
Net loans, advances and financing	3,054,830	2,445,778

(ii) By type of customer

	2023 RM'000	2022 RM'000
Domestic banking institutions	-	8,002
Domestic non-bank financial institutions		
- Others	236,237	100,097
Domestic business enterprises		
- Small medium enterprises	258,373	135,637
- Others	1,955,184	1,976,712
Individuals	37,751	40,370
Foreign entities	601,806	209,288
	3,089,351	2,470,106

(iii) By interest rate sensitivity

	2023 RM'000	2022 RM'000
Fixed rate loan	231,199	3,362
Variable rate		
- Base rate/base lending rate plus	83,751	101,649
- Cost plus	2,705,285	2,295,765
- Other variable rates	69,116	69,330
	3,089,351	2,470,106

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

(iv) By sector

	2023 RM'000	2022 RM'000
Agriculture, forestry and fishing	5,014	7,513
Manufacturing	739,292	346,573
Electricity, gas and water	42,110	150,582
Construction	258,181	267,449
Mining and quarrying	254,168	70,177
Real estate activities	467,769	136,800
Wholesale and retail trade; repair of motor vehicles and motorcycles	216,485	372,086
Information and communication	22,370	205,296
Finance and insurance	558,679	560,525
Education	199,668	199,540
Household	121,090	122,791
Transportation and storage	172,512	-
Administrative and support services	31,700	30,353
Accommodation and food services	313	421
	3,089,351	2,470,106

(v) By purpose

	2023 RM'000	2022 RM'000
Purchase of properties		
- Non-residential	513,635	178,191
- Residential	110,358	111,106
Construction	130,004	31,716
Credit card	3,020	1,821
Personal use	781	829
Working capital	1,634,752	1,824,839
Other purpose	696,801	321,604
	3,089,351	2,470,106

(vi) By geographical distribution

	2023 RM'000	2022 RM'000
Within Malaysia	2,519,599	2,342,047
Outside Malaysia	569,752	128,059
	3,089,351	2,470,106

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

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

(vii) By residual contractual maturity

	2023 RM'000	2022 RM'000
Maturity within one year	1,429,963	1,506,400
More than one year to three years	770,309	234,327
More than three years to five years	466,153	218,056
More than five years	422,926	511,323
	3,089,351	2,470,106

(viii) Impaired loans, advances and financing

(a) Movement in impaired loans, advances and financing

	2023 RM'000	2022 RM'000
At 1 January	1,279	1,212
Impaired during the financial year	136	63
Reclassified as performing during the financial year	(64)	(59)
Write-off	(48)	-
Exchange differences	53	63
At 31 December	1,356	1,279
As % of gross loans, advances and financing	**0.04%**	**0.05%**

(b) By sector

	2023 RM'000	2022 RM'000
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,239	1,186
Household	117	93
	1,356	1,279

(c) By purpose

	2023 RM'000	2022 RM'000
Working capital	1,239	1,186
Credit card	117	93
	1,356	1,279

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

(viii) Impaired loans, advances and financing *(continued)*

(d) By geographical distribution

	2023 RM'000	2022 RM'000
Within Malaysia	117	93
Outside Malaysia	1,239	1,186
	1,356	1,279

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

(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 2023	2,190,753	278,074	1,279	2,470,106
New assets originated	1,770,831	24,221	10	1,795,062
Assets derecognised or repaid	(1,132,400)	(43,422)	-	(1,175,822)
Transfer to Stage 1	48,566	(48,530)	(36)	-
Transfer to Stage 2	(106,670)	106,698	(28)	-
Transfer to Stage 3	-	(126)	126	-
Write-off	-	-	(48)	(48)
Foreign exchange adjustments	-	-	53	53
At 31 December 2023	2,771,080	316,915	1,356	3,089,351
At 1 January 2022	1,916,536	364,144	1,212	2,281,892
New assets originated	1,254,198	22,302	5	1,276,505
Assets derecognised or repaid	(998,681)	(89,674)	-	(1,088,355)
Transfer to Stage 1	20,400	(20,361)	(39)	-
Transfer to Stage 2	(1,700)	1,720	(20)	-
Transfer to Stage 3	-	(57)	57	-
Foreign exchange adjustments	-	-	64	64
At 31 December 2022	2,190,753	278,074	1,279	2,470,106

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

(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 2023	18,871	4,178	1,279	24,328
New assets originated	8,708	984	9	9,701
Assets derecognised or repaid	(6,361)	(1,529)	-	(7,890)
Transfer to Stage 1	943	(907)	(36)	-
Transfer to Stage 2	(1,106)	1,134	(28)	-
Transfer to Stage 3	-	(2)	2	-
Changes due to change in credit risk	2,020	1,853	125	3,998
Changes in model/risk parameter	2,960	1,309	-	4,269
Write-off	-	-	(48)	(48)
Foreign exchange adjustments	110	-	53	163
At 31 December 2023	26,145	7,020	1,356	34,521
At 1 January 2022	24,251	11,221	1,212	36,684
New assets originated	8,895	548	7	9,450
Assets derecognised or repaid	(8,677)	(4,836)	-	(13,513)
Transfer to Stage 1	924	(885)	(39)	-
Transfer to Stage 2	(39)	59	(20)	-
Transfer to Stage 3	-	(1)	1	-
Changes due to change in credit risk	(3,667)	(1,322)	54	(4,935)
Changes in model/risk parameter	(2,996)	(606)	-	(3,602)
Foreign exchange adjustments	180	-	64	244
At 31 December 2022	18,871	4,178	1,279	24,328

9. Derivative financial assets/liabilities

	2023		
	Contract/ Nominal value RM'000	**Assets RM'000**	**Liabilities RM'000**
Foreign exchange contracts			
- Currency forwards and spots	146,876	251	196
- Currency swaps	159,988	1,354	1,109
Interest rate contracts			
- Cross currency interest rate swaps	87,774	4,237	4,188
- Interest rate swaps	200,000	892	892
Total recognised derivative assets/liabilities (Note 32)	594,638	6,734	6,385

	2022		
	Contract/ Nominal value RM'000	**Assets RM'000**	**Liabilities RM'000**
Foreign exchange contracts			
- Currency forwards and spots	617,844	8,700	5,377
- Currency swaps	202,813	2,685	2,685
Interest rate contracts			
- Cross currency interest rate swaps	150,140	4,244	4,094
- Interest rate swaps	200,000	1,991	1,991
Total recognised derivative assets/liabilities (Note 32)	1,170,797	17,620	14,147

10. Other assets

	2023 RM'000	**2022 RM'000**
Interest receivable	12,357	15,316
Deposits	1,502	1,471
Other receivables and prepayments	2,272	1,850
	16,131	18,637

11. Statutory deposits with Bank Negara Malaysia

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

12. Property and equipment

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Assets under construction RM'000	Total RM'000
Cost						
At 1 January 2023	5.694	3,623	2,601	12,038	128	24,084
Additions	712	133	183	-	531	1,559
Transfer	-	-	659	-	(659)	-
Written off	(9)	(8)	-	(17)	-	(34)
At 31 December 2023	6,397	3,748	3,443	12,021	-	25,609
Accumulated depreciation						
At 1 January 2023	5,101	3,144	1,245	11,085	-	20,575
Charge during the year	538	183	228	767	-	1,716
Written off	(9)	(7)	-	(17)	-	(33)
At 31 December 2023	5,630	3,320	1,473	11,835	-	22,258
Net carrying amount						
At 1 January 2023	593	479	1,356	953	128	3,509
At 31 December 2023	767	428	1,970	186	-	3,351

12. Property and equipment *(continued)*

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Assets under construction RM'000	Total RM'000
Cost						
At 1 January 2022	5,916	3,739	2,393	12,118	128	24,294
Additions	76	58	222	9	-	365
Written off	(298)	(174)	(14)	(89)	-	(575)
At 31 December 2022	5,694	3,623	2,601	12,038	128	24,084
Accumulated depreciation						
At 1 January 2022	4,824	2,911	1,041	10,407	-	19,183
Charge during the year	575	405	218	767	-	1,965
Written off	(298)	(172)	(14)	(89)	-	(573)
At 31 December 2022	5,101	3,144	1,245	11,085	-	20,575
Net carrying amount						
At 1 January 2022	1,092	828	1,352	1,711	128	5,111
At 31 December 2022	593	479	1,356	953	128	3,509

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 2023	12,091	1,346	330	151	13,918
Additions	8,164	933	48	-	9,145
Derecognition	(8,317)	(972)	(96)	-	(9,385)
At 31 December 2023	11,938	1,307	282	151	13,678
Accumulated depreciation					
At 1 January 2023	7,084	835	190	39	8,148
Charge during the year	3,690	448	66	79	4,283
Derecognition	(8,317)	(960)	(96)	-	(9,373)
At 31 December 2023	2,457	323	160	118	3,058
Net carrying amount					
At 1 January 2023	5,007	511	140	112	5,770
At 31 December 2023	9,481	984	122	33	10,620

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 2022	11,577	1,553	365	203	13,698
Additions	1,856	374	25	151	2,406
Derecognition	(1,342)	(581)	(60)	(203)	(2,186)
At 31 December 2022	12,091	1,346	330	151	13,918
Accumulated depreciation					
At 1 January 2022	4,527	666	168	174	5,535
Charge during the year	3,898	563	82	68	4,611
Derecognition	(1,341)	(394)	(60)	(203)	(1,998)
At 31 December 2022	7,084	835	190	39	8,148
Net carrying amount					
At 1 January 2022	7,050	887	197	29	8,163
At 31 December 2022	5,007	511	140	112	5,770

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 leases after their expiry 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 leases after their expiry date.

For certain equipment that are of low value but with contract terms of up to five years, the Bank has classified these leases as leases of low-value items. For other assets that are with contract terms of up to one year, the Bank has 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 determine the lease term.

The Bank also applies 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

	2023 RM'000	2022 RM'000
Lease liabilities	10,385	5,687

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

	2023 RM'000	2022 RM'000
Less than 1 month	381	381
Between 1 to 3 months	761	763
Between 3 months to 1 year	2,976	2,811
Between 1 to 5 years	6,850	1,859
	10,968	5,814

14. Intangible asset

	Admission Fee	
	2023 RM'000	2022 RM'000
Cost		
At 1 January/31 December	2,600	2,600
Accumulated amortisation		
At 1 January/31 December	2,600	2,600
Carrying amount		
At 1 January/31 December	-	-

15. Deferred tax assets

	2023 RM'000	2022 RM'000
At 1 January	10,051	10,485
Recognised in profit or loss (Note 28)	1,574	(1,488)
Recognised in equity	(1,039)	1,054
At 31 December	10,586	10,051

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

	Deferred tax assets/(liabilities)			
	At 1 January 2023 RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in equity RM'000	At 31 December 2023 RM'000
Property and equipment	(314)	47	-	(267)
Right-of-use assets	(1,352)	(1,182)	-	(2,534)
Fair value reserve	(1,011)	-	(1,039)	(2,050)
Allowance for credit loss	5,687	1,388	-	7,075
Provisions	5,708	177	-	5,885
Lease liabilities	1,333	1,144	-	2,477
	10,051	1,574	(1,039)	10,586

15. Deferred tax assets *(continued)*

	Deferred tax assets/(liabilities)			
	At 1 January 2022 RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in equity RM'000	At 31 December 2022 RM'000
Property and equipment	(25)	(289)	-	(314)
Right-of-use assets	(1,944)	592	-	(1,352)
Fair value reserve	(2,065)	-	1,054	(1,011)
Allowance for credit loss	7,307	(1,620)	-	5,687
Provisions	5,302	406	-	5,708
Lease liabilities	1,910	(577)	-	1,333
	10,485	(1,488)	1,054	10,051

16. Deposits from customers

(i) By type of deposits

	2023 RM'000	2022 RM'000
Demand deposits	697,150	695,024
Fixed deposits	1,253,093	1,104,358
Savings deposits	160,650	144,510
Money market deposits	244,777	190,846
Others	154,010	157,830
	2,509,680	2,292,568

(ii) By type of customers

	2023 RM'000	2022 RM'000
Business enterprises	1,343,131	1,289,634
Individuals	383,396	340,379
Foreign entities	782,805	662,282
Others	348	273
	2,509,680	2,292,568

(iii) By maturity structure of term deposits

	2023 RM'000	2022 RM'000
Due within six months	1,060,473	1,033,377
More than six months to one year	437,397	260,707
More than one year to three years	-	1,120
	1,497,870	1,295,204

17. Deposits and placements of banks and other financial institutions

	2023 RM'000	2022 RM'000
Licensed Malaysian banks	326,239	197,932
Licensed investment banks	50,042	50,188
Licensed Islamic banks	25,862	12,946
Other financial institutions	31,984	117,389
Foreign banks	533,915	61,802
	968,042	440,257

18. Other liabilities

	2023 RM'000	2022 RM'000
Interest payable	23,585	10,161
Other payables and accruals	34,713	31,888
	58,298	42,049

19. Provision for commitments and contingencies

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January 2023	1,719	574	-	2,293
New commitments originated	2,117	202	-	2,319
Commitments derecognised	(1,773)	(105)	-	(1,878)
Transfer to Stage 1	6	(6)	-	-
Transfer to Stage 2	(8)	8	-	-
Changes due to change in credit risk	(205)	63	-	(142)
Changes in model/risk parameter	171	122	-	293
At 31 December 2023	2,027	858	-	2,885
At 1 January 2022	2,378	368	-	2,746
New commitments originated	2,081	175	-	2,256
Commitments derecognised	(1,982)	(100)	-	(2,082)
Transfer to Stage 1	2	(2)	-	-
Transfer to Stage 2	(50)	50	-	-
Changes due to change in credit risk	(449)	183	-	(266)
Changes in model/risk parameter	(261)	(100)	-	(361)
At 31 December 2022	1,719	574	-	2,293

20. Provision for taxation

Provision for taxation in 2023 and 2022 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 years of assessment 2023 and 2022.

21. Share capital

	Number of ordinary shares		Amount	
	2023	**2022**	**2023**	**2022**
	'000	**'000**	**RM'000**	**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 absorbent 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 retained earnings are distributable as tax-exempt dividends to shareholders.

23. Net Interest income

	2023 RM'000	2022 RM'000
Interest income		
Loans, advances and financing	142,652	83,313
Money at call and deposits and placements with financial institutions	19,309	13,900
Financial investments measured at fair value through other comprehensive income	29,133	21,180
Financial investments measured at amortised cost	13,148	13,230
	204,242	131,623
Interest expense		
Deposits and placements of banks and other financial institutions	(18,591)	(8,545)
Deposits from customers	(52,505)	(27,633)
	(71,096)	(36,178)
Net interest income	133,146	95,445

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

	2023 RM'000	2022 RM'000
Financial assets measured at amortised cost	175,109	110,443
Financial assets measured at fair value through other comprehensive income	29,133	21,180
	204,242	131,623
Financial liabilities measured at amortised cost	(71,096)	(36,178)

24. Net Non-Interest income

(i) Net fee income

	2023 RM'000	2022 RM'000
Fee income:		
- Commission	47	65
- Service charges and fees	6,147	4,441
- Loan processing fees	3,413	516
- Syndication fees	1,759	3,770
- Guarantee fees	5,797	5,060
- Commitment fees	998	758
- Other loan related fee income	135	54
- Other fee income	128	58
	18,424	14,722
Fee expense:		
- Brokerage fees	(98)	(110)
- Other fee expense	(1,405)	(1,351)
	(1,503)	(1,461)
Net fee income	16,921	13,261

(ii) Net trading income

	2023 RM'000	2022 RM'000
Net gains from dealing in foreign exchange	31,990	49,229
Net losses arising from derivative trading	(5,976)	(24,129)
Net unrealised revaluation (losses)/gains in foreign exchange	(1)	548
Net unrealised (losses)/gains arising from derivative trading	(3,123)	667
	22,890	26,315

(iii) Other income

	2023 RM'000	2022 RM'000
Other operating income	90	319
Gain on derecognition of right-of-use assets	6	10
	96	329

Total net non-interest income	39,907	39,905

25. Other operating expenses

	2023 RM'000	2022 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	44,107	41,085
- Directors' remuneration (Note 30(c))	2,083	1,846
- Pension fund contributions	4,786	4,919
- Other staff costs	6,430	5,445
Promotion and marketing related expenses:		
- Advertising and promotion	320	434
- Others	194	176
Establishment costs:		
- Depreciation of property and equipment	1,716	1,965
- Depreciation of right-of-use assets	4,283	4,611
- Interest expense on lease liabilities	123	130
- Expenses relating to leases of low-value assets	224	124
- Property and equipment written off	1	2
- Others	2,841	2,984
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	238	238
• audit related services	12	12
- Professional fees	909	478
- Licence fee	337	341
- Membership fee	179	186
- Others	6,394	5,986
	75,177	70,962

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

	2023 RM'000	2022 RM'000
Allowance for/(Write-back of) credit loss		
- Loans, advances and financing	10,078	(12,600)
- Provision for commitments and contingencies	592	(453)
	10,670	(13,053)

27. (Write-back of)/Allowance for impairment on other financial assets

	2023 RM'000	2022 RM'000
(Write-back of)/Allowance for credit loss		
- Cash and short-term funds	(160)	339
- Deposits and placements with banks and other financial institutions	(964)	1,372
- Financial investments measured at fair value through other comprehensive income	-	(125)
- Financial investments measured at amortised cost	(222)	256
	(1,346)	1,842

28. Tax expense

	2023 RM'000	2022 RM'000
Current tax expense		
- Current financial year	22,243	17,504
- Underprovision in prior years	33	23
Total current tax recognised in profit or loss	22,276	17,527
Deferred taxation		
- Origination and reversal of temporary differences	(1,574)	1,488
Total deferred tax recognised in profit or loss (Note 15)	(1,574)	1,488
	20,702	19,015

	2023 RM'000	2022 RM'000
Reconciliation of tax expense		
Profit before taxation	88,552	75,599
Income tax calculated using Malaysian tax rate of 24% (2022: 24%)	21,253	18,144
Tax effect of:		
Non-deductible expenses	919	1,632
Effect of tax rate in a different jurisdiction	(1,503)	(784)
Underprovision of income tax expense in prior years	33	23
Tax expense	20,702	19,015

29. 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 RM67,850,000 (2022: RM56,584,000) and weighted average number of ordinary shares outstanding during the year of 832,609,000 (2022: 832,609,000).

30. Significant related party transactions and balances

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

	2023		2022	
	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	711	6,044	870	5,332
- Loans, advances and financing	-	5,241	-	-
Expenses				
Interest expense				
- Deposits and placements of banks and other financial institutions	(11,169)	-	(2,476)	-
Other operating expenses				
- Other charges	(18)	(8)	(18)	(8)
- Software licence fee	(36)	-	(63)	-

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

	2023		2022	
	RM'000 Holding company	**RM'000** Related companies	**RM'000** Holding company	**RM'000** Related companies
Amount due from				
- Cash and short-term funds	115,863	31,985	13,148	38,442
- Deposits and placements with banks and other financial institutions	-	51,716	-	114,340
- Loans, advances and financing	-	57,326	-	-
- Other assets	4	1,674	-	3,021
Amount due to				
- Deposits and placements with banks and other financial institutions	(533,524)	(3)	(61,390)	(68)
- Other liabilities	(2,895)	-	-	-

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

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

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

(c) Key management personnel compensation

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

	2023 RM'000	2022 RM'000
Executive Director and CEO		
Mr Xie Shaoxiong		
- Salaries	982	943
- Bonus	458	-
- Other allowances	272	195
	1,712	1,138
Executive Director and CEO		
Mr Wang Qiang (Resigned on 19 January 2022)		
- Salaries	-	88
- Bonus	-	248
- Other allowances	-	-
	-	336
Non-Executive Directors' fees		
Mr Chin Chee Kong	124	124
Mr Ng Lip Yong	124	124
Ms Sum Leng Kuang	123	124
	371	372
	2,083	1,846
	Note 25	Note 25

31. 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:-

	2023 RM'000	2022 RM'000
Aggregate value of outstanding credit exposures to connected parties	205,870	274,119
As a percentage of total credit exposures	3.70%	5.94%
Percentage of outstanding credit exposures to connected parties which are non-performing or in default	0%	0%

32. 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:-

	2023			
	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	114,747	-	114,747	22,949
Transaction-related contingent items	410,711	-	205,356	88,050
Short-term self-liquidating trade-related contingencies	180,762	-	36,152	12,318
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	124,535	-	62,268	59,310
- Not exceeding one year	1,081,047	-	216,209	175,719
Unutilised credit card lines	37,210	-	7,442	5,582
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	306,864	1,605	4,553	1,917
Interest rate related contracts				
- Less than one year	87,774	4,237	7,090	4,225
- One year to five years	200,000	892	4,892	3,446
Total	2,543,650	6,734	658,709	373,516
		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.

32. Commitments and contingencies *(continued)*

	2022			
	Principal amount RM'000	**Positive value of derivative contracts^ RM'000**	**Credit equivalent amount* RM'000**	**Risk-weighted assets* RM'000**
Credit-related exposures				
Transaction-related contingent items	408,229	-	204,114	92,439
Short-term self-liquidating trade-related contingencies	107,852	-	21,570	12,528
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	168,284	-	84,142	83,135
- Not exceeding one year	759,787	-	151,958	143,582
Unutilised credit card lines	39,112	-	7,823	5,867
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	820,657	11,385	22,116	9,838
Interest rate related contracts				
- One year to five years	350,140	6,235	21,243	14,320
Total	2,654,061	17,620	512,966	361,709
		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. 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:-

	2023 RM'000	2022 RM'000
Common Equity Tier 1 ("CET1") Capital/Tier 1 Capital		
Paid-up share capital	832,609	832,609
Retained earnings	515,304	447,454
Regulatory reserve	17,644	17,644
Foreign currency translation reserve	5,571	3,379
Unrealised gains on financial investments measured at FVOCI	6,495	3,206
	1,377,623	1,304,292
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Deferred tax assets	(10,585)	(10,051)
- 55% cumulative gains of financial investments measured at FVOCI	(3,572)	(1,762)
- Regulatory reserve attributable to loans, advances and financing	(17,644)	(17,644)
	(31,801)	(29,457)
Total CET1 Capital/Tier 1 Capital	1,345,822	1,274,835
Tier 2 Capital		
Allowance for credit loss	26,107	20,336
Regulatory reserve	17,644	17,644
Total Tier 2 Capital	43,751	37,980
Total Capital	1,389,573	1,312,815
CET1 capital ratio	35.618%	38.771%
Tier 1 capital ratio	35.618%	38.771%
Total capital ratio	36.776%	39.926%

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

	2023		2022	
	Exposures RM'000	Risk-weighted assets RM'000	Exposures RM'000	Risk-weighted assets RM'000
Total RWA for credit risk	5,609,996	3,500,113	4,613,025	3,038,413
Total RWA for market risk	-	12,534	-	8,620
Total RWA for operational risk	-	265,868	-	241,056
	5,609,996	3,778,515	4,613,025	3,288,089

34. Financial Instruments

34.1 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
2023				
Financial assets				
Cash and short-term funds	581,663	581,663	-	-
Deposits and placements with banks and other financial institutions	126,716	126,716	-	-
Financial investments measured at FVOCI	683,548	-	-	683,548
Financial investments measured at amortised cost	405,107	405,107	-	-
Loans, advances and financing	3,054,830	3,054,830	-	-
Derivative financial assets	6,734	-	6,734	-
Other assets *	14,506	14,506	-	-
Statutory deposits with Bank Negara Malaysia	30,266	30,266	-	-
Total financial assets	4,903,370	4,213,088	6,734	683,548
Financial liabilities				
Deposits from customers	2,509,680	2,509,680	-	-
Deposits and placements of banks and other financial institutions	968,042	968,042	-	-
Derivative financial liabilities	6,385	-	6,385	-
Other liabilities	58,298	58,298	-	-
Provision for commitments and contingencies	2,885	2,885	-	-
Total financial liabilities	3,545,290	3,538,905	6,385	-

34. Financial Instruments *(continued)*

34.1 Categories of financial instruments *(continued)*

	Carrying amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000
2022				
Financial assets				
Cash and short-term funds	215,359	215,359	-	-
Deposits and placements with banks and other financial institutions	123,070	123,070	-	-
Financial investments measured at FVOCI	802,808	-	-	802,808
Financial investments measured at amortised cost	423,892	423,892	-	-
Loans, advances and financing	2,445,778	2,445,778	-	-
Derivative financial assets	17,620	-	17,620	-
Other assets *	17,463	17,463	-	-
Statutory deposits with Bank Negara Malaysia	33,093	33,093	-	-
Total financial assets	4,079,083	3,258,655	17,620	802,808
Financial liabilities				
Deposits from customers	2,292,568	2,292,568	-	-
Deposits and placements of banks and other financial institutions	440,257	440,257	-	-
Derivative financial liabilities	14,147	-	14,147	-
Other liabilities	42,049	42,049	-	-
Provision for commitments and contingencies	2,293	2,293	-	-
Total financial liabilities	2,791,314	2,777,167	14,147	-

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

34. Financial Instruments *(continued)*

34.2 Net gains and losses arising from financial instruments

	2023 RM'000	2022 RM'000
Net gains/(losses) arising on:		
Fair value through profit or loss	22,890	26,315
Financial investments at fair value through other comprehensive income:		
- interest income from financial investments at fair value through other comprehensive income	30,062	22,732
- amortisation of premium recognised in profit or loss	(929)	(1,552)
- recognised in other comprehensive income	3,289	(3,336)
Financial investments at amortised cost		
- interest income from financial investments at amortised cost	17,230	18,490
- amortisation of premium recognised in profit or loss	(4,082)	(5,260)
Other financial assets at amortised cost	161,960	97,213
Financial liabilities at amortised cost	(71,096)	(36,178)
Net (losses)/gains on impairment on financial instruments:		
- financial assets at amortised cost	(8,731)	10,633
- financial assets at fair value through other comprehensive income	-	125
- provision for commitments and contingencies	(592)	453
	(9,323)	11,211
	150,001	129,635

34. Financial Instruments *(continued)*

34.3 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.

34. Financial Instruments *(continued)*

34.3 Fair value information *(continued)*

Recognised financial instruments *(continued)*

Valuation of financial instruments

The carrying amounts of cash and short-term funds, other assets and other liabilities 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
2023										
Financial assets										
Deposit and placements with banks and other financial institutions	-	-	-	-	-	-	126,716	126,716	126,716	126,716
Financial investments measured at FVOCI	-	683,548	-	683,548	-	-	-	-	683,548	683,548
Financial investments measured at amortised cost	-	-	-	-	-	398,226	-	398,226	398,226	405,107
Loans, advances and financing	-	-	-	-	-	-	3,038,494	3,038,494	3,038,494	3,054,830
Derivative financial assets	-	6,734	-	6,734	-	-	-	-	6,734	6,734
	-	690,282	-	690,282	-	398,226	3,165,210	3,563,436	4,253,718	4,276,935
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	2,509,680	2,509,680	2,509,680	2,509,680
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	968,042	968,042	968,042	968,042
Derivative financial liabilities	-	6,385	-	6,385	-	-	-	-	6,385	6,385
	-	6,385	-	6,385	-	-	3,477,722	3,477,722	3,484,107	3,484,107

34. Financial Instruments *(continued)*

34.3 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
2022										
Financial assets										
Deposit and placements with banks and other financial institutions	-	-	-	-	-	-	123,070	123,070	123,070	123,070
Financial investments measured at FVOCI	-	802,808	-	802,808	-	-	-	-	802,808	802,808
Financial investments measured at amortised cost	-	-	-	-	-	411,718	-	411,718	411,718	423,892
Loans, advances and financing	-	-	-	-	-	-	2,445,387	2,445,387	2,445,387	2,445,778
Derivative financial assets	-	17,620	-	17,620	-	-	-	-	17,620	17,620
	-	820,428	-	820,428	-	411,718	2,568,457	2,980,175	3,800,603	3,813,168
Financial liabilities										
Deposits from customers	-	-	-	-	-	-	2,292,568	2,292,568	2,292,568	2,292,568
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	440,257	440,257	440,257	440,257
Derivative financial liabilities	-	14,147	-	14,147	-	-	-	-	14,147	14,147
	-	14,147	-	14,147	-	-	2,732,825	2,732,825	2,746,972	2,746,972

34. Financial Instruments *(continued)*

34.3 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 Bank 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 (2022: no transfer in either direction).

34. Financial Instruments *(continued)*

34.4 Financial risk management

(a) Introduction and overview

Risk management framework

The Board of Directors ("Board") 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 the Senior Management Committee ("SMC"), various functional committees at management level and Risk Management Department.

Management Risk Management Committee ("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 MRMC and/or such other at relevant functional management committees prior to escalation to the SMC and the BRMC for deliberation, and the Board for approval.

The Bank's risk management policies are established to guide the risk governance activities that cover the 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 the 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 ongoing 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 SMC.

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

The functions of the Credit Committee are as follows:-

- Deliberation of credit ratings, lending propositions, and other credit businesses, as delegated by Board
- Deliberation of classification, impairment and write-off of non-performing loan
- Provide oversight on the overall implementation of the board-approved framework that govern the process of credit decision making, credit risk management and control

The functions of the MRMC are as follows:-

- Review and deliberation of the Bank's credit risk exposure, credit risk portfolio and credit risk management activities.
- Review and deliberation of credit risk policies.
- Review and recommend the credit risk appetite of the Bank for Board's approval.

The Bank employs a credit ratings system as a tool for determining the credit risk profile of borrowers/counterparties using appropriate form of scorecards. The credit ratings 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 banks in accordance with the contractual terms of financial assets and the cash flows that the banks expect 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 may vary 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.

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

ECL Measurement

ECL are generally measured based on the risk of default over one of three (3) 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 where there has not been a Significant Increase in Credit Risk ("SICR") since initial recognition is to be classified as "Stage 1".

If a SICR since initial recognition is identified but it is not yet deemed to be credit-impaired, the financial instrument is to be classified as "Stage 2".

A financial instrument that is credit-impaired is to be classified as "Stage 3".

	Stage 1	**Stage 2**	**Stage 3**
Category	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**
Description	Performing credit assets	Under-performing credit assets: Credit exposure that shows SICR since the initial recognition	Non-performing credit assets: Credit impaired exposure
Staging Criteria	i) DPD ≤30 days ii) Not SICR; and iii) Not credit-impaired	i) SICR, where: • DPD>30 days; ≤90 days • Significant downgrade in credit rating; and • Not credit-impaired	i) DPD>90 days; or ii) Credit-impaired

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 = Point in time ("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 policies and after incorporating forward-looking considerations.

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

ECL Measurement *(continued)*

The Bank's credit ratings system comprises 20 grades levels for instruments under the not impaired category and one (1) grade 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.

Rating Level

Grades 1-12
Grades 13-20
Grade 21

Credit Quality Analysis

	2023			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Loans, Advances and Financing to Corporates				
- Grades 1-12	2,043,624	215,173	-	2,258,797
- Grades 13-20	607,902	100,323	-	708,225
- Grade 21	-	-	1,239	1,239
	2,651,526	315,496	1,239	2,968,261
Allowance for credit loss	(25,796)	(6,795)	(1,239)	(33,830)
Carrying Amount	2,625,730	308,701	-	2,934,431
*Loans, Advances and Financing to Banks **				
- Grades 1-12	709,042	-	-	709,042
- Grades 13-20	-	-	-	-
- Grade 21	-	-	-	-
	709,042	-	-	709,042
Allowance for credit loss	(663)	-	-	(663)
Carrying Amount	708,379	-	-	708,379
Loans, Advances and Financing to Retails				
- Retails	119,554	1,419	117	121,090
	119,554	1,419	117	121,090
Allowance for credit loss	(349)	(225)	(117)	(691)
Carrying Amount	119,205	1,194	-	120,399
Financial Investments				
- Grades 1-12	1,089,920	-	-	1,089,920
- Grades 13-20	-	-	-	-
- Grade 21	-	-	-	-
	1,089,920	-	-	1,089,920
Allowance for credit loss	(1,265)	-	-	(1,265)
Carrying Amount	1,088,655	-	-	1,088,655

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Credit Quality Analysis *(continued)*

	2022			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Loans, Advances and Financing to Corporates				
- Grades 1-12	1,453,937	207,550	-	1,661,487
- Grades 13-20	615,929	68,713	-	684,642
- Grade 21	-	-	1,186	1,186
	2,069,866	276,263	1,186	2,347,315
Allowance for credit loss	(18,483)	(3,948)	(1,186)	(23,617)
Carrying Amount	2,051,383	272,315	-	2,323,698
*Loans, Advances and Financing to Banks **				
- Grades 1-12	340,217	-	-	340,217
- Grades 13-20	-	-	-	-
- Grade 21	-	-	-	-
	340,217	-	-	340,217
Allowance for credit loss	(1,788)	-	-	(1,788)
Carrying Amount	338,429	-	-	338,429
Loans, Advances and Financing to Retails				
- Retails	120,887	1,811	93	122,791
	120,887	1,811	93	122,791
Allowance for credit loss	(388)	(230)	(93)	(711)
Carrying Amount	120,499	1,581	-	122,080
Financial Investments				
- Grades 1-12	1,228,187	-	-	1,228,187
- Grades 13-20	-	-	-	-
- Grade 21	-	-	-	-
	1,228,187	-	-	1,228,187
Allowance for credit loss	(1,487)	-	-	(1,487)
Carrying Amount	1,226,700	-	-	1,226,700

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

34. Financial Instruments *(continued)*

34.4 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 within 90 days).
- The obligor's credit rating has deteriorated more than the defined threshold as compared to the original credit rating during initial recognition.

Qualitative Criteria

- If a credit exposure meets any non-mandatory triggers (as defined in the Bank's policies 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	**2023**	**2022**
Upside Scenario	50.00%	0.00%
Base Scenario	30.00%	50.00%
Downside Scenario	20.00%	50.00%

The adoption of the above probability weightage reflects the positive-skew in GDP forecasts gathered aligning with the Bank's internal experience and outlook. Over the next 12 months, the Bank anticipates an optimistic outlook for the state of the economy, leaning towards the positive side mainly due to robust labour market supporting domestic demand and less severe global slowdown supporting export growth. The anticipated upside potential is expected to outweigh downside risk mainly due to geopolitics-led supply distortions that could cause a spike in global food and commodity prices and/or more severe global slowdown that may be aggravated by China's property crisis could crimp Malaysia's export growth.

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Loss Given Default

Given the lack of historical loss experience, the Bank derives LGDs from external recovery experiences and guidance notes available based on the order of priority: the higher of local LGD references, including local peer banks and Bank Negara Malaysia; else, in its absence, the higher of international LGD references including major international credit rating agencies and Parent Bank.

Credit Risk Exposure for ECL

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

- Transfers from Stage 1 to Stage 2 or Stage 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 or vice versa;
- 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 on a future date. 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 derived from the 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 more than 90 days.
- 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 policies.

34. Financial Instruments *(continued)*

34.4 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. Expected Discounted Cash Flows (or the recoverable amount) is the present value of the estimated future cash flows discounted at the effective interest rate. The individual impairment assessment shall consider forward-looking factors appropriate to the subject impaired credit exposure/counterparty.

Write-off

Clear write-off practices have 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
2023			
Loans, Advances and Financing to Customers			
Neither past due nor impaired	3,087,858	(33,163)	3,054,695
Past due but not impaired			
- Less than three months	137	(2)	135
Credit impaired	1,356	(1,356)	-
	3,089,351	(34,521)	3,054,830
Cash and Short-term Funds and Deposits and Placements with Banks and Other Financial Institutions			
Neither past due nor impaired	709,042	(663)	708,379
Financial Investments			
- measured at FVOCI			
Neither past due nor impaired	683,548	-	683,548
- measured at Amortised Cost			
Neither past due nor impaired	406,372	(1,265)	405,107

34. Financial Instruments *(continued)*

34.4 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
2022			
Loans, Advances and Financing to Customers			
Neither past due nor impaired	2,468,631	(23,047)	2,445,584
Past due but not impaired			
- Less than one month	196	(2)	194
Credit impaired	1,279	(1,279)	-
	2,470,106	(24,328)	2,445,778
Cash and Short-term Funds and Deposits and Placements with Banks and Other Financial Institutions			
Neither past due nor impaired	340,217	(1,788)	338,429
Financial Investments			
- measured at FVOCI			
Neither past due nor impaired	802,808	-	802,808
- measured at Amortised Cost			
Neither past due nor impaired	425,379	(1,487)	423,892

In addition to the above, the Bank had entered into lending commitments of RM1,205.58 million (2022: RM928.07 million). The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM706.22 million (2022: RM516.08 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.

34. Financial Instruments *(continued)*

34.4 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:-

	2023 RM'000	2022 RM'000
Loans, Advances and Financing to Banks *		
Carrying amount	708,379	338,429
Concentration of credit risk based on sector		
Financial services	638,563	249,688
Central bank	69,816	88,741
	708,379	338,429
Concentration of credit risk based on geographical location		
Malaysia	496,141	167,232
East Asia	26,741	9,111
South America	80,469	148,642
South East Asia	86,904	4,593
United States of America	12,678	5,284
Europe	2,254	630
Oceania	3,192	2,937
	708,379	338,429

* 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 by geographical distribution for loans, advances and financing to customers are disclosed under Notes 8(iv) and 8(vi) to the financial statements.

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

	2023 RM'000	2022 RM'000
Financial Investments		
Carrying amount	1,088,656	1,226,700
Concentration of credit risk based on sector		
Financial services	45,260	61,025
Government and central bank	683,548	802,808
Others	359,848	362,867
	1,088,656	1,226,700
Concentration of credit risk based on geographical location		
Malaysia	1,088,656	1,226,700

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 risk arise when the Bank encounter challenges in securing funds to fulfill its current or future obligations. This can be attributed to premature and collective withdrawals by customers, overdue repayments from counterparties, mismatch in asset-liability maturity structure and difficulties in realisation of assets.

Management of liquidity risk

The liquidity and funding management has been carried out in compliance with the regulatory standards as well as in accordance with the specific requirement and thresholds set by the Assets and Liabilities Committee ("ALCO"). The Bank maintains a strong liquidity position and constantly manages the liquidity composition of its assets, liabilities and commitments. This is to ensure that cash flow needs are adequately addressed and all obligations are met accordingly.

The Bank has continuously maintained relationship with new and existing depositors and funding counterparties. This strategy approach is aimed at growing the diversified funding base.

34. Financial Instruments *(continued)*

34.4 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
2023							
Financial assets							
Cash and short-term funds	581,918	-	-	-	-	(255)	581,663
Deposits and placements with banks and other financial institutions	-	90,396	36,728	-	-	(408)	126,716
Financial investments measured at FVOCI	-	-	266,112	345,771	71,665	-	683,548
Financial investments measured at amortised cost	-	55,243	186,041	165,088	-	(1,265)	405,107
Loans, advances and financing	883,977	436,495	109,491	1,236,462	422,926	(34,521)	3,054,830
Derivative financial assets	220	1,385	4,237	892	-	-	6,734
Other assets	4,859	3,855	4,275	15	-	1,502	14,506
Statutory deposits with BNM	-	-	-	-	-	30,266	30,266
Total financial assets	1,470,974	587,374	606,884	1,748,228	494,591	(4,681)	4,903,370
Financial liabilities							
Deposits from customers	1,243,429	276,377	989,873	1	-	-	2,509,680
Deposits and placements with banks and other financial institutions	433,790	80,120	292,698	161,434	-	-	968,042
Derivative financial liabilities	332	973	4,188	892	-	-	6,385
Other liabilities	10,956	5,425	31,660	10,257	-	-	58,298
Provision for commitments and contingencies	-	-	-	-	-	2,885	2,885
Total financial liabilities	1,688,507	362,895	1,318,419	172,584	-	2,885	3,545,290
Net liquidity gap	(217,533)	224,479	(711,535)	1,575,644	494,591	(7,566)	

34. Financial Instruments *(continued)*

34.4 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
2022							
Financial assets							
Cash and short-term funds	215,775	-	-	-	-	(416)	215,359
Deposits and placements with banks and other financial institutions	-	85,175	39,267	-	-	(1,372)	123,070
Financial investments measured at FVOCI	-	-	153,735	477,435	171,638	-	802,808
Financial investments measured at amortised cost	-	-	75,155	350,224	-	(1,487)	423,892
Loans, advances and financing	622,151	585,997	298,252	452,383	511,323	(24,328)	2,445,778
Derivative financial assets	4,501	6,884	-	6,235	-	-	17,620
Other assets	5,922	6,391	3,679	-	-	1,471	17,463
Statutory deposits with BNM	-	-	-	-	-	33,093	33,093
Total financial assets	848,349	684,447	570,088	1,286,277	682,961	6,961	4,079,083
Financial liabilities							
Deposits from customers	1,323,225	163,369	803,854	2,120	-	-	2,292,568
Deposits and placements with banks and other financial institutions	317,548	116,120	6,589	-	-	-	440,257
Derivative financial liabilities	3,305	4,757	-	6,085	-	-	14,147
Other liabilities	6,824	6,430	22,235	6,560	-	-	42,049
Provision for commitments and contingencies	-	-	-	-	-	2,293	2,293
Total financial liabilities	1,650,902	290,676	832,678	14,765	-	2,293	2,791,314
Net liquidity gap	(802,553)	393,771	(262,590)	1,271,512	682,961	4,668	

34. Financial Instruments *(continued)*

34.4 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	> 5 years RM'000	Total RM'000
2023						
Non-derivative financial liabilities						
Deposits from customers	1,269,664	258,983	1,018,891	2	-	2,547,540
Deposits and placements with banks and other financial institutions	434,218	81,628	306,078	180,948	-	1,002,872
Other liabilities	6,793	382	17,282	10,257	-	34,714
	1,710,675	340,993	1,342,251	191,207	-	3,585,126
Commitments and contingencies						
Contingent liabilities	45,303	24,653	104,233	181,841	225	356,255
Commitments	220	4,333	281,177	16,724	-	302,454
	45,523	28,986	385,410	198,565	225	658,709

34. Financial Instruments *(continued)*

34.4 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	> 5 years RM'000	Total RM'000
2022						
Non-derivative financial liabilities						
Deposits from customers	1,326,164	165,607	818,402	2,162	-	2,312,335
Deposits and placements with banks and other financial institutions	318,080	117,896	6,752	-	-	442,728
Other liabilities	4,058	3,606	17,664	6,560	-	31,888
	1,648,302	287,109	842,818	8,722	-	2,786,951
Commitments and contingencies						
Contingent liabilities	21,770	34,716	108,079	53,572	7,547	225,684
Commitments	7,073	15,043	159,780	105,386	-	287,282
	28,843	49,759	267,859	158,958	7,547	512,966

34. Financial Instruments *(continued)*

34.4 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
2023			
Trading derivatives			
Foreign exchange contracts			
- Currency forwards and spots	146,876	251	196
- Currency swaps	159,988	1,354	1,109
Interest rate contracts			
- Cross currency interest rate swaps	87,774	4,237	4,188
- Interest rate swaps	200,000	892	892
	594,638	6,734	6,385

	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
2022			
Trading derivatives			
Foreign exchange contracts			
- Currency forwards and spots	617,844	8,700	5,377
- Currency swaps	202,813	2,685	2,685
Interest rate contracts			
- Cross currency interest rate swaps	150,140	4,244	4,094
- Interest rate swaps	200,000	1,991	1,991
	1,170,797	17,620	14,147

(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 a timely basis. The objective of market risk management is to manage and control the market risk exposures within an 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.

34. Financial Instruments *(continued)*

34.4 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 Malaysia Ringgit, 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, Singapore Dollars, Swiss Franc and Thai Baht.

2023	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	313,391	146,870	102,575	18,827	581,663
Deposits and placements with banks and other financial institutions	75,000	50,164	1,552	-	126,716
Financial investments measured at FVOCI	683,548	-	-	-	683,548
Financial investments measured at amortised cost	405,107	-	-	-	405,107
Loans, advances and financing	1,675,604	507,257	622,942	249,027	3,054,830
Derivative financial assets	5,390	-	1,344	-	6,734
Other assets	14,378	1,719	11	23	16,131
Statutory deposits with Bank Negara Malaysia	30,266	-	-	-	30,266
Tax recoverable	3,961	-	-	-	3,961
Property and equipment	3,351	-	-	-	3,351
Right-of-use assets	10,620	-	-	-	10,620
Intangible asset	-	-	-	-	-
Deferred tax assets	10,586	-	-	-	10,586
TOTAL ASSETS	3,231,202	706,010	728,424	267,877	4,933,513

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk (continued)

2023	Malaysia Ringgit RM'000	United States Dollar RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
LIABILITIES					
Deposits from customers	1,737,251	591,158	169,792	11,479	2,509,680
Deposits and placements of banks and other financial institutions	130,807	-	591,552	245,683	968,042
Derivative financial liabilities	893	5,333	159	-	6,385
Other liabilities	46,977	5,528	4,449	1,344	58,298
Lease liabilities	10,385	-	-	-	10,385
Provision for commitments and contingencies	2,348	468	35	34	2,885
Provision for taxation	215	-	-	-	215
TOTAL LIABILITIES	1,928,876	602,487	765,987	258,540	3,555,890

2022	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	158,203	42,832	7,793	6,531	215,359
Deposits and placements with banks and other financial institutions	-	114,340	-	8,730	123,070
Financial investments measured at FVOCI	802,808	-	-	-	802,808
Financial investments measured at amortised cost	423,892	-	-	-	423,892
Loans, advances and financing	1,619,829	451,976	297,140	76,833	2,445,778
Derivative financial assets	5,542	4,664	7,414	-	17,620
Other assets	15,584	3,027	3	23	18,637
Statutory deposits with Bank Negara Malaysia	33,093	-	-	-	33,093
Tax recoverable	1,819	-	-	-	1,819
Property and equipment	3,509	-	-	-	3,509
Right-of-use assets	5,770	-	-	-	5,770
Intangible asset	-	-	-	-	-
Deferred tax assets	10,051	-	-	-	10,051
TOTAL ASSETS	3,080,100	616,839	312,350	92,117	4,101,406

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Foreign exchange risk (continued)

2022	Malaysia Ringgit RM'000	United States Dollar RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
LIABILITIES					
Deposits from customers	1,616,098	445,681	217,509	13,280	2,292,568
Deposits and placements of banks and other financial institutions	229,051	26,352	107,564	77,290	440,257
Derivative financial liabilities	6,085	7,643	419	-	14,147
Other liabilities	40,368	812	841	28	42,049
Lease liabilities	5,687	-	-	-	5,687
Provision for commitments and contingencies	2,293	-	-	-	2,293
Provision for taxation	113	-	-	-	113
TOTAL LIABILITIES	1,899,695	480,488	326,333	90,598	2,797,114

34. Financial Instruments *(continued)*

34.4 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.

2023	**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	575,596	-	-	-	-	6,067	-	581,663
Deposits and placements with banks and other financial institutions	-	90,396	36,728	-	-	(408)	-	126,716
Financial investment measured at FVOCI	-	-	266,112	345,771	71,665	-	-	683,548
Financial investments measured at amortised cost	-	155,243	186,041	65,088	-	(1,265)	-	405,107
Loans, advances and financing:								
- performing	2,098,768	906,676	55,836	24,915	1,801	(33,166)	-	3,054,830
Other assets ^	-	-	-	-	-	51,506	-	51,506
Total assets	2,674,364	1,152,315	544,717	435,774	73,466	22,734	-	4,903,370
Liabilities								
Deposits from customers	668,703	276,378	989,872	574,727	-	-	-	2,509,680
Deposits and placements of banks and other financial institutions	595,719	80,120	130,769	161,434	-	-	-	968,042
Other liabilities *	-	-	-	-	-	67,568	-	67.568
Total liabilities	1,264,422	356,498	1,120,641	736,161	-	67,568	-	3,545,290
Equity	-	-	-	-	-	1,377,623	-	1,377,623
Total liabilities and equity	1,264,422	356,498	1,120,641	736,161	-	1,445,191	-	4,922,913
On-balance sheet interest sensitivity gap	1,409,942	795,817	(575,924)	(300,387)	73,466	(1,422,457)	-	
Total interest sensitivity gap	1,409,942	795,817	(575,924)	(300,387)	73,466	(1,422,457)	-	

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

2022	**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	200,274	-	-	-	-	15,085	-	215,359
Deposits and placements with banks and other financial institutions	-	85,175	39,267	-	-	(1,372)	-	123,070
Financial investment measured at FVOCI	-	-	153,735	477,435	171,638	-	-	802,808
Financial investments measured at amortised cost	-	100,000	75,155	250,224	-	(1,487)	-	423,892
Loans, advances and financing:								
- performing	1,293,990	895,722	271,789	5,833	1,493	(23,049)	-	2,445,778
Other assets ^	-	-	-	-	-	68,176	-	68,176
Total assets	1,494,264	1,080,897	539,946	733,492	173,131	57,353	-	4,079,083
Liabilities								
Deposits from customers	760,738	163,369	803,854	564,607	-	-	-	2,292,568
Deposits and placements of banks and other financial institutions	317,548	116,120	6,589	-	-	-	-	440,257
Other liabilities *	-	-	-	-	-	58,489	-	58,489
Total liabilities	1,078,286	279,489	810,443	564,607	-	58,489	-	2,791,314
Equity	-	-	-	-	-	1,304,292	-	1,304,292
Total liabilities and equity	1,078,286	279,489	810,443	564,607	-	1,362,781	-	4,095,606
On-balance sheet interest sensitivity gap	415,978	801,408	(270,497)	168,885	173,131	(1,305,428)	-	
Total interest sensitivity gap	415,978	801,408	(270,497)	168,885	173,131	(1,305,428)	-	

^ 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.

34. Financial Instruments *(continued)*

34.4 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 2023	17,984	(17,984)
At 31 December 2022	10,012	(10,012)

(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 2023	(16,556)	16,556
At 31 December 2022	(21,769)	21,769

* bps - basis points

(e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external event. This includes the risks that may result in disruption to operations (which should be mitigated by a business continuity plan), erosion of income and capital fund. Operational risk also includes legal risks, but excludes strategic and reputational risk.

Operational risk is embedded in all the Bank's business and management practices. Potential operational risks inherent in products, practices, procedures and information system should therefore be identified for effective management.

34. Financial Instruments *(continued)*

34.4 Financial risk management *(continued)*

(e) Operational risk *(continued)*

The Bank has established relevant internal policies, procedures and processes to control and mitigate material or potential operational risk. The Bank promotes risk ownership and adopts the following principle in management of operational risks, include but not limited to:

a) clear operational risk management strategy and objective;
b) clear roles and responsibilities of relevant parties;
c) comprehensive policies and procedures;
d) check and balance between front, middle and back offices;
e) develop and apply scientific tools or methodologies to prevent improper human manipulations;
f) implement effective control to achieve dynamic equilibrium in managing business and risk; and
g) promote enterprise-wide risk management culture to create awareness of risk culture among the staff of the Bank.

The Bank has also implemented "Three Lines of Defence" concept so as the Bank could carry out the management of operational risk effectively. Business Departments and Branches as the First Line of Defence are primarily responsible for operational risk management under respective scope of business functions. The Second Line of Defence which consists of functional departments, compliance and internal control, as well as risk management functions should take charge in managing pertinent operational risk of respective subject matter. The Internal Audit Department will be acting as the Third Line of Defence to conduct independent review and assessment on the effectiveness of the Bank's internal control environment and operational risk management.

35. Capital management

Regulatory capital

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

The Bank adopts a prudent 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, climate-related risk, compliance risk, legal 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 an 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 periodically 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 adverse movement of foreign exchange rate 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 expected credit loss allowance (excluding expected credit loss allowances attributable to financing classified as impaired) and regulatory reserve.