BANK OF CHINA (MALAYSIA) BERHAD
(Registration No.: 200001008645 (511251-V))
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 DECEMBER 2020

Registration No.: 200001008645 (511251-V)

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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BANK OF CHINA (MALAYSIA) BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and related financial services. The principal activity of the subsidiary is that of providing Chinese visa application services.

There were no significant changes in these activities during the financial year.

Other information relating to the subsidiary is disclosed in Note 14 to the financial statements.

RESULTS

	GROUP RM'000	BANK RM'000
Profit before taxation	109,441	122,526
Taxation	(29,094)	(28,843)
Net profit for the financial year	80,347	93,683

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial year end.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowances had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render it necessary to write-off any bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Bank had been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Group and 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 Group and of the Bank to meet their obligations when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and of the Bank, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

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DIRECTORS' REPORT (CONTINUED)

SUBSEQUENT EVENT AFTER THE BALANCE SHEET DATE

There were no material events subsequent to the reporting date that requires disclosure or adjustments to the financial statements.

DIRECTORS

The Directors of the Bank and the subsidiary in office since the beginning of the financial year to the date of this report are:

<u>The Bank</u>
Zhu Yanlai
Zhang Min
Chai Woon Chew
Eugene Khoo Kong Hooi
Dato' Low Kian Chuan

<u>The subsidiary</u>
Qiu Hengchang
Zhang Fengmei

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiary is a party, being arrangements with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other body corporate.

During and at the end of the financial year, none of the Directors of the Bank has received or become entitled to receive a benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by Directors, or the fixed salary of a full time employee of the Bank as disclosed in Note 28 of the financial statements and of related corporations) by reason of a contract made by the Bank or a related corporation with the Directors or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except certain Directors received remuneration from the Bank or related corporations in their capacities as executives of the Bank or those related corporations.

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, none of the Directors in office at the end of the financial year held any interest in shares of the Bank and its related corporations.

HOLDING COMPANIES

The immediate holding company of the Bank is Bank of China (Hong Kong) Limited ("BOCHK") which was incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited ("BOC Ltd") and the ultimate holding company is Central Huijin Investment Limited, both were incorporated in China.

BUSINESS REVIEW 2020

The Group registered profit before tax (“PBT”) of RM109.4 million, an increase from RM69.8 million of corresponding year. Higher PBT was contributed by the recovery and settlement from last year's identified impaired stage 3 borrowers of RM15.7 million with only few new borrowers classified as impaired this year, and lower operating expense by RM3.4 million. Such enhancement in expense management and asset credit quality offsetted the impact of the reduction in operating revenue.

Total assets stood at RM13.6 billion as at 31 December 2020, an increase of RM0.7 billion or 5.4% as compared to corresponding year. This was mainly attributable to the loan growth of RM0.9 billion or 11.9% which was well managed with a lower gross impaired loan ratio recorded, a reduction of 0.82% to 2.32%.

Total liabilities stood at RM11.9 billion as at 31 December 2020, an increase of RM0.6 billion or 5.2% as compared to corresponding year. This was attributable to the steady growth in customer deposits by RM0.2 billion and increase of RM0.4 billion in deposits and placements of banks and other financial institutions.

ECONOMIC OUTLOOK FOR 2021

Business environment continues to be challenging heading into 2021. Events such as the prolonged Covid-19 pandemic, continuous global trade tension, and commodity prices volatility, are inevitably predicaments on the route of business recovery comes 2021. These obstacles are expected to impact banking industry greatly as far as business growth and health of credit portfolio are concerned, especially to operate under such low interest rate environment where interest margin is to face greater pressure.

In spite of the challenges laying ahead, Malaysia is on course to reap benefit in increased bilateral and cross border trade from key regional economic integration initiatives such as “The Belt and Road Initiative” and Regional Comprehensive Economic Partnership (“RCEP”). This is coupled with the expected rebound in China economy and continued government stimulus fiscal measures at domestic front. All these developments skewed towards a positive Malaysia GDP growth forecast.

The positivity in the forecast however, remains contingent on development of effective Covid-19 pandemic containment measures and international trade instability. Amid these uncertainties and challenging macroeconomic environment, the Bank remains vigilant and prudent in conducting its business activities, to ensure a well managed business strategy in place.

BUSINESS PLAN 2021

The Group's objective is to achieve sustainable growth and robust development in 2021 to strengthen its role in providing quality banking services to be preferred banks for our customers. The Group actively responds and serves to market changes and needs, strengthening the core business development and products innovation, and investing in banking digitalization transformation to enhance digital capabilities, in order to create and foster a greater customer banking experience and relationship.

The Group will continue to increase its corporate customer coverage via strategic customer target identification and synergic regional integration with BOC Group global networks and other business partners. In addition, emphasis is also placed on tapping the potentials and opportunities in “The Belt and Road Initiative”, Regional Comprehensive Economic Partnership Agreement (“RCEP”) economic integration and other macroeconomic events or developments. The Group is also committed to promote sustainable and responsible financing, with focus in providing Environmental, Social and Governance (“ESG”) financing.

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DIRECTORS' REPORT (CONTINUED)

BUSINESS PLAN 2021 (CONTINUED)

The Group aims to increase the breadth and depth of participation in Malaysia and China's capital market. Meanwhile, to be the preferred bank for local Renminbi ("RMB") businesses, especially those involving RMB market making quotation, continues to be a key agenda for the Group heading into 2021. These ambitions are to be supported with enhancement of technological infrastructure solutions and automation, improvement in funds management and investment structure, strengthening the cooperation with local peers, provision of customized consultancy marketing, as well as enrichment of treasury products and solutions to enhance customer experience.

The strategic focus of Retail banking segment will be the betterment of customer services quality and enrichment in internet and mobile banking service functions. With movement restriction and awareness of physical contact reduction attributable to Covid-19, the digitalization of banking services has never become more crucial than before. Aside from digitalization efforts, the Group will continue its initiatives in introducing RMB products to its retail customer base. Retail asset growth of targeted segment will be another main agendas for the Group heading into 2021, without compromising the credit quality.

The Group intends to achieve a sustainable development amid the prospect ahead, with its commitment to operate efficiently and vigilantly. The discipline in expenses management remains as key focus of the Group. Investment will continue to drive operational automation, process simplification and internal controls enhancement to optimize the processes. Prudence in risk and compliance management will also be instrumental in ensuring the business development aligns with the Group's governance and risk appetite. Climate risk is to be incorporated into the Group's risk management framework to align the risk appetite with the Group's strategy.

The Group is confident that a strategic business implementation with strong functional supports will provide continuous performance improvement and business endurance during this challenging economy environment.

RATINGS BY EXTERNAL RATING AGENCY

RAM has assigned Bank of China (Malaysia) Berhad's Financial Institution Ratings at AA1 and P1, with stable outlook.

BANK OF CHINA (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES

Zhu Yanlai – Non-Independent Non-Executive Director and Chairman

Madam Zhu Yanlai, Chinese, aged 67, was appointed to the Board as a Non-Independent Non-Executive Director and Chairman on 1 October 2018.

Madam Zhu was graduated from the Renmin University of China with Bachelor's Degree and Master's Degree in Philosophy. She has also obtained a Master's Degree in Sociology from the University of Regina in Canada.

She started her career as a lecturer in Renmin University of China in 1987 and was the visiting scholar of York University, Canada in year 1990. She was a manager in Royal Bank of Canada in year 1995 and an Associate in Nesbitt Burns, Bank of Montreal Group in year 1996.

Madam Zhu joined Bank of China Group in April 1997 as Senior Manager, Credit & Business Development Department of Bank of China (Canada). She was the Assistant General Manager, Credit Management & Business Department of Bank of China Hong Kong and Macau Regional Office since 1999 before taken up the role as General Manager, Economic & Strategic Planning Department of Bank of China (Hong Kong) Limited ("BOCHK") in year 2001. In year 2010, she was appointed as Assistant Chief Executive in addition to her role as General Manager, Economic & Strategic Planning Department of BOCHK. She was then appointed as Deputy Chief Executive (Strategic Planning and Management) in year 2013 and as an advisor of BOCHK from year 2015 until September 2018.

Madam Zhu has no family relationship with any Director of the Bank.

Zhang Min – Executive Director/Chief Executive Officer

Mr. Zhang Min, Chinese, aged 56, was appointed as Executive Director/Chief Executive Officer ("CEO") on 15 January 2019.

Mr. Zhang was graduated from Wuhan University, China with Bachelor degree in International Finance. He also obtained a Master degree in Finance from Xiamen University, China, and a Doctorate degree in Population, Resources and Environmental Economics from the Yunnan University, China.

Mr. Zhang has more than 30 years of experience in the banking industry, holding various positions and experience in international settlement, corporate banking, retail banking, financial market, risk management and banking branch management. Since joining BOC Group in year 1988, Mr. Zhang has held various management positions in Bank of China, Yunnan Branch as well as overseas experience in Bank of China, Jakarta Branch and BOCHK.

Mr. Zhang has no family relationship with any Director of the Bank.

DIRECTORS' PROFILES (CONTINUED)

Chai Woon Chew – Independent Non-Executive Director

Mr. Chai Woon Chew, Malaysian, aged 63, was appointed to the Board on 10 December 2012. He holds a Bachelor of Law (Hons) degree from the University of Buckingham, United Kingdom, Bachelor of Science (Hons) degree in Chemistry from University of Surrey, United Kingdom. He was called to the bar of England and Wales as a Barrister-at-Law at Lincoln's Inn London, United Kingdom.

He was admitted to the Higher Court of Malaya as an Advocate and Solicitor. He is currently the chief executive partner of Messrs. Michael Chai & Co., a legal firm in Kuala Lumpur.

Mr. Chai is also actively involved in social work. Currently, he is the Deputy Secretary General I of the Association of Chinese Chambers of Commerce and Industry of Malaysia. He has also assumed important roles in other associations.

He was conferred both the K.M.N. and J.M.W. honours by Yang Dipertuan Agong for his contributions to the society.

Mr. Chai currently sits on the Board of KKB Engineering Berhad.

Mr. Chai has no family relationship with any Director of the Bank.

Eugene Khoo Kong Hooi – Independent Non-Executive Director

Mr. Eugene Khoo Kong Hooi, Malaysian, aged 55, was appointed to the Board on 9 January 2017. He holds a Bachelor of Economics degree from Monash University, Australia. He is a Chartered Banker and member of the Malaysian Institute of Accountants. He is also a member of the Chartered Accountants Australia and New Zealand.

Mr. Eugene Khoo was the Group Chief Executive Officer of Ayer Holdings Berhad from year 2016 to 2018. He has more than 20 years working experience in the banking and finance industry having worked in corporate and investment banking - covering various areas including mergers and acquisitions, corporate banking, corporate finance, debt capital markets, equity capital markets and relationship management. He has worked on transactions with clients from small to large corporations in various countries covering a broad range of industry sectors. He started his career with an international accounting firm in 1989 where he subsequently obtained his qualification as a Chartered Accountant in Australia.

He is a committee member of the Malaysian Mergers & Acquisitions Association ("MMAA"), a non-profit organisation which was set up to develop the mergers and acquisitions market in Malaysia. He was the President of MMAA from January 2015 to July 2019.

Mr. Eugene Khoo has no family relationship with any Director of the Bank.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Dato' Low Kian Chuan – Independent Non-Executive Director

Dato' Low Kian Chuan, Malaysian, aged 61, was appointed to the Board on 10 August 2017. He holds a Bachelor of Arts (Economics) and Advance Diploma in Business Administration from Wilfrid Laurier University, Canada. He also obtained the Advance Marketing Strategies certificate from University of California, Berkeley.

He is currently the Managing Director of Low Fatt Group of companies which is involved in the integrated wood based activities. He formed his own company to venture into downstream processing and held positions as Executive Chairman cum CEO of Low Fatt Wood Industries Sdn. Bhd. in 1986. In 1996, he formed a joint venture company, Low Fatt Timber Resources Sdn. Bhd. with German counterparty in producing double glazed window and door. In 2016, Dato' Low acquired Maicador Sdn Bhd, an established engineering door company.

Dato' Low was a board member of Pembangunan Sumber Manusia Berhad ("HRDF") from year 2001 to 2003 and from year 2009 to 2017 and SME Corporation Malaysia from year 2009 to 2015.

He is currently the Executive Chairman of Maicador Sdn. Bhd. and the Executive Director of Amar Gaya Sdn. Bhd. He is also the Executive Advisor of Malaysian Timber Association (MTA), Advisor of Malaysian Wood Industries Association (MWIA), Executive Adviser of Associated Chinese Chambers of Commerce and Industry of Malaysia, the Secretary General of National Chamber of Commerce and Industry Malaysia and a council member of Employment Insurance System.

Dato' Low has no family relationship with any Director of the Bank.

CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

Adherence to the highest standards of corporate governance continues to be the cornerstone of the Bank's corporate culture.

The Bank has also taken the necessary steps to ensure conformity with Bank Negara Malaysia's ("BNM") Policy Document on Corporate Governance ("BNM CG Policy Document") issued on 3 August 2016.

1. Roles and Responsibilities of the Board of Directors

The Board of Directors ("the Board") of the Bank plays a critical role in ensuring sound and prudent policies and practices of the Bank. The Board carries ultimate responsibility for the proper stewardship of the Bank, ensure maximisation of shareholder's value and safeguarding the stakeholder's interests. It needs to oversee the affairs, establishing, amongst others, the corporate values, vision and strategy that will direct the activities of the Bank. It also provides effective check and balance mechanism in the overall management of the Bank.

The major duties and responsibilities of the Board include:

(i) Strategy and Planning

Set and oversee the implementation of business and risk objective and strategies and in doing so shall have regard to the long term viability of the Bank and reasonable standards of fair dealing.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

1. Roles and Responsibilities of the Board of Directors (Continued)

(ii) Risk Management and Internal Controls

Ensure and oversee the effective design and implementation of sound internal controls, compliance and risk management systems commensurate with the nature, scale and complexity of the business and structure of the Bank. Assess and manage risk-taking activities to align with the Bank's capacity to absorb losses and the long-term business viability. Ensure requirements in BNM's Policy document on Risk Governance and Risk Management in Technology are at all times observed.

(iii) Disclosure of Information

Ensure reliable and transparent financial reporting process within the Bank. The Board is responsible to ensure the integrity and credibility of financial statement of the Bank.

(iv) Monitoring and Delegation of Authorities to Various Committees

The Board establishes and ensures the effective functioning of various board committees. Committee members are selected based on their expertise, interests and availability. Duties may be delegated to the board committees, however, the Board remains responsible for the decisions of the committees. The Board shall be regularly informed of each committee's activities, findings, conclusion and recommendations. The Board should review reports submitted by various committees, and provide guidance, when necessary.

(v) Supervision over Performance of Senior Management

Oversee the performance, remuneration, salary, bonus, transfer, retirement, reappointment, of senior management [which includes CEO, Deputy CEO, Assistant CEO, Chief Financial Officer, Chief Risk Officer ("CRO"), Chief Compliance Officer ("CCO") and Chief Internal Auditor ("CIA")]. The Board shall ensure the operations of the Bank are conducted prudently, and within the framework of the relevant laws and policies.

(vi) Communications with Shareholders/Stakeholders

Manage the Bank's business in accordance with the rules stipulated in the Constitution, relevant laws and regulations. Maintain an effective communication policy that enables both the Board and Management to communicate effectively with its shareholders, the stakeholders and the public either through disclosure or annual general meeting ("AGM"). Promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

2. Board Meetings and Supply of Information to the Board

The Board meets at least five (5) times a year to review the financial performance of the Bank and progress of the Bank’s business operations, approve strategies, business plans and significant policies as well as to consider business and other proposals which require the Board’s approval. Ad-hoc Board meetings may also be called to deliberate and assess corporate proposals or business issues that require the Board’s immediate consideration/decision.

The attendance of Directors at a Board meeting by way other than physical presence, remains the exception rather than norm and is subject to appropriate safeguards to preserve the confidentiality of deliberations.

Board’s approval for urgent matters may be obtained through written resolutions.

All Directors are supplied with information on a timely manner. The agenda for each Board meeting, together with detailed reports, proposal papers and supporting documents, are circulated to the Directors for their perusal well in advance of the Board meeting date to facilitate a meaningful deliberation of the Board. The Directors may request to be furnished with additional information or clarification. Relevant senior management officers are invited to attend Board meetings to provide the Board with detailed explanations and clarifications on proposals tabled to enable the Board to make an informed decision.

Minutes of Board meetings are circulated to all Directors for their perusal prior to confirmation of minutes at the following Board meeting.

The Directors have ready and unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The Company Secretary provides counsel to the Board on governance matters and facilitate effective information flows between the Board, the Board Committees and senior management. The Directors have the liberty to seek external professional advice if so required by them.

In respect of potential conflict of interest, the Board has established a Policy on Managing Conflict of Interest of Directors to address Directors’ actual and potential conflicts of interest. The Board is satisfied that there is no undue influence involved in all connected party transactions.

2. Board Meetings and Supply of Information to the Board (Continued)

Directors' attendance at the Board meetings held during the financial year ended 31 December 2020 is as reflected below:

Directors	Number of Meetings	
	Meetings attended/held	%
Zhu Yanlai (Chairman) Non-Independent Non-Executive Director	6/6	100
Zhang Min Executive Director	6/6	100
Chai Woon Chew Independent Non-Executive Director	5/5*	100
Eugene Khoo Kong Hooi Independent Non-Executive Director	6/6	100
Dato' Low Kian Chuan Independent Non-Executive Director	6/6	100

* Exclude a special meeting on connected party transaction.

3. Effectiveness of the Board of Directors

(a) Division of Responsibilities Between the Chairman and CEO

The roles of the Chairman and CEO are separated, which is consistent with the principles of corporate governance as set out in BNM's CG Policy Document to institute an appropriate balance of power and authority. The Chairman, in leading the Board, is responsible for the effective overall functioning of the Board.

In fulfilling this role, the Chairman:-

(i) ensures that appropriate procedures are in place to govern the Board's operation;

(ii) ensures that decisions are taken on a sound and well-informed basis, including by ensuring that all strategic and critical issues are considered by the Board, and that Directors receive the relevant information on a timely basis;

(iii) encourages healthy discussion and ensure that dissenting views can be freely expressed and discussed; and

(iv) leads efforts to address the Board's development needs.

3. Effectiveness of the Board of Directors (Continued)

(a) Division of Responsibilities Between the Chairman and CEO (Continued)

The CEO, in leading the senior management, bears primary responsibility over the development and execution of the Bank's corporate and business strategy, and is ultimately responsible for managing the Bank's day-to-day operations. He is also responsible for charting the future direction of the Bank for the Board's consideration and approval.

The Board considers and approves a set of expectations on the CEO. This subsequently acts as a yardstick against which his performance will be measured, evaluated and rewarded.

(b) Board Composition

The current Board comprises personnel with diverse experience with necessary skill and qualification. The Board comprises five (5) members, of whom three (3) are Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and one (1) Executive Director. The presence of a majority of Independent Non-Executive Directors provides effective check and balance in the functioning of the Board.

The three Independent Non-Executive Directors are free from any association or circumstances that may impair their exercise of independent judgement. They ensure a strong element of independence on the Board, both in thought and actions.

The profile of the Directors serving at the date of this report are set out on pages 6 to 8.

(c) Appointments and Re-election of Directors

The proposed appointment of new member(s) of the Board as well as the proposed re-appointment/re-election of directors at the AGM of the Bank, are assessed and recommended by the Board and approved by BOC Ltd and/or BOCHK before the application on the proposed appointment is submitted to BNM for approval. The selection criteria with regard to the desired candidate encompass the combination of competencies, the minimum qualifications specified by regulatory authorities and relevant experience.

The Board has a broad range of skills and credentials, each brings a high degree of independent judgement and knowledge to the Board's discussions. They are individuals of high calibre and comprise of directors who as a group provide a mixture of core competencies such as finance, accounting, legal and business management.

In accordance with the Constitution of the Bank, newly appointed Directors shall hold office only until the next AGM, and shall then be eligible for re-election. Additionally, one-third (1/3) of the Directors shall retire by rotation at each AGM. A retiring Director is eligible for re-election at the AGM.

3. Effectiveness of the Board of Directors (Continued)

(d) Directors’ Independence and Tenure

The Board Remuneration and Nomination Committee considers a strong element of independence on the Board vital for good corporate governance and it performs annual reviews of the independence of the Directors.

An Independent Non-Executive Director is defined as a Director who is independent of management 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.

Independent Non-Executive Directors of the Bank exercise independent judgement and participated in the deliberations of the Board objectively with no individual or small group of individuals dominating the Board’s decision making process. The number of Independent Non-Executive Directors on the Board of the Bank is in line with the requirement laid down in BNM’s CG Policy Document that the board must have a majority of independent directors at all times.

The Bank has adopted a 9-year policy for tenure of Independent Directors. The tenure limits for the Independent Directors of the Bank should generally not exceed nine (9) years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the Bank.

As at the date of this Statement, none of the Bank’s Directors has served for a cumulative period of more than 9 years.

(e) Directors’ Performance and Remuneration

The Board Remuneration and Nomination Committee will carry out assessment on the performance of the Board annually. The members of the Board will be assessed based on the specific criteria set as well as the performance assessment of the Bank as a whole. At the same time, an annual assessment of individual directors, Board as a whole and Board Committees will be carried out by the Bank.

The Board will recommend on the policies and framework in relation to rewards and benefits of Directors to the holding companies for approval.

The Independent Directors are paid directors’ fee with the shareholder’s approval at the AGM.

The appointment, remuneration package and benefits of the CEO will be assessed by the immediate holding company and the Board respectively based on the qualification, experience and achievement of targets set.

3. Effectiveness of the Board of Directors (Continued)

(f) Induction and Training

All newly appointed directors will receive in-house orientation and education programmes to assist them to familiarise with the industry and the Bank within three months of their appointments. The programmes will cover at a minimum the nature of business, the corporate strategy of the Bank, responsibilities and duties of the Board as a whole, an overview of the risks of the businesses, the risk management strategy of the Bank, legal requirements and financial overview of the Bank.

During the financial year, the Directors attended training programmes, conferences, forums, seminars and briefings organised by professional bodies and regulatory authorities as well as those conducted in-house, included the following:-

- BNM-FIDE FORUM Annual Dialogue with Governor of Bank Negara Malaysia
- AMLA 2001: Risk, Challenges, Governance & Transparency In Managing Business & Compliance
- Board's Leadership and Oversight Role on Environmental, Social and Governance (ESG)
- Anti-Bribery & Corruption Training 'Top Level Commitment'
- Masterclass Credit & Lending
- Digital Banking: Why Does it Matter?
- The Day after Tomorrow - Leadership Practices During a Time of Crisis
- Update on the Latest Statistics on the Pandemic, and the Economic Implications for Asia
- Covid-19 and Current Economic Reality: Implications for Financial Stability
- Navigating the Covid-19 Financial Crisis
- Critical Supply Chain (Medical Services/Food)
- Are Covid-19 Containment Efforts Working and is China Positioned to Lead an Economic Recovery
- Finding Gems in the Middle of a Global Lockdown, Looking Past the Turmoil by Maybank Premier
- The #NewNormal Amid Covid-19: Leverage on Regional Experiences
- Enhancing Yields through Fixed Income Funds in a Low Interest Rate Environment
- Navigating through Confusing Equity Markets - A Case for Absolute Return Strategy
- Covid-19 Impact to Real Estate Industry and Real Estate Investment after Covid-19
- 2nd Distinguished Board Leadership Series "Outthink The Competition: Excelling in a Post Covid-19 World"
- Technology Sector Update, How Covid-19 is Changing the Digital Landscape
- Governance in the New Norm
- How to Protect Your Portfolio in Times of Market Crisis
- The Future of Banking - Overcoming the Impacts of Covid-19
- E&Y Global GPS Covid-19 Client Roundtable Event
- Where Reason and Emotion Bid Against Each Other
- 3rd Board Leadership - Challenging Times: What Role Must the Board Play?
- Rebounding from Economic Recession to Economic Growth
- Digital Banks-Why Will They Matter
- After the Outbreak - Opportunities and Risks in a Post-Virus Asia
- Hari Iyer BDO - Digital Technologies
- Market Update and Small Caps Company Briefing
- E&Y Covid-19 Impact on Accounting Treatment
- E&Y Preserving Cash and Creation of Liquidity

3. Effectiveness of the Board of Directors (Continued)

(f) Induction and Training (continued)

During the financial year, the Directors attended training programmes, conferences, forums, seminars and briefings organised by professional bodies and regulatory authorities as well as those conducted in-house, included the following (continued):-

- Digital Banks - Malaysian Banks at a Crossroads
- The Day After Tomorrow - Creating Jobs Post Covid
- EY webcast - Spotlight on Family Enterprises (III): Gearing Up for Investment Opportunities
- Regulation and Governance in Digital Banking
- Sir Howard Davies - Risk and the Board at Time of Crisis
- Risks: A Fresh Look from the Board’s Perspective
- Digital Banking Technology
- Banking on Governance, Insuring Sustainability
- “Are There Still Opportunities in the Tech Sector? ~Outlook on a Post-Covid-19 Economy”
- The Impact of Covid-19 on Malaysia’s Digital Economy: Transforming Challenges into Opportunities
- FIDOR Digital Financial Institutions Series: Fidor’s Experience
- Fighting Fraud in a Global Pandemic
- Navigating through Volatile Equity Market
- Covid-19 Economic Recovery and US Political Landscape
- The Reopening of the Economy and US Elections
- Climate Action: The Board’s Leadership in Greening the Financial Sector
- Strategic Allocation to Innovation
- Green Fintech: Ping An's Use of Technology to Support Green Finance Objectives
- Investing in Crypto Assets
- Stakeholder Capitalism: A Vital Pandemic Agenda
- 2020 Market Review & Outlook
- Innovation and Opportunities in ESG Financing
- FIDE Core Programme
- SME’s Loan/Financing Repayment Assistance
- The Critical Importance of Digital Marketing, Social Media & Content Marketing in the New Normal Business Landscape
- Malaysia-China Business Forum: New Normal New Opportunities
- What New Business Opportunities can RCEP Bring to Your Company & Malaysia
- Forced Labour: The UK, USA and Australia Perspective

BANK OF CHINA (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES

The Board has established Board Audit Committee ("BAC"), Board Risk Management Committee ("BRMC") and Board Remuneration and Nomination Committee ("BRNC") to complement the Board in the execution of its responsibilities. Each Board Committees has its terms of reference which set forth the responsibilities, authorities and functions of that Committee, in line with BNM's CG Policy Document.

The broad functions of the Board Committees are as follows:

1. Board Audit Committee

   (a) Objective

   The objective of the BAC is to assist the Board in fulfilling its oversight responsibility for the Bank and its subsidiary relating to:-

   - the integrity of financial statements and the financial reporting process;
   - the systems of internal control;
   - the performance of internal audit functions and internal auditors;
   - the appointment of external auditors and the evaluation of the external auditors' qualifications, independence and performance;
   - the periodic review, where appropriate, and the annual audit of the Group's financial statements;
   - compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures; and
   - enhancing the corporate governance framework of the Group.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

1. Board Audit Committee (Continued)

(b) Membership and Attendance

The BAC comprises only Non-Executive Directors with at least three members. Majority of the members (including the Chairman) shall be Independent Directors with at least one member being an Independent Director shall possess appropriate professional qualifications or accounting or related financial management expertise.

The attendance of each member at the BAC meeting held during the financial year ended 31 December 2020 is as reflected below:

Members	**Number of Meetings**	
	Held	**Attended**
Eugene Khoo Kong Hooi (Chairman) (Independent Non-Executive Director)	5	5
Chai Woon Chew (Independent Non-Executive Director)	5	5
Dato' Low Kian Chuan (Independent Non-Executive Director)	5	5

(c) Roles and Responsibilities

The BAC is given full authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any Director or Executive Director to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The BAC should have full and unrestricted access to information and be able to obtain independent professional advice.

(d) Key Internal Control Processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

(i) The BAC reviews internal control issues identified by the Internal Audit Department, the external auditors, regulatory authorities, the auditors from the holding companies and the management, and evaluates the adequacy and effectiveness of the internal control systems. The minutes of the BAC meetings are tabled to the Board of the Bank on a periodic basis; and

(ii) The Internal Audit Department of the Bank monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. The frequency of the audit is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of the departments. The annual audit plan is reviewed and approved by the BAC and the findings of the audits are submitted to the BAC for review at their periodic meetings.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

2. Board Risk Management Committee (“BRMC”)

(a) Objective

The objective of the BRMC is to support the Board in meeting the expectations on risk management as set out in BNM’s Policy Document on Risk Governance and any relevant legal instruments, policy documents and guidelines issued by BNM. The BRMC assists the Board in overseeing the establishment of a robust risk management system and an effective framework to identify, monitor, control and report risk. The BRMC oversees the senior management’s activities in managing credit risk, market risk, technology risk, interest rate risk, liquidity risk, operational risk, legal and compliance risk, reputation risk, strategic risk, risk of money laundering and terrorist financing, outsourcing risk and other risks as well as to ensure that the integrated risk management function within the Bank are in place and effectively discharged.

(b) Membership and Attendance

The BRMC comprises Non-Executive Directors with at least three members and chaired by an Independent Non-Executive Director. The attendance of each member at the BRMC meetings held during the financial year ended 31 December 2020 is as reflected below:

Members	**Number of Meetings**	
	Meetings attended/held	**%**
Chai Woon Chew (Chairman) (Independent Non-Executive Director)	5/5	100
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	5/5	100
Zhu Yanlai (Non-Independent Non-Executive Director)	5/5	100

2. Board Risk Management Committee (Continued)

(c) Roles and Responsibilities

The BRMC shall be responsible, but are not limited, to the following:

(i) to provide oversight and governance of risk in line with regulatory requirements;

(ii) to oversee and advise the Board on high-level risk related matters. In order to fulfil the requirement, the BRMC shall oversee:-

- current and forward looking risk exposures; and
- Bank's risk appetite and future risk strategy, including capital and liquidity management strategy; and management of risk of the Bank.

(iii) to oversee the overall management of all risks covering, but not limited to credit risk management, market risk management, operational risk management, liquidity risk management, interest rate risk management, technology risk management, legal and compliance risk management, reputation risk management, strategic risk management, money laundering and terrorist financing risk management, and outsourcing risk management;

(iv) to ensure infrastructure, resources and systems are in place for risk management, ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Bank’s risk taking activities;

(v) to review management’s periodic reports on risk exposure, risk portfolio composition, risk management activities, compliance report and anti-money laundering and counter financing of terrorism (“AML/CFT”) reporting;

(vi) to advise the Board on risk appetite and tolerance in determining strategy. The BRMC has power delegated by the Board to set risk appetite, approve frameworks, policies and processes for managing risk and accept risks beyond the approval discretion provided to management;

(vii) to provide oversight on the development and implementation of the stress testing programme;

(viii) to review and assess adequacy of risk related policies and framework including internal capital adequacy assessment process (“ICAAP”) and Risk Appetite, Credit Risk, Operational Risk, Market Risk, Liquidity Risk and Compliance related policies and framework, in identifying, measuring, monitoring and controlling risk and to the extent to which these are operating effectively;

(ix) to oversee technology and cybersecurity related matters. Among other things, review the technology-related framework for the Board’s approval, and ensure that risk assessments undertaken in relation to material technology applications are robust and comprehensive;

(x) to provide effective oversight of senior management’s actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework;

BOARD COMMITTEES (CONTINUED)

2. Board Risk Management Committee (Continued)

(c) Roles and Responsibilities (Continued)

The BRMC shall be responsible, but are not limited, to the following (continued):

(xi) to review and recommend to the Board for approval on new products and ensure compliance with the prevailing guidelines issued by BNM and other regulatory bodies;

(xii) to approve the establishment of compliance function and the position of Chief Compliance Officer ("CCO");

(xiii) to recommend the appointment, remuneration and dismissal/termination of the Chief Risk Officer ("CRO")/CCO including their performance review to the Board for approval; and

(xiv) to undertake or consider on behalf of the Committee Chairman or the Board such other related tasks or topics as the Committee Chairman or Board may from time to time entrust to it.

3. Board Remuneration and Nomination Committee

(a) Objective

The objective of the BRNC is to support the Board in carrying out its functions of the appointment and removal of Directors and senior management; provide a formal and transparent procedure for the appointment and removal of Directors, senior management and company secretary as well as assessment of effectiveness of individual Directors, Board as a whole and performance of key senior management officers. In addition, the BRNC supports the Board in overseeing the design and operation of the remuneration system of the Bank; provides a formal and transparent procedure for developing remuneration policy for Directors, CEO, key senior management officers and material risk takers to ensure that remuneration is competitive and consistent with the business objectives, risk strategies, corporate values and long-term interests of the Bank.

(b) Membership and Attendance

The BRNC comprises only Non-Executive Directors with a minimum of three members. The attendance of each member at the BRNC meetings held during the financial year ended 31 December 2020 is as reflected below:

Members	**Number of Meetings**	
	Meetings attended/held	**%**
Dato' Low Kian Chuan (Chairman) (Independent Non-Executive Director)	5/5	100
Chai Woon Chew (Independent Non-Executive Director)	5/5	100
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	5/5	100

3. Board Remuneration and Nomination Committee (Continued)

(c) Roles and Responsibilities

(i) Nomination

- establishing the minimum requirements on the skills, knowledge, experience, qualifications and other core competencies of a Director and the CEO;

- assessing and recommending to the Board the nominees for appointment of Director, Board Committee member and CEO;

- assessing and recommending to the Board, the re-appointment of Directors/CEO upon expiry of their respective terms of appointment as approved by BNM;

- on an annual basis, reviewing the required mix of skills, experience and core competencies within the Board and make recommendations to the Board with regard to any changes;

- overseeing the overall composition of the Board, in terms of the appropriate size and skills, and the balance between Executive Director, Non-Executive Directors and Independent Directors through annual review;

- establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO. Annual assessment is conducted based on objective performance criteria. Such performance criteria is approved by the full Board;

- recommending to the Board the removal of a Director/CEO/key senior management officers from the Board or management if they are ineffective, errant or negligent in discharging their responsibilities;

- review the results of the Board's performance evaluation process;

- ensuring that all Directors receive appropriate continuous training programme in order to keep abreast with the latest developments in the industry;

- overseeing the appointment, management succession planning and performance evaluation of key senior management officers;

  for the avoidance of doubt, the appointment, remuneration, dismissal/termination and performance review of the CRO/CCO are to be recommended by BRMC and approved by the Board; and

- assessing on an annual basis, to ensure that the Directors and key senior management officers are not disqualified under Section 59(1) of the Financial Services Act 2013 ("FSA") and have complied with the fit and proper requirements in accordance with the Bank's Fit and Proper Policy for Key Responsible Persons.

3. Board Remuneration and Nomination Committee (Continued)

(c) Roles and Responsibilities (Continued)

(ii) Remuneration

- recommending to the Board a framework and developing a clear remuneration policy for Directors, CEO, Senior Management Officers and material risk takers for the full Board's approval. The remuneration framework supports the Bank's business objectives, risk strategies, corporate values and long-term interests, as well as reflects the responsibility and commitment which goes with Board membership and responsibilities of the CEO, Senior Management Officers and material risk takers;

- recommending to the Board appropriate remuneration package, which should be sufficient to attract and retain directors of caliber, and yet not excessive to the extent the Bank's funds are used to subsidise the excessive remuneration package. The framework covers all aspects of remuneration such as the remuneration and employment conditions of the industry including Director's fees, salaries, allowances, bonuses, share options, benefit-in-kind and termination benefits;

- recommending to the Board the appropriate level of remuneration packages for Non-Executive Directors and Independent Directors that is linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. The remuneration of each Board member may differ based on their level of expertise, knowledge and experience;

- recommending to the Board specific remuneration packages for the CEO, Senior Management Officers and material risk takers. The remuneration package is structured such that it is competitive and consistent with the Bank's business objectives, risk strategies, corporate values and long-term interests. Remuneration packages are drawn up in alignment with Parent Company's policies and guidelines to promote prudent risk-taking behavior and encourage individuals to act in the interests of the Bank as a whole. Remuneration and incentives are linked to contribution and level of accountabilities, to be adjusted symmetrical with all types of risk outcomes by weighing the time horizon of risks; and

- details of the remuneration (including benefits-in-kind) of the individual directors, CEO, Senior Management Officers and material risk takers are to be disclosed in Directors' Report section of the annual accounts according to the BNM's Corporate Governance Disclosures requirement.

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(d) Overview of Remuneration System

(i) The Remuneration System of Bank of China ("BOC") Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration with performance and risk factors closely. It serves to encourage staff to enhance their performance, and at the same time, to strengthen their awareness of risk so as to achieve sound remuneration management.

(ii) The Remuneration and Incentive Policy of the BOC Group is generally in line with the broad principles set out in the:

- Hong Kong Monetary Authority ("HKMA") "Guideline on a Sound Remuneration System" and applicable to the BOCHK and all of its subsidiaries (including the branches and institutions in and out of Hong Kong); and

- Principle 8 of BNM's CG Guidelines for Licensed Institutions on the requirement of "a formal and transparent procedure for fixing the remuneration packages of Board Members, CEO and Senior Management and the remuneration policies and practices should be in line with the Licensed Institution's ethical values, objectives and culture".

(iii) BOCHK Group Remuneration Policy sets out the components of remuneration; the governance and review mechanism for the remuneration of all employees of BOCHK Group including Bank of China (Malaysia) Berhad ("BOCM") which is a fully-owned subsidiary of BOCHK since 17 October 2016.

(e) Remuneration Governance

(i) The Bank's Senior Management Members are responsible for the oversight of remuneration arrangements for all the Bank's local and expatriate employees in Malaysia, ensuring that a competitive remuneration structure is in place to attract and retain talents, consistent with the Bank's culture, objectives and strategy.

(ii) As at 31 December 2020, the Senior Management Members of the Bank consist of one (1) CEO, three (3) Deputy CEO, one (1) Assistant CEO, one (1) Chief Risk Officer.

(f) Design and Structure of Remuneration Processes

(i) BOC Group has implemented a Remuneration Policy globally within the Group, which covers all local and expatriate employees in Malaysia. The Remuneration Policy of the Bank is founded upon the Group Remuneration System and customised to be in line with Malaysia local market practice and standard regulations. The Remuneration Policy sets out the components of remuneration, the governance and review mechanism for the remuneration of all employees of the Bank and incorporates risk management in the performance management process and job design.

3. Board Remuneration and Nomination Committee (Continued)

(f) Design and Structure of Remuneration Processes (Continued)

(ii) The objective of the Remuneration Policy is to align remuneration management with risk management whilst providing proper structured remuneration and compensation to attract, retain and motivate high quality people to lead, manage and serve the Bank in a competitive environment and in the best interests of all stakeholders.

(iii) The key features of the policy include the governance and review mechanism for remuneration mix of all employees of the Bank in line with the above mentioned objectives, and ensuring that remuneration is adjusted appropriately for the time horizon of risks undertaken.

(iv) For year 2020, BOCM has adopted the BOCHK Group's Variable Pay Deferral Policy for Senior Management Members and relevant staff categories of the Bank. The variable pay deferral ratio is set according to a matrix based on the total amount of variable pay and job grade. The deferred variable pay shall be vested one year after the grant date and over 3 years period.

(v) The Bank adopts BOCHK Group's Staff Performance Management' Policy for its staff performance management, whereby the relevant compliance and risk management key performance indicators are embedded according to staff's position. The KPI framework sets out from 4 dimensions, financial dimension, strategic focus, risk and internal control and people dimension. Employee performance assessment shall include the assessment of the demonstration of their corporate values in our efforts to uphold professionalism and utmost integrity.

(vi) The performance of Officers in risk and control functions is assessed based on their achievements and effectiveness in the performance of their job responsibilities in control functions. Their remuneration is set independent of the financial targets of businesses they oversee to ensure the effectiveness of their roles. There is no direct linkage of their remuneration with the business performance. Failure to detect, mitigate, control or manage risk however will have a direct bearing on their remuneration.

(vii) The Bank may from time to time seek remuneration advice from external consultants such as FIDE FORUM of which the Bank is a member on the remuneration of Directors. FIDE FORUM is a non-profit organisation and the only alumni association that represents the interests of Director of Financial Institutions in Malaysia.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(g) Accounting for Risk in Remuneration

(i) Staff covered by the Remuneration Policy are assessed in relation to relevant risks comprising asset and liability risks, credit risks, market risks, operational risks, reputation risk and, importantly compliance and regulatory risks.

(ii) In implementing remuneration measures, the key risk measures taken into account by the Bank include the following:

- Non-performing loan balance and ratio;
- Securities investment ratio and treasury portfolio limits;
- Compliance with applicable market risk, foreign exchange exposure, interest rate risk and liquidity limits;
- Internal control and operational risk management limits;
- Compliance with legal and regulatory requirements;
- Capital Adequacy and Risk Adjusted Return On Capital ("RAROC"); and
- Impacts to reputational risk.

(iii) Performance against key risk measures applicable to individual staff is reviewed and assessed annually. Any risk deficiencies or breaches of limits or regulatory requirements on the part of any employee of the Bank will have a direct bearing upon that employee’s remuneration and employment outcomes for the year under review.

(h) Linking Pay to Performance

(i) The remuneration package for all employees is composed of "fixed remuneration", "variable remuneration" and "benefit-in-kind".

(ii) Fixed remuneration, referred to as "base salary", is paid monthly and is a fixed amount which is reviewed annually with reference to various factors such as remuneration strategy, market pay trends and existing base salary levels. The fixed remuneration review budget is determined based on the affordability of the Group as well as the performance of the Bank, Business Units and individuals during the previous assessment year, factors which are measured in ‘Balance Score Card’ method adopted by the Bank.

(iii) Variable remuneration is also known as "short term incentives, annual bonus and long term incentives", which are determined annually in light of the Bank’s annual performance assessment result. The size of variable remuneration and incentive pool is calculated with reference to a pre-defined formula provided by BOC Group.

3. Board Remuneration and Nomination Committee (Continued)

(h) Linking Pay to Performance (Continued)

(iv) Benefit-in-kind refers to all non-cash perquisites applicable to individual employee. The Bank's staff benefits are structured according to staff category.

(v) The Remuneration and Incentive for expatriate staff are aligned to BOC Group's Expatriate Staff Remuneration Policy.

(vi) The performance metrics of the Bank comprise of financial targets, strategy execution, risk management & compliance and staff management. The size of variable remuneration and incentive pool is directly linked to the achievement of the Bank performance metrics. The determinant factors of the overall pool are linked to business performance and profit.

(vii) The performance of CEO is assessed based on achievement of organisation performance metrics, board and group assessment, strategy execution and employee satisfaction. The other Senior Management Members are assessed by CEO and the respective business functions at group level according to the achievement of targets set. Further input from BOCHK shall be taken into account in determining the level of performance.

(viii) Allocation of individual variable remuneration is closely linked to the performance of the Business Unit and the individual employee. Risk factors are fully considered at each level of assessment and related risk measures are clearly stated on all Balance Score Cards to inculcate prudent risk management behaviour.

(ix) Every effort is made to ensure the performance metrics are objective, reliable and measurable to achieve the desired outcome. Immeasurable and "weak" performance metrics are tweaked accordingly to prevent weak linkage of remuneration to performance. Demerit system is also in place as punitive measure for non-compliance incidences.

(i) Impact of Longer Term Performance on Remuneration

(i) In order to align variable remuneration with the Bank's long-term performance and risk controls, Senior Management Member's variable remuneration is partially deferred over a three-year period. Risk assessment factors in KPI framework appear as potential score reduction items. In the instance of zero breach of any risk control requirement, the total score will equate to zero and the employee's approved annual deferred variable remuneration amount will be paid out in full in the year of deferment.

(ii) Each year the deferred variable remuneration payout percentage depends on the deficiency ratio (reduced score over total score in the risk assessment section) of the individual's risk assessment factors. The lesser the deficiency ratio in the risk factor assessment, the higher the payout percentage of the deferred bonus of the assessment year.

(iii) Forfeiture of deferred variable remuneration payout or claw-back provisions of vested remuneration may apply where prior year failures, fraud, financial loss, breaches or non-compliances are detected subsequently. The quantum of forfeiture or claw-back depends on the magnitude of the incident.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(j) Forms of Variable Remuneration

(i) The Bank offers its employees a performance bonus as variable remuneration and it is calculated and paid out annually in accordance with the performance assessment result provided by BOC Group.

(ii) Majority of the employees' performance bonus is paid fully the following year. Senior Management Member's performance bonus is subjected to deferral, and shall adopt the threshold, deferral rate and vesting of referral as in BOCHK Group Variable Pay Deferral Policy.

(iii) Total amount of remuneration received by CEO and Directors during the financial year ended 31 December 2020 are as follows:

	Zhang Min	Chai Woon Chew	Eugene Khoo Kong Hooi	Dato' Low Kian Chuan
	RM'000	RM'000	RM'000	RM'000
Fixed Remuneration - Cash based (non-deferred)	2,930	135	135	115
Benefits-in-kind	46	-	-	-
TOTAL	2,976	135	135	115

(iv) Total amount of remuneration awards in respect of Senior Management for the financial year ended 31 December 2020 are as follows:

	Senior Management RM'000
Fixed Remuneration	
- Cash based (non-deferred)	7,431
- Number of officers entitled	7
Variable Remuneration	
- Cash based (non-deferred)	3,027
- Number of officers entitled	6
Variable Remuneration	
- Cash based (deferred)	793
- Number of officers entitled	6
Benefits-in-kind	46
Total	11,297

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(j) Forms of Variable Remuneration (Continued)

(v) Summary of deferred remuneration for Senior Management:

	Senior Management RM'000
Variable Remuneration - Cash based (deferred) - Number of officers entitled	 1,897 7
Variable Remuneration - Cash based (deferred vested) - Number of officers entitled	 932 6

There is no reduction value of outstanding deferred remuneration in the year 2020 due to ex-post explicit or implicit adjustments. All risk measurements are met and deficiency ratio is zero.

4. Board Information Technology Sub-Committee ("BITSC")

(a) Objective

In October 2020, the BITSC was established to assist BRMC to support the Board in discharging the responsibilities in overseeing technology and cybersecurity related matters, ensure risks assessments undertaken in relation to material technology applications are robust and comprehensive, and ensure management meets the expectations on technology and cyber security risk management as set out in BNM's policy document on Risk Management in Technology.

(b) Membership and Attendance

The BITSC comprises at least two directors and chaired by an Non-Executive Director. In the absence of the Chairman, the remaining members present shall elect one of themselves to chair the meeting. The attendance of each member at the BITSC meetings held during the financial year ended 31 December 2020 is as reflected below:

Members	**Number of Meetings**	
	Meetings attended/held	**%**
Chai Woon Chew (Chairman) (Independent Non-Executive Director)	2/2	100
Zhang Min (Executive Director)	2/2	100
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	2/2	100

BOARD COMMITTEES (CONTINUED)

4. Board Information Technology Sub-Committee (“BITSC”) (Continued)

 (c) Roles and Responsibilities

- to deliberate BOCM Group’s IT strategic plans, budgets, implementation and its adequacy.
- to deliberate strategic direction for IT development within the BOCM Group and ensuring that IT, digitalisation, and technology related innovation strategic plans are aligned and integrated with the BOCM Group’s business objectives and strategy.
- to deliberate and review IT planning and strategy, including the financial, strategic benefits, objectives and risk of the proposed significant IT related projects and initiatives.
- to deliberate on IT matters including IT risk assessment and security, and ensure effective implementation of a sound and robust technology risk management framework and cyber resilience framework.
- to oversee implementation and post implementation of IT related projects and initiatives.

5. Risk Management and Internal Control

The Board through the BRMC is ultimately responsible for evaluating and determining the nature and extent of risks that the Bank is willing to take in achieving its strategic objectives, and ensuring that the Bank establishes and maintains appropriate and effective risk management framework and internal control systems. They oversee Management in the design, implementation and monitoring of risk management framework and internal control systems, whereas Management is responsible for the day-to-day operations and risk management, and provide confirmation to the Board through various committees on the effectiveness of these systems. The Bank conducts regular review of the effectiveness of its risk management framework and internal control systems.

The Bank has established and implemented a comprehensive risk management framework through the establishment of the Three Lines of Defence Concept, risk taking units, risk control units and internal audit. The risk taking units undertake the day to day management of risks inherent in their business activities and ensure proper implementation and execution of its policy while the risk control units are responsible for the identification, measurement, monitoring and escalation of the risk. Internal audit compliments by providing independent assurance of the effectiveness of the risk management framework and independent review to ensure adequacy, effectiveness and robustness of the risk management policies. The key internal controls are summarised as follows:

(i) Establish a rational organisational structure with appropriate personnel is developed and whose responsibility, authority and accountability are clearly defined. The Bank has formulated policies and procedures to embed reasonable checks and balances for all operating units, safeguard the Bank’s assets and ensure adhere to relevant laws and regulations and risk management in its operations.

(ii) The Management formulates and continuously monitors the implementation of the Bank’s strategies, business plans and financial budgets. The accounting and management systems are in place to provide basis for evaluating financial and operational performance.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

5. Risk Management and Internal Control (Continued)

(iii) The Bank has set up mechanisms to identify, evaluate and manage all major risk and has established corresponding internal control procedures and processes for internal control. The policies and procedures cover major aspects of risks including Credit, Operational, Market, Legal, Compliance, Liquidity, Interest Rate, Reputation and Strategy. There are also procedures established for handling and dissemination of information.

(iv) The Bank has established information technology governance structure that produces reports for management. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Bank's operation and performance. Proper communication channels and reporting mechanisms are in place to facilitate imanagement of information.

(v) The Bank's internal audit conducts independent reviews on all of the Bank's key activities.

(vi) The Bank's internal audit follows up closely on the items that require attention and reports implementation status to the Management and the Board through BAC in a timely manner.

(vii) The BAC reviews the reports submitted by external auditors to Management in connection with the annual audit as well as the recommendations made by regulatory bodies on risk management and internal control. The Bank's internal audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to Management and BAC.

The Bank is committed to uphold good corporate governance practices and the internal control system is reviewed regularly. During the year of 2020, continuous improvements on the risk management policies and procedures have been undertaken by the Bank. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Bank has continuously undertaken on-going review on the effectiveness of the risk management framework and internal control mechanism.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board of Directors is assisted by the BAC to oversee the Bank's financial reporting process and the quality of its financial reporting, and present the Bank's financial performance and annual financial statements to BNM. A Statement of Responsibility by Directors in respect of preparing the annual audited financial statements of the Group and of the Bank is set out below in this report.

Internal Audit and Control

The Internal Audit reports functionally to the BAC of the Bank. Its function is independent of the activities or operations of other operating units of the Bank and its subsidiary.

The Internal Audit function undertakes regular reviews of the Group’s and of the Bank’s operations and the systems of internal control. Regular reviews are performed on the business processes to examine and evaluate the adequacy and efficiency of financial and operating controls. Significant risks and non-compliance impacting the Group and the Bank are highlighted and where applicable, recommendations are provided to improve on the effectiveness of risk management, internal control system and governance processes. Management follows through and reviews the status of actions on recommendations made by the internal auditors. Status of actions taken or to be taken by the management are submitted to the BAC for deliberation. Reviews by Internal Audit are carried out on units that are identified using risk-based approach taking into consideration input from the management, BAC and the Board of Directors.

The BAC meets on a scheduled basis to review issues identified in audit reports prepared by Internal Audit and further evaluates the effectiveness and adequacy of the Group’s and of the Bank’s internal control system. The BAC has active oversight on Internal Audit’s independence, scope of work and resources. It also reviews the Internal Audit function, the scope of the annual audit plan and frequency of the internal audit activities. The Head of Internal Auditor attends the BAC meetings to facilitate the deliberation of audit reports. The minutes of the BAC meetings are subsequently tabled to the Board of Directors for information.

Whistleblowing Policy

In order to safeguard the integrity of the Bank's operations, the Board establishes, reviews and together with Management implements policy and procedures on whistleblowing. The whistleblowing policy is published in the Bank's website.

A Board member has also been appointed and designated as the independent non-executive director responsible for the effective implementation of the whistleblowing policy and procedures.

Related Party Transactions

The details of personnels transactions with holding company, fellow subsidiaries, subsidiary, Directors and key management are set out under Note 32 to the financial statements.

Compliance with BNM’s Guidelines on Financial Reporting

In the preparation of the financial statements of the Group and of the Bank, the Directors have taken reasonable steps to ensure compliance in accordance with BNM's Guidelines on Financial Reporting.

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DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

Auditors' remuneration are disclosed in Note 27 to the financial statements.

In accordance with a resolution of the Board of Directors dated 30 April 2021.

EUGENE KHOO KONG HOOI
DIRECTOR

ZHANG MIN
DIRECTOR

Kuala Lumpur
30 April 2021

Registration No.: 200001008645 (511251-V)

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Eugene Khoo Kong Hooi and Zhang Min, being two of the Directors of Bank of China (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 38 to 136 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2020 and of their financial performance and cash flows for the financial year then ended.

In accordance with a resolution of the Board of Directors dated 30 April 2021.

EUGENE KHOO KONG HOOI DIRECTOR	ZHANG MIN DIRECTOR

Kuala Lumpur
30 April 2021

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016

I, Qiu Hengchang, being the officer primarily responsible for the financial management of Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 38 to 136 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

QIU HENGCHANG

Subscribed and solemnly declared by the abovenamed Qiu Hengchang at Kuala Lumpur on 30 April 2021, before me.

COMMISSIONER FOR OATHS

Independent auditors' report to the member of Bank of China (Malaysia) Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of China (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2020 of the Group and of the Bank, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 38 to 138.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") 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 Group and 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 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.

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.

Independent auditors' report to the member of
Bank of China (Malaysia) Berhad (Continued)
(Incorporated in Malaysia)

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 Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and 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 Group and 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 Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the directors are responsible for assessing the Group's and 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 Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and 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.

Independent auditors' report to the member of
Bank of China (Malaysia) Berhad (Continued)
(Incorporated in Malaysia)

Auditors' responsibilities for the audit of financial statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and 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 Group's and 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 Group's or 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 Group and 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 Group or the Bank to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditors' report to the member of
Bank of China (Malaysia) Berhad (Continued)
(Incorporated in Malaysia)

Other matters

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.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Lee Pei Yin
No. 03189/05/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
30 April 2021

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

		GROUP		BANK	
		2020	2019	2020	2019
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	2	2,965,675	2,381,504	2,965,223	2,370,512
Deposits and placements with banks and other financial institutions	3	100,145	1,089,510	100,145	1,089,510
Derivative financial assets	4	18,219	2,913	18,219	2,913
Debt instruments at fair value through other comprehensive income ("FVOCI")	5	1,435,343	897,817	1,435,343	897,817
Equity instruments at FVOCI	6	18,719	16,483	18,719	16,483
Equity instrument at fair value through profit and loss ("FVTPL")	7	-	1,486	-	1,486
Debt instruments at amortised cost	8	500,233	792,846	500,233	792,846
Loans and advances	9	8,403,416	7,487,408	8,403,416	7,487,408
Other assets	10	14,920	5,522	13,918	4,743
Right-of-use assets	11	33,794	29,947	31,627	26,607
Tax recoverable		15,457	24,611	14,106	24,611
Deferred tax assets	12	15,588	8,306	15,467	8,016
Statutory deposits with Bank Negara Malaysia	13	5,580	99,600	5,580	99,600
Investment in a subsidiary	14	-	-	1,000	1,000
Property and equipment	15	52,510	54,032	50,457	53,064
Intangible assets	16	2,040	1,376	2,040	1,376
TOTAL ASSETS		13,581,639	12,893,361	13,575,493	12,877,992
LIABILITIES AND EQUITY					
Deposits from customers	17	7,376,169	7,155,539	7,377,491	7,168,887
Deposits and placements of banks and other financial institutions	18	3,089,532	2,718,660	3,089,532	2,718,660
Derivative financial liabilities	4	18,337	2,877	18,337	2,877
Other liabilities	19	168,480	161,676	165,390	151,873
Provision for taxation		-	1,200	-	-
Subordinated loan	20	1,246,153	1,273,640	1,246,153	1,273,640
TOTAL LIABILITIES		11,898,671	11,313,592	11,896,903	11,315,937
Share capital	21	760,518	760,518	760,518	760,518
Reserves	22	922,450	819,251	918,072	801,537
TOTAL EQUITY		1,682,968	1,579,769	1,678,590	1,562,055
TOTAL LIABILITIES AND EQUITY		13,581,639	12,893,361	13,575,493	12,877,992
COMMITMENTS AND CONTINGENCIES	34	5,941,725	5,591,993	5,941,725	5,591,993

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

		GROUP		BANK	
		2020	2019	2020	2019
	Note	RM'000	RM'000	RM'000	RM'000
Operating revenue	23	462,220	619,126	468,685	602,943
Interest income	24	401,241	509,720	401,241	509,720
Interest expense	25	(194,280)	(293,277)	(194,280)	(293,277)
Net interest income		206,961	216,443	206,961	216,443
Other operating income	26	60,979	109,406	67,444	93,223
Other operating expenses	27	(146,213)	(149,608)	(139,603)	(141,502)
Operating profit before allowance		121,727	176,241	134,802	168,164
Allowance for impairment on loans and advances and other financial assets	29	(12,286)	(106,427)	(12,276)	(106,424)
Profit before taxation		109,441	69,814	122,526	61,740
Taxation	30	(29,094)	(20,871)	(28,843)	(15,061)
Profit for the financial year		80,347	48,943	93,683	46,679
Other comprehensive income:					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
- Net fair value changes in debt instruments at FVOCI, net of tax		22,852	4,346	22,852	4,346
Total comprehensive income for the financial year, net of tax		103,199	53,289	116,535	51,025
Earnings per share					
- Basic/fully diluted (sen)	31	10.56	6.44		

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BANK OF CHINA (MALAYSIA) BERHAD
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STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	← Non-distributable		→	Distributable	
GROUP	Share capital RM'000	Fair value through other comprehensive reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
As at 1 January 2020	760,518	12,539	33,607	773,105	1,579,769
Profit for the financial year	-	-	-	80,347	80,347
Other comprehensive income, net of tax	-	22,852	-	-	22,852
Total comprehensive income for the financial year, net of tax	-	22,852	-	80,347	103,199
Transfer from regulatory reserve to retained profits	-	-	(18,807)	18,807	-
As at 31 December 2020	760,518	35,391	14,800	872,259	1,682,968
1 January 2019	760,518	8,193	16,191	741,578	1,526,480
Profit for the financial year	-	-	-	48,943	48,943
Other comprehensive income, net of tax	-	4,346	-	-	4,346
Total comprehensive income for the financial year, net of tax	-	4,346	-	48,943	53,289
Transfer to regulatory reserve from retained profits	-	-	17,416	(17,416)	-
As at 31 December 2019	760,518	12,539	33,607	773,105	1,579,769

	← Non-distributable		→	Distributable	
BANK	Share capital RM'000	Fair value through other comprehensive reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
As at 1 January 2020	760,518	12,539	33,607	755,391	1,562,055
Profit for the financial year	-	-	-	93,683	93,683
Other comprehensive income, net of tax	-	22,852	-	-	22,852
Total comprehensive income for the financial year, net of tax	-	22,852	-	93,683	116,535
Transfer from regulatory reserve to retained profits	-	-	(18,807)	18,807	-
As at 31 December 2020	760,518	35,391	14,800	867,881	1,678,590
1 January 2019	760,518	8,193	16,191	726,128	1,511,030
Profit for the financial year	-	-	-	46,679	46,679
Other comprehensive income, net of tax	-	4,346	-	-	4,346
Total comprehensive income for the financial year, net of tax	-	4,346	-	46,679	51,025
Transfer to regulatory reserve from retained profits	-	-	17,416	(17,416)	-
As at 31 December 2019	760,518	12,539	33,607	755,391	1,562,055

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

		GROUP		BANK	
		2020	2019	2020	2019
	Note	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		109,441	69,814	122,526	61,740
Adjustments for:					
Depreciation of property and equipment	27	6,353	7,322	6,191	6,689
Depreciation of right-of-use assets	27	8,380	8,483	7,047	7,107
Amortisation of intangible assets	27	1,052	759	1,052	759
Amortisation of premium less accretion of discount	24	7,744	1,768	7,744	1,768
Allowance for impairment on loans and advances and other financial assets	29	12,250	108,708	12,240	108,705
Interest income from debt instruments at FVOCI	24	(46,921)	(22,504)	(46,921)	(22,504)
Interest income from debt instruments at amortised cost	24	(9,391)	(19,926)	(9,391)	(19,926)
Finance cost on lease liabilities	27	1,730	1,313	1,605	1,132
Interest expense on subordinated loan	25	16,367	35,461	16,367	35,461
Unrealised foreign exchange loss	26	5,420	44	5,420	44
Unrealised loss/(gain) on equity instrument at FVTPL	26	1,486	(367)	1,486	(367)
Net loss on revaluation of derivatives	26	154	191	154	191
Dividend income received from equity instruments at FVOCI	26	(60)	(60)	(60)	(60)
Dividend income from a subsidiary	26	-	-	(8,857)	(15,450)
Net gain on disposal of property and equipment	26	(3)	-	(6)	-
Property and equipment written-off	27	9	94	12	94
Operating profit before changes in operating assets and liabilities		114,011	191,100	116,609	165,383
(INCREASE)/DECREASE IN OPERATING ASSETS					
Deposits and placements with banks and other financial institutions		989,427	610,521	989,427	610,521
Loans and advances		(925,144)	(902,986)	(925,144)	(902,986)
Right-of-use assets		(12,227)	(38,430)	(12,067)	(33,714)
Other assets		(14,758)	(924)	(14,525)	(891)
Statutory deposits with Bank Negara Malaysia		94,020	(1,600)	94,020	(1,600)
		245,329	(142,319)	248,320	(163,287)

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

		GROUP		BANK	
		2020	2019	2020	2019
	Note	RM'000	RM'000	RM'000	RM'000
INCREASE/(DECREASE) IN OPERATING LIABILITIES					
Deposits from customers		220,630	(1,200,738)	208,604	(1,200,429)
Deposits and placements of banks and other financial institutions		370,872	764,428	370,872	764,428
Other liabilities		11,289	18,786	16,687	11,288
Subordinated loan		(23,560)	(12,171)	(23,560)	(12,171)
Cash generated from operating activities		824,560	(572,014)	820,923	(600,171)
Taxes paid		(35,638)	(33,228)	(33,005)	(28,102)
Net cash generated from/(used in) operating activities		788,922	(605,242)	787,918	(628,273)
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividend income received from equity instrument at FVOCI		60	60	60	60
Dividend income received from a subsidiary		-	-	8,857	15,450
Purchase of property and equipment	15	(6,556)	(1,471)	(5,312)	(891)
Proceeds from disposal of property and equipment		3	-	6	-
Purchase of intangible assets	16	-	(1,221)	-	(1,221)
Purchases of debt instruments at FVOCI		(698,660)	(739,040)	(698,660)	(739,040)
Proceeds from debt instruments at FVOCI		185,000	310,000	185,000	310,000
Purchases of debt instruments at amortised cost		(3,000,000)	(3,440,000)	(3,000,000)	(3,440,000)
Proceeds from debt instruments at amortised cost		3,290,000	3,300,000	3,290,000	3,300,000
Interest received on debt instruments at FVOCI		43,034	23,602	43,034	23,602
Interest received on debt instruments at amortised cost		12,005	22,470	12,005	22,470
Net cash used in investing activities		(175,114)	(525,600)	(165,010)	(509,570)

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

		GROUP		BANK	
		2020	2019	2020	2019
	Note	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of lease liabilities		(9,343)	(9,251)	(7,903)	(7,767)
Interest paid on subordinated loan		(20,294)	(36,953)	(20,294)	(36,953)
Net cash used in financing activities		(29,637)	(46,204)	(28,197)	(44,720)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		584,171	(1,177,046)	594,711	(1,182,563)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		2,381,504	3,558,550	2,370,512	3,553,075
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	2	2,965,675	2,381,504	2,965,223	2,370,512

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The following accounting policies had been applied consistently in dealing with items which are considered material in relation to the financial statements.

A BASIS OF PREPARATION

The summary statements of financial position and summary statements of changes in equity comply with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

The summary statements of financial position and summary statements of changes in equity of the Group and the Bank are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000").

The summary statements of financial position and summary statements of changes in equity should be read in conjunction with the audited annual financial statements of the Group and the Bank for the financial year ended 31 December 2020.

<u>Changes in accounting policies</u>

The accounting policies adopted are consistent with those of the previous financial years except as follows:

On 1 January 2020, the Group and the Bank adopted the following amendments to MFRS mandatory for annual financial periods beginning on or after 1 January 2020.

Description	**Effective for annual periods beginning on or after**
Amendments to MFRS 101 - *Presentation of Financial Statements* ("MFRS 101") and MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Error* ("MFRS 108") - *Definition of Material*	1 January 2020
Amendments to MFRS 3 *Business Combination* ("MFRS 3") - *Definition of a Business*	1 January 2020
Amendment to References to the Conceptual Framework for Financial Reporting	1 January 2020
Amendments to MFRS 7 *Financial Instruments:* Disclosure ("MFRS 7"), MFRS 9 *Financial Instruments* ("MFRS 9") and MFRS 139 *Financial Instruments: Recognition and Measurement* ("MFRS 139") - *Interest Rate Benchmark Reform Phase 1*	1 January 2020

The adoption of the above amendments to MFRS did not have any significant impact on the financial position or performance of the Group and of the Bank.

A BASIS OF PREPARATION (CONTINUED)

Standards and IC interpretation issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

Description	**Effective for annual periods beginning on or after**
Amendments to MFRS 16 *Covid-19 Related Rent Concession*	1 June 2020
Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 *Interest Rate Benchmark Reform Phase 2*	1 January 2021
Amendments to MFRS 3 *Business Combination ("*MFRS 3*") - Reference to the Conceptual Framework*	1 January 2022
Amendments to MFRS 116 *Property, Plant and Equipment* ("MFRS 116") - *Proceeds before Intended Use*	1 January 2022
Annual Improvement to MFRS Standards 2018-2020 Cycle	1 January 2022
Amendments to MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract*	1 January 2022
Amendments to MFRS 101 - *Presentation of Financial Statements ("*MFRS 101*") - Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to MFRS 10 and MFRS 128 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined by Malaysian Accounting Standards Board ("MASB")

The Group and the Bank plan to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Group and of the Bank upon their initial application.

A BASIS OF PREPARATION (CONTINUED)

Changes in regulatory requirement

Additional Measures to Assist Customers Affected by the Covid-19 Outbreak

On 25 March 2020, BNM had announced several regulatory and supervisory measures in support of customers experiencing temporary financial constraints due to the Covid-19 outbreak. The key measures affecting regulatory and accounting treatment and classifications are as follows:

a) Moratorium on repayment/payment of loans and advances

   i) Banking institutions will grant an automatic moratorium on all loans and advances repayments of principal and interest (except for credit card balances) by individuals and small-medium enterprise ("SME") customers for a period of 6 months from 1 April 2020. The automatic moratorium is applicable to loans and advances that are:

      - not in arrears exceeding 90 days as at 1 April 2020; and
      - denominated in Malaysian Ringgit.

b) For credit card facilities, banking institutions will offer the option to convert the outstanding balances into term loan of not more than 3 years.

c) For corporate customers, banking institutions encouraged to facilitate requests for a moratorium on loans and advances, to defer or restructure their loans and advances repayments in a way that will enable viable corporations to preserve jobs and resume economic activities when conditions improve.

d) Classification in the Central Credit Reference Information System ("CCRIS").

   For rescheduled and restructured ("R&R") individual, SME and corporate loans and advances with arrears not exceeding 90 days as at the date of application for repayment assistance and where application for repayment assistance is received on or before 30 June 2021, including a loans and advances that is restructured and rescheduled more than once, the following classification treatment in CCRIS shall apply:

   - The loans and advances need not be reported as R&R in CCRIS; and
   - The loans and advances need not be reported as credit-impaired in CCRIS.

e) Drawdown of prudential buffers

   Banking institutions are allowed with immediate effect to:

   - Drawdown the capital conservation buffer of 2.5%;
   - Operate below the minimum Liquidity Coverage Ratio ("LCR") of 100%;
   - Reduce the regulatory reserves held against expected losses to 0%; and
   - Minimum Net Stable Funding Ratio ("NSFR") which was effective on 1 July 2020 is lowered to 80% from 100%.

   However, banking institutions are required to rebuild the said buffers after 31 December 2020 and restore them to the minimum regulatory requirements by 30 September 2021. BNM will review this timeline if current expectations change materially. As at the reporting date, the Group and the Bank have not drawn down any of the prudential buffers.

B BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at the reporting date. The financial statements of the subsidiary used in the preparation of the consolidated financial statements is prepared using the same reporting date as the Bank. Consistent accounting policies are applied for transactions and events in similar circumstances.

The Bank controls an investee if and only if the Bank has all the following:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its investment with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting rights of an investee, the Bank considers the following in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power over the investee:

(i) The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

(ii) Potential voting rights held by the Bank, other vote holders or other parties;

(iii) Rights arising from other contractual arrangements; and

(iv) Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

A subsidiary is consolidated when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in a subsidiary that do not result in the Group losing control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. The resulting difference is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss.

B BASIS OF CONSOLIDATION (CONTINUED)

The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

In the Bank's separate financial statements, investment in a subsidiary is accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and the carrying amount is included in profit or loss.

<u>Business combinations</u>

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 *Financial Instruments,* is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for recognition and measurement of impairment loss on goodwill is set out in Note H below.

B BASIS OF CONSOLIDATION (CONTINUED)

Subsidiary

A subsidiary is an investee and entity over which the Group has control. A subsidiary is an entity over which the Group has control as defined:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its investment with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

C PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the property and equipment.

Depreciation of property and equipment, except for freehold land is calculated to write-down the costs of the property and equipment, or their revalued amounts, to their residual values on a straight line basis over their estimated useful lives as follows:

Computer equipment	2.5 to 3 years
Motor vehicles	6 years
Office equipment	5 to 7 years
Renovation	5 years
Buildings	30 to 35 years

Depreciation on work-in-progress commences when the assets are ready for their intended use.

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

At each reporting date, the Group and the Bank assess whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. See Note H in summary of significant accounting policies on impairment of non-financial assets.

Repairs and maintenance are charged to profit or loss during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

D INTANGIBLE ASSETS

Computer Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives of 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred.

E RIGHT-OF-USE ASSETS

The Group and the Bank recognise right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and lease term.

The Group and the Bank apply the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Group and the Bank also apply the lease of low-value assets recognition exemption to leases of assets that are considered of low-value. Lease payments on short-term leases and leases of low-value assets are recognised as expense when incurred.

F FINANCIAL ASSETS

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

(a) Recognition and initial measurement

Financial assets are classified, at initial recognition and subsequently measured at amortised cost, FVOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Bank had applied the practical expedient, the Group and the Bank initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

F FINANCIAL ASSETS (CONTINUED)

(a) Recognition and initial measurement (continued)

The Group's and the Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. This assessment is performed at a portfolio level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Bank commit to purchase or sell the asset.

(b) Subsequent measurements

For purposes of subsequent measurement, financial assets are classified in four categories:

i) Financial assets at amortised cost (debt instruments);
ii) Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments);
iii) Financial assets designated at FVOCI without recycling of cumulative gains and losses upon derecognition (equity instruments); and
iv) Financial assets at FVTPL.

(c) Classification

The Group and the Bank classify all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

(i) Debts instruments at amortised cost

The Group and the Bank measure financial assets at amortised cost if both of the following conditions are met:

a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

F FINANCIAL ASSETS (CONTINUED)

(c) Classification (Continued)

(ii) Debt instruments at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the statement of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the statement of comprehensive income and recognised in net realised gain/(loss) on financial instruments. Interest income from these financial assets are included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and impairment expenses are presented as separate line item in the statement of comprehensive income.

(iii) Equity instruments at FVOCI without recycling

Upon initial recognition, the Group and the Bank may elect to classify irrevocably an equity investments that is not held for trading at FVOCI. Such classification is determined on an instrument-by-instrument basis. When this election is used, fair value gain and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal.

Dividends are recognised as other income in the statement of comprehensive income when the right of payment has been established, except when the Group and the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group and the Bank elected to classify irrevocably its non-listed equity investments under this category.

(iv) Financial assets at FVTPL

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets may be designated at FVTPL when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- a group of financial assets is managed and its performance evaluated on a fair value basis; or
- the assets include embedded derivatives and such derivatives are required to be recognised separately.

F FINANCIAL ASSETS (CONTINUED)

(d) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group and Bank also derecognise the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group and Bank has transferred the financial asset if, and only if, either:

- transfer substantially all the risks and rewards of ownership, or
- neither transfer nor retain substantially all the risks and rewards of ownership and have not retained control.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

G IMPAIRMENT OF FINANCIAL ASSETS

The Group and the Bank recognise allowance for expected credit loss ("ECL") for all financial assets classified as debt instruments not held at FVTPL and FVOCI without recycling. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Bank expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there is a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For other assets, the Group and the Bank apply a simplified approach in calculating ECL. Therefore, the Group and the Bank do not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date.

The Group and the Bank consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group and the Bank may also consider a financial asset to be in default when internal or external information indicates that the Group and the Bank are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

H IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

The impairment loss is charged to statement of comprehensive income unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount, other than goodwill, is recognised in statement of comprehensive income unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

I CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash in hand, bank balances and deposit placements with original maturity of less than one month held for the purpose of meeting short-term commitments and are readily convertible into cash without significant risk of change in value.

J LEASE LIABILITIES

At the commencement date of the lease, the Group and the Bank recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Bank and payments of penalties for terminating the lease, if the lease term reflects the Group and the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group and the Bank use its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

K FINANCIAL LIABILITIES

A financial liability is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The Group's and the Bank's holding in financial liabilities are financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished. When an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statement of comprehensive income.

(a) Financial liabilities at FVTPL

Financial liabilities at FVTPL are financial liabilities held-for-trading. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial liabilities at FVTPL are initially recognised at fair value, and transaction costs are expensed in statement of comprehensive income. Financial liabilities at FVTPL or loss are subsequently stated at fair value, with any resultant gains or losses recognised in statement of comprehensive income.

(b) Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at FVTPL fall into this category. Financial liabilities measured at amortised cost are mainly deposits from banks or customers and bills and acceptances payable.

Bills and acceptance payable represent the Group's and the Bank's own bills and acceptances rediscounted and outstanding in the market.

Financial liabilities measured at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised costs using the effective interest method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised.

L SUBORDINATED LIABILITIES

Subordinated liabilities of the Group and the Bank are measured at amortised cost using the effective interest method, except for the portions which are fair value hedged, which are adjusted for the fair value gains or losses attributable to the hedged risks. Interest expense on subordinated liabilities of the Group and the Bank are recognised on an accrual basis.

M FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Group or the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the fair value of the guarantee obligation. No receivable for the future premiums is recognised.

The liability is initially measured at fair value and subsequently at the higher amount determined in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation in accordance with *MFRS 15 Revenue from Contracts with Customers*, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Group and the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

N PROVISIONS

Provisions, other than provisions for bad and doubtful debts, are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Where the Group and the Bank expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

O DIVIDENDS PAYABLE

Dividends on ordinary shares are recognised as liabilities when shareholder's right to receive the dividend is established.

P CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group and the Bank do not recognise a contingent liability but disclose its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and of the Bank. The Group and the Bank do not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

Q RECOGNITION OF INTEREST INCOME

Interest income is recognised on an accrual basis using the EIR method.

The EIR is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the EIR, as well as premiums or discounts.

When a loan and receivable is impaired, the Group and the Bank reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original EIR of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original EIR.

Interest income from securities portfolio is recognised on an accrual basis using the EIR method. The interest income includes coupons earned/accrued and accretion/amortisation of discount/premium on these securities.

Dividend income is recognised when the right to receive payment is established.

R RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Other income and any related costs are recognised on an accrual basis when the transactions have been carried out.

Dividends are recognised when the shareholders' right to receive payment is established. This applies even if they are paid out of the pre-acquisition profits. Dividend income received from a subsidiary and financial assets at FVOCI are recognised as dividend income in statement of comprehensive income.

S CURRENCY TRANSLATIONS

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group and the Bank operate (the "functional currency"). The financial statements of the Group and the Bank are presented in Ringgit Malaysia, which is also the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

T INCOME TAX

Current tax

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Bank operate and include all taxes based upon the taxable profits for the financial year.

Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences principally arising from depreciation of property and equipment, amortisation of intangible assets and provision for other liabilities.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

U EMPLOYEE BENEFITS

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Bank.

Post-employment benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions to the national pension scheme, the Employees' Provident Fund ("EPF") and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group's and the Bank's contributions to the defined contribution plan are charged to statement of comprehensive income in the period to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

V DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Bank are parties to derivative financial instruments that comprise foreign currency related contracts. These instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. If hedge accounting is applied, the Group and the Bank designate certain derivatives as either:

Fair value hedge

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss to offset the value change on the hedging instrument.

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are recorded in OCI and deferred in equity. The deferred gains or losses are released to profit or loss when the hedged cash flow items affect profit or loss. The ineffective part of any gain or loss is recognised in profit or loss immediately.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses accumulated in the equity are recycled to profit or loss when the foreign operation is partially disposed or sold.

Derivatives that do not qualify for hedge accounting

For derivative instruments that do not qualify for hedge accounting, their changes in the fair values are recognised immediately in statement of comprehensive income.

1. GENERAL INFORMATION

The principal activities of the Bank are commercial banking and related financial services. The principal activity of the subsidiary is that of providing Chinese visa application services.

The immediate holding company of the Bank is Bank of China (Hong Kong) Limited, which is incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited and the ultimate holding company is Central Huijin Investment Ltd, both incorporated in China.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office of the Bank is Second Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur.

2. CASH AND SHORT-TERM FUNDS

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	235,060	249,757	234,610	238,767
Cash in hand	23,339	24,928	23,337	24,926
Money at call and deposit placements with original maturity within one month	2,707,361	2,106,868	2,707,361	2,106,868
	2,965,760	2,381,553	2,965,308	2,370,561
Less: allowance for ECL	(85)	(49)	(85)	(49)
	2,965,675	2,381,504	2,965,223	2,370,512

Movements in allowance for impairment on cash and short-term funds:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Stage 1 (12-month ECL):		
As at 1 January	49	24
ECL allowance made during the financial year (Note 29)	36	25
As at 31 December	85	49

3. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Bank Negara Malaysia	100,145	-
Licensed banks	-	1,089,572
	100,145	1,089,572
Less: allowance for ECL	-	(62)
	100,145	1,089,510

Movements in allowance for impairment on Deposits and Placements with Banks and Other Financial Institutions:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Stage 1 (12-month ECL):		
As at 1 January	62	12
ECL (written-back)/allowance made during the financial year (Note 29)	(62)	50
As at 31 December	-	62

4. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments are used by the Group and the Bank for economic hedges and also transacted for proprietary trading purposes.

The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial assets) and gross negative (derivative financial liabilities) fair values at the reporting date are analysed below.

	GROUP AND BANK		
	Contract or underlying principal amount	Derivative financial assets	Derivative financial liabilities
	RM'000	RM'000	RM'000
31 December 2020			
Foreign exchange related contracts:			
- spots/forwards/swap	671,798	18,219	(18,337)
31 December 2019			
Foreign exchange related contracts:			
- spots/forwards/swap	468,783	2,913	(2,877)

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Money market instrument:		
Malaysian Government Securities ("MGS")	524,335	358,654
Malaysian Government Investment Issues	726,117	407,473
Unquoted securities		
Corporate bond	122,024	101,719
Foreign bond	63,064	30,060
Less: allowance for ECL	(197)	(89)
	184,891	131,690
	1,435,343	897,817

Included in debt instruments at FVOCI of the Group and the Bank are MGS of RM80 million as part of the Bank Statutory Reserve Requirement ("SRR") compliance effective 16 May 2020.

Movements in allowance for impairment on Corporate Bond

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Stage 1 (12-month ECL):		
As at 1 January	89	19
ECL allowance made during the financial year (Note 29)	108	70
As at 31 December	197	89

6. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
At fair value:		
Unquoted securities		
Shares of corporations in Malaysia	18,719	16,483
	18,719	16,483

7. EQUITY INSTRUMENT AT FAIR VALUE THROUGH PROFIT AND LOSS

	GROUP AND BANK	
	2020	2,019
	RM'000	RM'000
At fair value:		
Quoted securities		
Shares of corporation outside Malaysia	-	1,486
	-	1,486

8. DEBT INSTRUMENTS AT AMORTISED COST

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
At amortised cost:		
Money market instrument:		
Negotiable instruments of deposits	500,233	792,846
	500,233	792,846

9. LOANS AND ADVANCES

(i) By type:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Overdrafts	336,496	410,275
Term loans		
- Housing loans	445,808	362,399
- Syndicated term loans	3,671,806	3,512,566
- Other term loans	1,732,750	1,456,418
Bills receivables	314,185	130,466
Trust receipts	131	3,994
Claims on customers under acceptance credits	548,325	647,252
Revolving credits	1,561,928	1,171,218
Staff loans	1,829	2,122
Gross loans and advances	8,613,258	7,696,710
Less: Allowance for ECL	(209,842)	(209,302)
Total net loans and advances	8,403,416	7,487,408

(ii) By geographical distribution:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Malaysia	4,970,051	4,950,630
Other countries	3,643,207	2,746,080
Gross loans and advances	8,613,258	7,696,710

9. LOANS AND ADVANCES (CONTINUED)

(iii) By interest rate sensitivity:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Fixed rate		
- Other fixed rate loans	1,358,283	1,329,443
Variable rate		
- Base lending rate/base rate plus	1,519,266	1,575,013
- Cost of funds plus	5,192,412	4,327,544
- Other variable rates	543,297	464,710
Gross loans and advances	8,613,258	7,696,710

(iv) By economic sector:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Primary agriculture	327,757	388,628
Mining and quarrying	731,064	752,604
Manufacturing	1,544,849	1,381,043
Electricity, gas and water supply	645,348	91,200
Construction	464,616	521,060
Real estate	2,279,239	2,099,519
Wholesale and retail trade and restaurants and hotels	154,040	227,521
Transport, storage and communication	70,563	113,583
Finance, insurance and business services	1,291,909	1,014,484
Education, health and others	306,731	365,746
Household	797,142	741,322
Gross loans and advances	8,613,258	7,696,710

(v) By residual contractual maturity:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Maturing within one month	1,335,969	1,538,127
More than one month to three months	993,821	620,351
More than three months to six months	163,980	171,076
More than six months to twelve months	355,146	166,523
More than twelve months	5,764,342	5,200,633
Gross loans and advances	8,613,258	7,696,710

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9. LOANS AND ADVANCES (CONTINUED)

(vi) Changes in gross loans and advances carrying amount

GROUP AND BANK

	12-month ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 1 January 2020	6,155,452	1,299,280	241,978	7,696,710
Transferred to 12-month ECL (Stage 1)	601,965	(600,827)	(1,138)	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(93,490)	94,279	(789)	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(426)	(12,848)	13,274	-
Changes due to change in credit risk	(1,734,759)	(325,404)	(44,781)	(2,104,944)
New loans and advances originated	2,935,015	95,073	-	3,030,088
Amount written off	-	-	(8,596)	(8,596)
Gross carrying amount as at 31 December 2020	7,863,757	549,553	199,948	8,613,258
As at 1 January 2019	5,691,278	1,035,981	68,056	6,795,315
Transferred to 12-month ECL (Stage 1)	113,141	(113,141)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(399,093)	399,611	(518)	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(119,139)	(50,159)	169,298	-
Changes due to change in credit risk	(690,374)	24,999	4,128	(661,247)
New loans and advances originated	1,559,639	1,989	2,605	1,564,233
Amount written off	-	-	(1,591)	(1,591)
Gross carrying amount as at 31 December 2019	6,155,452	1,299,280	241,978	7,696,710

9. LOANS AND ADVANCES (CONTINUED)

(vii) Credit impaired loans and advances:

(a) Movements in credit impaired loans and advances:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
As at 1 January	241,978	68,056
Classified as credit impaired during the year	7,154	183,336
Reclassified as non-credit impaired during the year	(1,927)	(518)
Amount recovered	(38,661)	(7,305)
Amount written-off	(8,596)	(1,591)
As at 31 December	199,948	241,978
Less: Lifetime ECL (credit impaired) (Stage 3)	(97,975)	(121,823)
	101,973	120,155
Ratio of net impaired loans and advances to gross loans and advances less Lifetime ECL (credit impaired) (Stage 3)	1.198%	1.586%

(viii) Gross credit impaired loans and advances

(a) By geographical distribution:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Malaysia	176,899	218,502
Other countries	23,049	23,476
	199,948	241,978

(b) By economic sector:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Primary agriculture	9,809	21,678
Manufacturing	57,969	77,370
Electricity, gas and water supply	23,049	23,476
Construction	2,871	3,465
Wholesale and retail trade and restaurants and hotels	-	6,633
Education, health and others	75,522	75,704
Household	20,193	20,503
Real estate	10,535	13,149
	199,948	241,978

9. LOANS AND ADVANCES (CONTINUED)

(ix) Movements in allowance for impairment on loans and advances measured at amortised cost

GROUP AND BANK

	12-month ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 1 January 2020	20,427	67,052	121,823	209,302
Transferred to 12-month ECL (Stage 1)	31,153	(31,105)	(48)	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(591)	767	(176)	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(3)	(762)	765	-
New loans and advances originated	14,260	4,849	-	19,109
(Reversal)/allowance during the year	(1,433)	15,098	(4,064)	9,601
Full settlement	(1,063)	(6,782)	(11,729)	(19,574)
Amount written off	-	-	(8,596)	(8,596)
Allowance for ECL as at 31 December 2020	62,750	49,117	97,975	209,842
As at 1 January 2019	18,052	52,089	32,044	102,185
Transferred to 12-month ECL (Stage 1)	9,080	(9,080)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(1,505)	1,505	-	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(830)	(3,437)	4,267	-
New loans and advances originated	10,086	9,666	2,605	22,357
(Reversal)/allowance during the year	(10,107)	23,208	84,498	97,599
Full settlement	(4,349)	(6,899)	-	(11,248)
Amount written off	-	-	(1,591)	(1,591)
Allowance for ECL as at 31 December 2019	20,427	67,052	121,823	209,302

10. OTHER ASSETS

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Other receivables	11,145	2,577	10,620	2,206
Sundry deposits	2,845	2,782	2,436	2,373
Prepayments	1,072	350	988	345
Precious metal inventories	250	336	250	336
	15,312	6,045	14,294	5,260
Less: allowance for ECL	(392)	(523)	(376)	(517)
	14,920	5,522	13,918	4,743

Movements in allowance for impairment on other assets

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Stage 1 (12-month ECL):				
As at 1 January	523	128	517	119
ECL (written-back)/allowance made during the financial year (Note 29)	(60)	451	(70)	448
Amount written-off	(71)	(56)	(71)	(50)
As at 31 December	392	523	376	517

11. RIGHT-OF-USE ASSETS

Group	Premises	Motor vehicles	Total
COST	RM'000	RM'000	RM'000
As at 1 January 2020	36,251	632	36,883
Additions	110	-	110
Remeasurement of lease terms	10,711	-	10,711
Termination of lease contracts	-	(465)	(465)
As at 31 December 2020	47,072	167	47,239
ACCUMULATED DEPRECIATION			
As at 1 January 2020	6,663	273	6,936
Charge for the financial year	8,225	155	8,380
Remeasurement of lease terms	(1,592)	-	(1,592)
Termination of lease contracts	-	(279)	(279)
As at 31 December 2020	13,296	149	13,445
NET CARRYING AMOUNT	33,776	18	33,794

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11. RIGHT-OF-USE ASSETS (CONTINUED)

Group **COST**	Premises RM'000	Motor vehicles RM'000	Total RM'000
As at 31 December 2018	-	-	-
Effect of adopting MFRS 16	32,202	632	32,834
As at 1 January 2019	32,202	632	32,834
Additions	242	-	242
Remeasurement of lease terms	3,946	-	3,946
Termination of lease contracts	(139)	-	(139)
As at 31 December 2019	36,251	632	36,883
ACCUMULATED DEPRECIATION			
As at 1 January 2019	-	-	-
Charge for the financial year	8,210	273	8,483
Remeasurement of lease terms	(1,493)	-	(1,493)
Termination of lease contracts	(54)	-	(54)
As at 31 December 2019	6,663	273	6,936
NET CARRYING AMOUNT	29,588	359	29,947

Bank **COST**	Premises RM'000	Motor vehicles RM'000	Total RM'000
As at 1 January 2020	31,535	632	32,167
Additions	110	-	110
Remeasurement of lease terms	10,683	-	10,683
Termination of lease contracts	-	(465)	(465)
As at 31 December 2020	42,328	167	42,495
ACCUMULATED DEPRECIATION			
As at 1 January 2020	5,287	273	5,560
Charge for the financial year	6,892	155	7,047
Remeasurement of lease terms	(1,460)	-	(1,460)
Termination of lease contracts	-	(279)	(279)
As at 31 December 2020	10,719	149	10,868
NET CARRYING AMOUNT	31,609	18	31,627

11. RIGHT-OF-USE ASSETS (CONTINUED)

Bank	Premises	Motor vehicles	Total
COST	RM'000	RM'000	RM'000
As at 31 December 2018	-	-	-
Effect of adopting MFRS 16	27,486	632	28,118
As at 1 January 2019	27,486	632	28,118
Additions	242	-	242
Remeasurement of lease terms	3,946	-	3,946
Termination of lease contracts	(139)	-	(139)
As at 31 December 2019	31,535	632	32,167
ACCUMULATED DEPRECIATION			
As at 1 January 2019	-	-	-
Charge for the financial year	6,834	273	7,107
Remeasurement of lease terms	(1,493)	-	(1,493)
Termination of lease contracts	(54)	-	(54)
As at 31 December 2019	5,287	273	5,560
NET CARRYING AMOUNT	26,248	359	26,607

The following are the amounts recognised in profit or loss:

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Expense relating to short-term leases (included in establishment cost)	160	21	121	21
Expense relating to leases of low value assets (included in establishment cost)	45	34	32	22

12. DEFERRED TAX ASSETS

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
As at 1 January	8,306	17,233	8,016	16,959
Recognised in profit or loss (Note 30)	14,498	(7,554)	14,667	(7,570)
Recognised in other comprehensive income	(7,216)	(1,373)	(7,216)	(1,373)
As at 31 December	15,588	8,306	15,467	8,016

12. DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	26,415	13,058	26,294	12,768
Deferred tax liabilities	(10,827)	(4,752)	(10,827)	(4,752)
	15,588	8,306	15,467	8,016

The movement in deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets

	Accelerated capital allowances	Right-of-use assets	ECL	Provision for other liabilities	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
GROUP					
As at 1 January 2019	-	-	10,706	10,051	20,757
Recognised in profit or loss	108	109	(7,403)	(513)	(7,699)
As at 31 December 2019	108	109	3,303	9,538	13,058
Recognised in profit or loss	15	127	11,652	1,563	13,357
As at 31 December 2020	123	236	14,955	11,101	26,415

Deferred tax liabilities

	Fair value through other comprehensive reserve	Accelerated capital allowances	Unrealised forex gains/ losses	Total
	RM'000	RM'000	RM'000	RM'000
GROUP				
As at 1 January 2019	2,587	464	473	3,524
Recognised in profit or loss	-	(134)	(11)	(145)
Recognised in other comprehensive income	1,373	-	-	1,373
As at 31 December 2019	3,960	330	462	4,752
Recognised in profit or loss	-	160	(1,301)	(1,141)
Recognised in other comprehensive income	7,216	-	-	7,216
As at 31 December 2020	11,176	490	(839)	10,827

12. DEFERRED TAX ASSETS (CONTINUED)

The movement in deferred tax assets and liabilities during the financial year are as follows (continued):

Deferred tax assets

	Accelerated capital allowances	Right-of-use assets	ECL	Provision for other liabilities	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
BANK					
As at 1 January 2019	-	-	10,705	9,777	20,482
Recognised in profit or loss	93	91	(7,403)	(495)	(7,714)
As at 31 December 2019	93	91	3,302	9,282	12,768
Recognised in profit or loss	22	124	11,652	1,728	13,526
As at 31 December 2020	115	215	14,954	11,010	26,294

Deferred tax liabilities

	Fair value through other comprehensive reserve	Accelerated capital allowances	Unrealised forex gains/ losses	Total
	RM'000	RM'000	RM'000	RM'000
BANK				
As at 1 January 2019	2,587	463	473	3,523
Recognised in profit or loss	-	(133)	(11)	(144)
Recognised in other comprehensive income	1,373	-	-	1,373
As at 31 December 2019	3,960	330	462	4,752
Recognised in profit or loss	-	160	(1,301)	(1,141)
Recognised in other comprehensive income	7,216	-	-	7,216
As at 31 December 2020	11,176	490	(839)	10,827

12. DEFERRED TAX ASSETS (CONTINUED)

The amounts of net deferred tax assets, calculated at the current applicable tax rate, which are not recognised in the financial statements due to uncertainty of their realisation, are as follows:

	GROUP
	2020
	RM'000
Unutilised tax losses	1,138
Unabsorbed capital allowances	33

In the current financial year, the subsidiary reported unutilised tax losses which are available for offsetting future taxable profit for the next 7 consecutive years effective from year of assessment 2020. The unabsorbed capital allowance can be carried forward indefinitely to offset against future taxable profits made by the subsidiary.

However, these utilisation of carried forward tax losses and allowances are also subject to no substantial change in shareholdings of those entities under the Income Tax Act 1967 and guidelines issued by the tax authority.

13. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

With effective from 16 May 2020, the banks in Malaysia are allowed to use Malaysian Government Securities and Malaysian Government Investment Issues to fully meet the Statutory Reserve Requirement compliance. Such flexibility is available until 31 May 2021 and the Bank has utilised such flexibility as disclosed in Note 5.

14. INVESTMENT IN A SUBSIDIARY

	BANK	
	2020	2019
	RM'000	RM'000
Unquoted shares, at cost, in Malaysia	1,000	1,000

The subsidiary of the Bank is as follow:

Name	Principal activity	Percentage of equity held 2020 %	2019 %
China Bridge (Malaysia) Sdn. Bhd.	Chinese visa application services	100	100

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15. PROPERTY AND EQUIPMENT

GROUP **COST**	Computer equipment RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Renovations RM'000	Freehold land RM'000	Buildings RM'000	ATM machine RM'000	Work-in-progress RM'000	Total RM'000
As at 1 January 2020	10,325	4,009	10,748	18,902	14,000	26,375	3,060	3,129	90,548
Additions	2,999	-	468	-	-	-	-	3,089	6,556
Reclassify to intangible assets (Note 16)	-	-	-	-	-	-	-	(1,716)	(1,716)
Disposal	-	-	(17)	-	-	-	-	-	(17)
Write-offs	-	-	(76)	-	-	-	-	-	(76)
As at 31 December 2020	13,324	4,009	11,123	18,902	14,000	26,375	3,060	4,502	95,295
ACCUMULATED DEPRECIATION									
As at 1 January 2020	8,454	3,193	6,794	12,418	-	3,202	2,455	-	36,516
Charge for the financial year (Note 27)	1,492	303	1,290	2,133	-	788	347	-	6,353
Disposal	-	-	(10)	-	-	-	-	-	(10)
Write-offs	-	-	(74)	-	-	-	-	-	(74)
As at 31 December 2020	9,946	3,496	8,000	14,551	-	3,990	2,802	-	42,785
NET CARRYING AMOUNT	3,378	513	3,123	4,351	14,000	22,385	258	4,502	52,510

Included in the work-in-progress is projects relating to intangible assets amounting to RM1,399,000 (2019: RM1,106,000).

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15. PROPERTY AND EQUIPMENT (CONTINUED)

GROUP	Computer equipment	Motor vehicles	Office equipment and furniture	Renovations	Freehold land	Buildings	ATM machine	Work-in-progress	Total
COST	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2019	9,818	4,009	10,351	16,890	14,000	26,375	3,060	4,749	89,252
Additions	293	-	265	14	-	-	-	2,339	2,911
Reclassification/ Adjustments	244	-	187	1,998	-	-	-	(2,744)	(315)
Reclassify to intangible assets (Note 16)	-	-	-	-	-	-	-	(1,125)	(1,125)
Disposal	-	-	(3)	-	-	-	-	-	(3)
Write-offs	(30)	-	(52)	-	-	-	-	(90)	(172)
As at 31 December 2019	10,325	4,009	10,748	18,902	14,000	26,375	3,060	3,129	90,548
ACCUMULATED DEPRECIATION									
As at 1 January 2019	6,405	2,860	5,443	10,081	-	2,414	2,072	-	29,275
Charge for the financial year (Note 27)	2,078	333	1,403	2,337	-	788	383	-	7,322
Disposal	-	-	(3)	-	-	-	-	-	(3)
Write-offs	(29)	-	(49)	-	-	-	-	-	(78)
As at 31 December 2019	8,454	3,193	6,794	12,418	-	3,202	2,455	-	36,516
NET CARRYING AMOUNT	1,871	816	3,954	6,484	14,000	23,173	605	3,129	54,032

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15. PROPERTY AND EQUIPMENT (CONTINUED)

BANK	Computer equipment	Motor vehicles	Office equipment and furniture	Renovations	Freehold land	Buildings	ATM machine	Work-in-progress	Total
COST	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2020	9,750	4,008	9,526	16,630	14,000	26,375	2,989	2,577	85,855
Additions	2,999	-	468	-	-	-	-	1,845	5,312
Reclassify to intangible assets (Note 16)	-	-	-	-	-	-	-	(1,716)	(1,716)
Disposal	(4)	-	(74)	-	-	-	-	-	(78)
Write-offs	-	-	(71)	-	-	-	-	-	(71)
As at 31 December 2020	12,745	4,008	9,849	16,630	14,000	26,375	2,989	2,706	89,302
ACCUMULATED DEPRECIATION									
As at 1 January 2020	7,937	3,192	5,761	10,296	-	3,202	2,403	-	32,791
Charge for the financial year (Note 27)	1,457	303	1,238	2,075	-	788	330	-	6,191
Disposal	(4)	-	(64)	-	-	-	-	-	(68)
Write-offs	-	-	(69)	-	-	-	-	-	(69)
As at 31 December 2020	9,390	3,495	6,866	12,371	-	3,990	2,733	-	38,845
NET CARRYING AMOUNT	3,355	513	2,983	4,259	14,000	22,385	256	2,706	50,457

Included in the work-in-progress is projects relating to intangible assets amounting to RM1,399,000 (2019: RM1,106,000).

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15. PROPERTY AND EQUIPMENT (CONTINUED)

BANK	Computer equipment	Motor vehicles	Office equipment and furniture	Renovations	Freehold land	Buildings	ATM machine	Work-in-progress	Total
COST	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2019	9,245	4,008	9,155	14,618	14,000	26,375	2,989	4,749	85,139
Additions	291	-	239	14	-	-	-	1,787	2,331
Reclassification/ Adjustments	244	-	187	1,998	-	-	-	(2,744)	(315)
Reclassify to intangible assets (Note 16)	-	-	-	-	-	-	-	(1,125)	(1,125)
Disposal	-	-	(3)	-	-	-	-	-	(3)
Write-offs	(30)	-	(52)	-	-	-	-	(90)	(172)
As at 31 December 2019	9,750	4,008	9,526	16,630	14,000	26,375	2,989	2,577	85,855
ACCUMULATED DEPRECIATION									
As at 1 January 2019	5,931	2,859	4,555	8,381	-	2,414	2,043	-	26,183
Charge for the financial year (Note 27)	2,035	333	1,258	1,915	-	788	360	-	6,689
Disposal	-	-	(3)	-	-	-	-	-	(3)
Write-offs	(29)	-	(49)	-	-	-	-	-	(78)
As at 31 December 2019	7,937	3,192	5,761	10,296	-	3,202	2,403	-	32,791
NET CARRYING AMOUNT	1,813	816	3,765	6,334	14,000	23,173	586	2,577	53,064

16. INTANGIBLE ASSETS

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Computer software				
Cost:				
As at 1 January	3,492	2,271	3,489	2,268
Additions	-	96	-	96
Reclassify from property and equipment (Note 15)	1,716	1,125	1,716	1,125
As at 31 December	5,208	3,492	5,205	3,489
Accumulated amortisation:				
As at 1 January	2,116	1,357	2,113	1,354
Charge for the financial year (Note 27)	1,052	759	1,052	759
As at 31 December	3,168	2,116	3,165	2,113
Net book value	2,040	1,376	2,040	1,376

17. DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Demand deposits	1,865,648	2,330,275	1,866,970	2,343,623
Savings deposits	392,585	300,451	392,585	300,451
Fixed deposits	4,617,423	4,221,215	4,617,423	4,221,215
Negotiable instruments of deposits	500,513	303,598	500,513	303,598
	7,376,169	7,155,539	7,377,491	7,168,887

Details on balances with related parties are disclosed in Note 32(b).

17. DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customers

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Business enterprises	2,312,617	2,622,120	2,313,939	2,635,468
Individuals	3,288,062	3,266,465	3,288,062	3,266,465
Others	1,775,490	1,266,954	1,775,490	1,266,954
	7,376,169	7,155,539	7,377,491	7,168,887

(iii) The maturity structure of fixed deposits and negotiable instruments of deposits are as follows:

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Due within six months	3,795,179	3,522,523	3,795,179	3,522,523
Six months to one year	1,322,757	1,000,214	1,322,757	1,000,214
One year to three years	-	2,076	-	2,076
	5,117,936	4,524,813	5,117,936	4,524,813

18. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	GROUP AND BANK	
	2020 RM'000	2019 RM'000
Bank Negara Malaysia	15,415	43,382
Licensed banks	3,069,775	2,674,283
Licensed investment banks	3,261	148
Licensed Islamic banks	1,077	844
Other financial institutions	4	3
	3,089,532	2,718,660

19. OTHER LIABILITIES

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Accrued expenses	29,484	35,711	28,999	33,984
Margin deposits	46,386	36,517	46,386	36,517
Other liabilities	49,179	53,524	48,828	48,861
Lease liabilities	34,777	30,398	32,523	26,985
Allowance for ECL on commitments and contingencies	8,654	5,526	8,654	5,526
	168,480	161,676	165,390	151,873

The margin deposits include interest bearing deposits amounting to RM23,136,000 (2019: RM17,802,000) with a range of interest between 0.30% to 3.00% (2019: 0.30% to 3.00%), and the non-interest bearing deposits amounting to RM23,250,000 (2019: RM18,715,000).

Movements in allowance for impairment on commitment and contingencies:

GROUP AND BANK

	12-month ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 1 January 2020	2,831	2,695	-	5,526
Transferred to 12-month ECL (Stage 1)	2,169	(2,169)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(4)	4	-	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	-	(20)	20	-
New loans and advances originated	3,691	25	-	3,716
Reversal during the year	(215)	(288)	(20)	(523)
Full settlement	(48)	(17)	-	(65)
As at 31 December 2020	8,424	230	-	8,654

19. OTHER LIABILITIES (CONTINUED)

Movements in allowance for impairment on commitment and contingencies (continued):

GROUP AND BANK

	12-month ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 1 January 2019	4,446	1,601	3	6,050
Transferred to 12-month ECL (Stage 1)	831	(831)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(557)	557	-	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(3)	(2)	5	-
New loans and advances originated	2,013	348	-	2,361
(Reversal)/allowance during the year	(896)	1,415	(8)	511
Full settlement	(3,003)	(393)	-	(3,396)
As at 31 December 2019	2,831	2,695	-	5,526

The exposure at default of the commitments and contingencies are disclosed in Note 37 (b)(v).

20. SUBORDINATED LOAN

	GROUP AND BANK 2020 RM'000	2019 RM'000
At cost	1,254,725	1,254,725
Interest accrued	1,193	5,120
Foreign exchange difference	(9,765)	13,795
	1,246,153	1,273,640

On 26 July 2017, the Bank has issued an USD310 million subordinated loan (ten (10) years maturity, non-callable five (5) years) which bears interest rate equal to 0.30% plus 3-month USD LIBOR, payable 3 months in arrears.

The subordinated loan was approved by BNM for inclusion as Tier-2 capital of the Bank under BNM's capital adequacy regulations.

The tenure of the subordinated loan facility is the 10 years (non-callable five (5) years) from the drawdown date with interest payable in arrears, and is prepayable after five (5) years subject to BNM's approval and other conditions.

The subordinated loan constitutes a direct, unsecured and subordinated obligation of the Bank.

21. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2020	2019	2020	2019
	'000	'000	RM'000	RM'000
GROUP AND BANK				
Issued and fully paid:				
At beginning and end of the financial year	760,518	760,518	760,518	760,518

22. RESERVES

(a) Retained profits

The Bank may distribute dividends out of its entire retained profits as at 31 December 2020 under the single tier system.

(b) Regulatory reserve

The Bank must maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures in accordance with BNM's revised Financial Reporting Policy document issued on 27 September 2019.

For the current financial year, the Bank is allowed to reduce the regulatory reserve held against expected losses to 0% in accordance with the letter issued by BNM to financial institutions. As at the report date, the Bank maintains the loss allowance for non-credit impaired exposure and regulatory reserve at the minimum of 1%, with a transfer of RM18.8 million during the financial year from regulatory reserve to retained profits.

(c) Fair value through other comprehensive reserve

The fair reserve through other comprehensive reserve is in respect of unrealised fair value gains and losses on debt and equity instruments at FVOCI, net of tax.

23. OPERATING REVENUE

Operating revenue comprises interest income, gross fee and gross commission income, investment income, service charges and other income.

24. INTEREST INCOME

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Loans and advances		
- Interest income on non-credit impaired loans and advances	273,522	315,384
- Interest income on credit impaired loans and advances	5,715	5,932
Money at call and deposit placements with financial institutions	71,891	147,726
Debt instruments at FVOCI	46,921	22,504
Debt instruments at amortised cost	9,391	19,926
Other interest income	1,545	16
	408,985	511,488
Amortisation of premium less accretion of discount	(7,744)	(1,768)
	401,241	509,720

25. INTEREST EXPENSE

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	23,359	26,598
Deposits from customers	152,705	230,658
Subordinated loan	16,367	35,461
Others	1,849	560
	194,280	293,277

26. OTHER OPERATING INCOME

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Fee income:				
- Fee on loans and advances	12,121	17,237	12,121	17,237
- Service charges and fees	7,683	57,199	4,854	4,944
- Guarantee fees	16,074	14,608	16,074	14,608
	35,878	89,044	33,049	36,789
Fee expense:				
- Commission related expenses	(493)	(20,572)	-	-
Net fee income	35,385	68,472	33,049	36,789
Foreign exchange gain/(loss):				
- Realised	31,318	37,514	31,318	37,514
- Unrealised	(5,420)	(44)	(5,420)	(44)
Net loss on revaluation of derivatives	(154)	(191)	(154)	(191)
Unrealised (loss)/gain on equity instrument at FVTPL	(1,486)	367	(1,486)	367
Revenue from sale of precious metal products	136	570	136	570
Gain from derivative financial instrument	607	2,366	607	2,366
Dividend income:				
- Investment in a subsidiary	-	-	8,857	15,450
- Equity instruments at FVOCI	60	60	60	60
Net gain on disposal of property and equipment	3	-	6	-
Other income	530	292	471	342
	60,979	109,406	67,444	93,223

27. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Personnel expenses				
Salaries and wages (includes CEO/ED)	65,767	62,193	62,546	59,240
Bonuses	21,904	24,246	21,336	23,346
Defined contribution plan ("EPF")	10,758	10,483	10,462	10,100
Staff welfare expenses	2,526	2,919	2,327	2,621
Other personnel costs	8,179	8,094	8,027	7,821
	109,134	107,935	104,698	103,128
Marketing expenses				
Advertising, marketing and communication	1,046	1,227	1,044	1,218
Others	886	2,187	885	2,187
	1,932	3,414	1,929	3,405
Establishment costs				
Rental of premises	139	31	141	31
Depreciation of property and equipment (Note 15)	6,353	7,322	6,191	6,689
Depreciation of right-of-use assets (Note 11)	8,380	8,483	7,047	7,107
Amortisation of intangible assets (Note 16)	1,052	759	1,052	759
Finance cost on lease liabilities	1,730	1,313	1,605	1,132
Repairs and maintenance	785	1,145	780	1,133
Property and equipment written-off	9	94	12	94
Information technology expenses	3,342	3,818	3,331	3,806
Other establishment costs	2,563	2,516	2,548	2,462
	24,353	25,481	22,707	23,213
Administration and general expenses				
Insurance premium	1,469	1,330	1,461	1,322
Travelling and accommodation	541	2,640	485	2,498
Telecommunication and utilities	1,258	1,395	1,147	1,252
Printing, stationery and postage	1,330	1,472	1,246	1,159
Legal and professional fees	469	418	466	415
Other administration and general expenses	5,597	5,009	5,334	4,596
	10,664	12,264	10,139	11,242
Other expenses				
Cost of sales of precious metal products	130	514	130	514
	146,213	149,608	139,603	141,502

The above expenditure includes the following statutory disclosures:

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Auditors' remuneration				
- current year audit	218	223	187	179
- under/(over)provision in prior financial years	22	(16)	19	(16)
- regulatory-related services	431	291	431	291
- other services	71	116	59	105
Directors' remuneration (Note 28)	3,361	2,069	3,361	2,069

28. DIRECTORS' REMUNERATION

The details of remuneration received by Directors of the Bank during the financial year are as follows:

	GROUP AND BANK	
	2020	2019
	RM'000	RM'000
Executive Director		
- salary and other remuneration	2,930	1,643
- benefits-in-kind	46	42
	2,976	1,685
Non-Executive Directors		
Fees		
- Chai Woon Chew	135	135
- Eugene Khoo Kong Hooi	135	135
- Dato' Low Kian Chuan	115	114
	385	384
	3,361	2,069

The remuneration and benefits-in-kind attributable to the Executive Director/Chief Executive Officer of the Bank during the financial year amounted to RM2,975,467 (2019: RM1,685,245).

The number of Directors of the Bank whose total remuneration including benefits-in-kind for the financial year falls into the following remuneration bands:

	GROUP AND BANK Number of Directors	
	2020	2019
Executive Director		
RM1,500,001 - RM2,500,000	-	1
RM2,500,001 - RM3,000,000	1	-
Non-Executive Directors		
RM100,001 - RM150,000	3	3

29. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES AND OTHER FINANCIAL ASSETS

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Allowance/(write-back) for impairment on:				
Cash and short-term funds (Note 2)				
- Stage 1	36	25	36	25
Deposits and placements with banks and other financial institutions (Note 3)				
- Stage 1	(62)	50	(62)	50
Debt instruments at FVOCI (Note 5)				
- Stage 1	108	70	108	70
Other assets (Note 10)				
- Stage 1	(60)	451	(70)	448
Loans and advances				
- Stage 1	11,764	(4,370)	11,764	(4,370)
- Stage 2	13,165	25,975	13,165	25,975
- Stage 3	(15,793)	87,103	(15,793)	87,103
Commitments and contingencies				
- Stage 1	3,428	(1,886)	3,428	(1,886)
- Stage 2	(280)	1,370	(280)	1,370
- Stage 3	(20)	(8)	(20)	(8)
Credit impaired loans recovered during the financial year	-	(2,353)	-	(2,353)
	12,286	106,427	12,276	106,424

Included in the allowance for impairment on loans and advances and other financial assets is management ECL overlay of RM18.2 million.

30. TAXATION

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Tax expense for the financial year:				
- Malaysian income tax	41,111	21,000	41,111	15,300
- Foreign tax	8	21	5	-
- Under/(over)provision in prior financial years	2,473	(7,704)	2,394	(7,809)
	43,592	13,317	43,510	7,491
Deferred tax (Note 12):				
- Origination and reversal of temporary differences, net	(12,171)	(2,088)	(12,340)	(2,072)
- (Over)/underprovision in prior financial years	(2,327)	9,642	(2,327)	9,642
	(14,498)	7,554	(14,667)	7,570
Total tax expense	29,094	20,871	28,843	15,061

The explanation of the relationship between tax expense and profit before taxation is as follows:

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit before taxation	109,441	69,814	122,526	61,740
Statutory tax rate in Malaysia, 24% (2019: 24%)	26,266	16,755	29,406	14,818
Tax effects in respect of:				
- Non-allowable expenses	1,525	2,192	1,510	2,132
- Non-taxable income	(14)	(14)	(2,140)	(3,722)
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowance	1,171	-	-	-
(Over)/underprovision in prior years:				
- Income tax	2,473	(7,704)	2,394	(7,809)
- Deferred tax	(2,327)	9,642	(2,327)	9,642
Tax expense	29,094	20,871	28,843	15,061

Domestic income tax is calculated at the Malaysian statutory tax rate at 24% on the estimated profit for the financial year.

31. EARNINGS PER SHARE

The basic and fully diluted earnings per ordinary share for the Group have been calculated based on the net profit attributable to equity holder of the Group and weighted average number of ordinary shares in issue during the financial year.

	GROUP	
	2020	2019
	RM'000	RM'000
Net profit attributable to equity holder	80,347	48,943
Weighted average number of ordinary shares in issue	760,518	760,518
Basic/fully diluted earnings per share (sen)	10.56	6.44

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Parties are related to the Group and the Bank if the Group and the Bank have the ability directly or indirectly, to control the party or exercise significant influence over the party in making financial or operating decisions, or vice-versa, or where the Group and the Bank and the party are subject to common control or common significant influence.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group or of the Bank either directly or indirectly. The key management personnel includes the Directors and senior management of the Group and of the Bank.

Other than as disclosed in other notes of these financial statements, the following are the related party transactions and balances of the Group and the Bank.

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions

The following significant transactions between the Group and the Bank and related parties took place at terms agreed between parties during the financial year.

GROUP	Penultimate holding company RM'000	Immediate holding company RM'000	Key management personnel RM'000
2020			
INCOME			
Interest income:			
- Cash and short-term funds	67	574	-
- Deposits and placements with banks and other financial institutions	1,134	6,422	-
- Other	-	1,545	-
Fee income	7,313	866	-
	8,514	9,407	-
EXPENSES			
Interest expenses:			
- Deposits from customers	-	-	163
- Deposits and placements of banks and other financial institutions	6,640	11,533	-
- Subordinated loan	-	16,367	-
Establishment expenses	2,478	63	-
Administrative expenses	-	4	-
	9,118	27,967	163
2019			
INCOME			
Interest income:			
- Cash and short-term funds	102	846	-
- Deposits and placements with banks and other financial institutions	5,018	4,182	-
- Others	-	16	-
Fee income	-	3,070	-
	5,120	8,114	-
EXPENSES			
Interest expenses:			
- Deposits from customers	-	-	167
- Deposits and placements of banks and other financial institutions	12,238	45,126	-
- Subordinated loan	-	35,461	-
Personnel expenses	81	18	-
Establishment expenses	1,611	105	-
Administrative expenses	-	3	-
	13,930	80,713	167

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (Continued)

BANK	Penultimate holding company RM'000	Immediate holding company RM'000	Subsidiary RM'000	Key management personnel RM'000
2020				
INCOME				
Interest income:				
- Cash and short-term funds	67	574	-	-
- Deposits and placements with banks and other financial institutions	1,134	6,422	-	-
- Other	-	1,545	-	-
Fee income	7,313	866	-	-
Other operating income:				
- Dividend income	-	-	8,857	-
- Others	-	-	211	-
	8,514	9,407	9,068	-
EXPENSES				
Interest expenses:				
- Deposits from customers	-	-	-	162
- Deposits and placements of banks and other financial institutions	6,640	11,533	-	-
- Subordinated loan	-	16,367	-	-
Establishment expenses	2,478	63	-	-
Administrative expenses	-	4	-	-
	9,118	27,967	-	162
2019				
INCOME				
Interest income:				
- Cash and short-term funds	102	846	-	-
- Deposits and placements with banks and other financial institutions	5,018	4,182	-	-
- Others		16		
Fee income	-	3,070	-	-
Other operating income:				
- Dividend income	-	-	15,450	-
- Others	-	-	211	-
	5,120	8,114	15,661	-

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (Continued)

BANK 2019	Penultimate holding company RM'000	Immediate holding company RM'000	Subsidiary RM'000	Key management personnel RM'000
EXPENSES				
Interest expenses:				
- Deposits from customers	-	-	-	163
- Deposits and placements of banks and other financial institutions	12,238	45,126	-	-
- Subordinated loan	-	35,461	-	-
Personnel expenses	81	18	-	-
Establishment expenses	1,611	105	-	-
Administrative expenses	-	3	-	-
	13,930	80,713	-	163

(b) Related party balances

Significant outstanding balances of the Group and the Bank with its related parties are as follows:

GROUP 2020	Penultimate holding company RM'000	Immediate holding company RM'000	Key management personnel RM'000
AMOUNT DUE FROM			
Cash and short-term funds	25,035	234,489	-
	25,035	234,489	-
AMOUNT DUE TO			
Deposits from customers	-	-	15,013
Deposits and placements of banks and other financial institutions	457,884	2,073,395	-
Subordinated loan	-	1,246,153	-
Other liabilities	668	36	-
	458,552	3,319,584	15,013

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (Continued)

Significant outstanding balances of the Group and the Bank with its related parties are as follows (continued):

GROUP 2019	Penultimate holding company RM'000	Immediate holding company RM'000	Key management personnel RM'000
AMOUNT DUE FROM			
Cash and short-term funds	158,578	172,950	-
Deposits and placements with banks and other financial institutions	24,343	204,625	-
	182,921	377,575	-
AMOUNT DUE TO			
Deposits from customers	-	-	10,783
Deposits and placements of banks and other financial institutions	699,906	1,197,534	-
Subordinated loan	-	1,273,640	-
Other liabilities	479	107	-
	700,385	2,471,281	10,783

Included in the table above are deposits from the Directors of the Group RM6,569,000 (2019: RM3,829,000). Interest on deposit paid to Directors of the Group RM37,000 (2019: RM24,000).

BANK 2020	Penultimate holding company RM'000	Immediate holding company RM'000	Subsidiary RM'000	Key management personnel RM'000
AMOUNT DUE FROM				
Cash and short-term funds	25,035	234,489	-	-
Other assets	-	-	211	-
	25,035	234,489	211	-
AMOUNT DUE TO				
Deposits from customers	-	-	1,322	14,573
Deposits and placements of banks and other financial institutions	457,884	2,073,395	-	-
Subordinated loan	-	1,246,153	-	-
Other liabilities	668	36	-	-
	458,552	3,319,584	1,322	14,573

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (Continued)

Significant outstanding balances of the Group and the Bank with its related parties are as follows (continued):

BANK 2019	Penultimate holding company RM'000	Immediate holding company RM'000	Subsidiary RM'000	Key management personnel RM'000
AMOUNT DUE FROM				
Cash and short-term funds	158,578	172,950	-	-
Deposits and placements with banks and other financial institutions	24,343	204,625	-	-
	182,921	377,575	-	-
AMOUNT DUE TO				
Deposits from customers	-	-	13,348	10,401
Deposits and placements of banks and other financial institutions	699,906	1,197,534	-	-
Subordinated loan	-	1,273,640	-	-
Other liabilities	479	107	-	-
	700,385	2,471,281	13,348	10,401

Included in the table above are deposits from the Directors of the Bank RM3,267,000 (2019: RM1,938,000). Interest on deposit paid to Directors of the Bank RM20,000 (2019: RM21,000).

(c) Intercompany charges breakdown by geographical distribution:

i) By geographical distribution:

	GROUP AND BANK 2020 RM'000	GROUP AND BANK 2019 RM'000
Other countries	2,545	1,818

32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(d) Key management personnel compensation

The remuneration of Directors and other key management personnel during the financial year are as follows:

	GROUP		BANK	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Fees	385	384	385	384
Salaries and other short-term benefits	11,832	9,996	11,068	9,273
Defined contribution plan ("EPF")	373	413	373	413
Benefits-in-kind	78	77	46	44
	12,668	10,870	11,872	10,114

Included in the above table are Directors' remuneration as disclosed in Note 28.

33. CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

Connected parties refer to Directors, controlling shareholder, executive officers, officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions and any transactions that involve their close relative and any firm, partnerships, companies or any legal entities controlled by them.

Pursuant to BNM's Guidelines on Credit Transactions and Exposures with Connected Parties, the Bank is required to disclose the following information:

	GROUP AND BANK	
	2020 RM'000	2019 RM'000
Outstanding credit exposures with connected parties	1,288,181	1,401,496
Outstanding credit exposures with connected parties as a percentage of total credit exposures	12%	15%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	Nil	Nil

34. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies constitute the following:

	GROUP AND BANK					
	31 December 2020			31 December 2019		
	Principal RM'000	Credit* equivalent RM'000	Risk weighted RM'000	Principal RM'000	Credit* equivalent RM'000	Risk weighted RM'000
Direct credit substitutes	6,285	6,285	2,842	2,547	2,547	2,547
Transaction-related contingent items	2,154,624	1,077,312	558,390	2,383,135	1,191,568	614,304
Short-term self-liquidation trade related contingencies	272,719	54,544	52,728	55,595	11,119	9,578
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	2,517,649	503,530	377,460	2,111,915	422,383	345,813
- Maturity exceeding one year	318,650	159,325	140,747	569,998	284,999	264,533
Foreign exchange related contracts:						
- Less than one year	231,536	1,929	1,045	218,308	2,591	1,274
Interest/Profit rate related contracts:						
- Less than one year	122,889	11,565	2,358	-	-	-
- More than five year	317,373	22,984	18,784	250,475	16,913	13,156
Unutilised credit card lines	-	-	-	20	4	3
Total	5,941,725	1,837,474	1,154,354	5,591,993	1,932,124	1,251,208

*The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia Guidelines.

35. CAPITAL COMMITMENTS

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property and equipment approved by the Board and contracted for	357	3,332	247	3,332

36. CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and of the Bank are as follows:

The total capital and capital adequacy ratio of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components) Policy issued on 9 December 2020. The Framework sets the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which a financial institution is required to operate. The framework has been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision ("BCBS").

The Group and the Bank have adopted the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The capital buffers shall comprise of the following:

a) Capital Conservation Buffer ("CCB") of 2.5%; and
b) Countercyclical Capital Buffer ("CCyB"), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures. (intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive). (Maximum is 2.5%)

Notes: The Bank is allowed to draw down on the capital conservation buffer of 2.50% until 31 December 2020 and thereafter to restore the buffer to the minimum regulatory requirements by 30 September 2021.

The Bank has adopted BNM's transitional arrangements to add back a portion of the Stage 1 and Stage 2 provisions for ECL to Common Equity Tier 1 Capital over a four-year period from financial year beginning 2020. The transitional arrangements are consistent with the guidance issued by the Basel Committee of Banking Supervision on "Regulatory treatment of accounting provisions – interim approach and transitional arrangement" (March 2017) and "Measures to reflect the impact of Covid-19" dated April 2020.

The minimum regulatory capital adequacy ratios for year 2020 are as follows:

CET 1 Capital Ratio (including CCB and CCyB)	7.000% (7.000% in the year 2019)
Tier 1 Capital Ratio (including CCB and CCyB)	8.500% (8.500% in the year 2019)
Total Capital Ratio (including CCB and CCyB)	10.500% (10.500% in the year 2019)

36. CAPITAL ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and of the Bank are as follows (continued):

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Common Equity Tier 1 ("CET 1") Capital				
Paid-up ordinary share capital	760,518	760,518	760,518	760,518
Retained profits	872,259	773,105	867,881	755,391
Regulatory reserve	14,800	33,607	14,800	33,607
Fair value through other comprehensive reserve	35,391	12,539	35,391	12,539
	1,682,968	1,579,769	1,678,590	1,562,055
Regulatory adjustment applied in the calculation of CET 1 Capital				
- Deferred tax assets	(15,588)	(8,306)	(15,467)	(8,016)
- 55% of cumulative gains of debt instruments at FVOCI	(19,465)	(6,896)	(19,465)	(6,896)
- Regulatory reserve attributable to financial assets	(14,800)	(33,607)	(14,800)	(33,607)
- Transitional arrangements	27,466	-	27,456	-
	(22,387)	(48,809)	(22,276)	(48,519)
Total CET 1 Capital/Total Tier 1 Capital	1,660,581	1,530,960	1,656,314	1,513,536
Tier-2 Capital				
General provision *	108,529	105,347	108,523	105,253
Subordinated loan ^	1,244,960	1,268,520	1,244,960	1,268,520
Less: Investment in a subsidiary company	-	-	(1,000)	(1,000)
Total Tier-2 Capital	1,353,489	1,373,867	1,352,483	1,372,773
Total Capital Base	**3,014,070**	**2,904,827**	**3,008,797**	**2,886,309**

* General provision is subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach for credit risk.

^ Included in the subordinated loan is cost and foreign exchange difference as disclosed in Note 20.

36. CAPITAL ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and of the Bank are as follows (continued):

	GROUP		BANK	
	2020	2019	2020	2019
With transitional arrangements				
CET 1 Capital Ratio	17.413%	16.950%	17.448%	16.872%
Tier 1 Capital Ratio	17.413%	16.950%	17.448%	16.872%
Total Capital Ratio	31.606%	32.160%	31.695%	32.174%
Without transitional arrangements				
CET 1 Capital Ratio	17.125%	16.950%	17.158%	16.872%
Tier 1 Capital Ratio	17.125%	16.950%	17.158%	16.872%
Total Capital Ratio	31.353%	32.160%	31.441%	32.174%

(b) Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Credit risk	8,956,638	8,427,751	8,951,938	8,420,222
Market risk	6,021	5,047	6,021	5,047
Operational risk	573,786	599,522	535,135	545,542
	9,536,445	9,032,320	9,493,094	8,970,811

37. FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The objectives of the Group's and the Bank’s financial risk management are to establish an integrated risk management system which will help evaluate risk with reward and maximise income within an acceptable risk level through risk identification, measurement, monitoring and management.

The Board of Directors and the immediate holding company, Bank of China (Hong Kong) Limited approve the extent of the Group's and the Bank’s risk appetite in the pursuit of agreed business strategies and objectives. The Board of Directors also approves risk limits and regularly reviews major policies designed to control risk within the Group and the Bank.

(b) Credit risk

(i) Management ECL Overlays and adjustments for expected credit loss amid Covid-19 environment

As the current MFRS 9 models may not fully reflect the ECL impact arising from the unprecedented and on-going Covid-19 pandemic, management ECL overlays have been applied to determine a sufficient overall level of ECLs for the financial year ended 31 December 2020.

The management ECL overlays involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward-looking assessment for ECL estimation purposes. The management ECL overlays were made at borrower level, taking into consideration the borrowers' credit profile, latest financial status and long-term repayment capability.

The borrowers who have received repayment supports remain in their existing stages unless they have been individually identified as not viable or with subsequent indicators of significant increase in credit risk from each of their pre-Covid-19 status. The management ECL overlay approach incorporates both Probability of Default ("PD") and Loss Given Default ("LGD") dimensions, where impacted borrowers are subject to rating downgrade and higher haircuts on collateral values.

The impact of these management ECL overlays amounts to RM18.2 million recognised in the statement of comprehensive income for the financial year ended 31 December 2020 as disclosed in Note 29.

(ii) The table below shows the exposures to Covid-19 impacted sectors:

	Loans and advances					
	On-balance sheet		Undrawn (off-balance sheet)		Total exposures	
	2020	2019	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Retail trade, accommodation, food and beverage services/restaurants, real estates, oil and gas	3,171,816	2,945,512	556,682	971,400	3,728,498	3,916,912

37. FINANCIAL RISK MANAGEMENT

(b) Credit risk (continued)

(iii) The table below shows the Covid-19 customer relief and support measures:

	Retail customers as at 31 December 2020		
	Housing loans RM'000	Term loans/ Overdraft RM'000	Total RM'000
Resumed repayments*	289,505	175,800	465,305
Extended and repaying^	27,653	103,706	131,359
Missed payments#	9,354	8,245	17,599
Total gross outstanding for payment moratoriums, repayment assistances, rescheduling and restructuring ("R&R") granted	326,512	287,751	614,263
As a percentage of total:			
Resumed repayments*	88.67%	61.09%	75.75%
Extended and repaying^	8.47%	36.04%	21.38%
Missed payments#	2.86%	2.87%	2.87%

	Non-retail customers as at 31 December 2020				
	SMEs		Corporates		Total
	Stage 1 RM'000	Stage 2 RM'000	Stage 1 RM'000	Stage 2 RM'000	RM'000
Resumed repayments*	208,397	28,732	436,738	44,590	718,457
Extended and repaying^	64,717	99,008	284,176	29,891	477,792
Missed payments#	-	1,224	-	-	1,224
Total gross outstanding for payment moratoriums, repayment assistances, rescheduling and restructuring ("R&R") granted	273,114	128,964	720,914	74,481	1,197,473
As a percentage of total:					
Resumed repayments*	76.30%	22.28%	60.58%	59.87%	60.00%
Extended and repaying^	23.70%	76.77%	39.42%	40.13%	39.90%
Missed payments#	0.00%	0.95%	0.00%	0.00%	0.10%

* Retail and SME borrowers who opted-in for auto-moratorium between April to September 2020 based on the BNM announcement on the measures to assist customers affected by the Covid-19 and corporate borrowers are based on discretionary approval on case-by-case basis and resume repayment after the moratorium period.

^ The Bank has approved and facilitated the borrowers who have requested an extension of relief and support measures.

Borrowers with overdue payment as at 31 December 2020.

(iv) ECL models application

The Group and the Bank adopted general approach for ECL models for financial assets and simplified approach for other assets, with ECL is computed or measured based on the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate or an approximation thereof, after incorporating the components of PD, LGD and Exposure at Default ("EAD").

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) ECL models application (continued)

The details of these three components are as below:

- PD is an estimation of the likelihood of default over a given time horizon, either over the next 12 months, or over the remaining lifetime of the obligation.
- LGD is an estimation of loss the Group and the Bank will incur given the default of borrower. It is the difference between the exposure at the point of default and the cashflow that Group and the Bank are expected to receive, including from the realisation of any collateral, and discounted back to the point of default.
- EAD which includes on-balance sheet and off-balance sheet exposures, is an estimation of exposures at the point of a future default date, taking into account the expected changes in the exposures up to the point of future default including repayments, additional drawdown on committed facility, and additional headroom before default. EAD will be computed when commitment is recognised. For off-balance sheet exposure, the regulatory prescribed credit conversion factor ("CCF") is used.

The Bank's portfolio is segmented into two portfolios, i.e. Non-retail portfolio (inclusive Corporate and Financial Institution) and Retail portfolio.

The PD (retail portfolio) and LGD (both retail and non-retail portfolios) are proxied to peer banks and Parent Bank to perform benchmarking approach to derive MFRS 9 PD and LGD for respective portfolios. Each facility's expected lifetime and EAD are used for estimating the ECL.

The ECL estimation method adopted by the Bank is by stages and summarised as below:

- Stage 1: 12-month ECL is provided for performing financial assets on a collective basis.
- Stage 2: Lifetime ECL is provided for financial assets with significant increase in credit risk ("SICR") since its initial recognition on a collective basis. The Bank has estimated behavioural lifetime for revolving facilities such as Overdraft and Revolving Credit.
- Stage 3: Lifetime ECL is estimated on an individual basis using Discounted Cash Flow ("DCF") approach with post-haircut collateral value being applied as prudent measures.

Lifetime ECL is provided for other asset based on simplified approach.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) ECL models application (continued)

Forward-looking information

The Group and the Bank incorporated forward-looking factors in the ECL estimation by including the use of macroeconomic variables ("MEV") information. In view of the economic uncertainties caused by the Covid-19, the Bank has adopted a conservative outlook in the MEV projection. The forward-looking information also took into consideration various government schemes to revive the economy and financial assistance to support people and business affected by the pandemic. Overall, the impact of MEV adjustment amounts to RM27.9 million as at 31 December 2020.

For Corporate portfolio, the Group and the Bank estimated the ECL based on internal model and Malaysia MEV data. The model performance is monitored regularly to ensure the results are reflective of the underlying portfolio.

For Retail portfolio, the Group and the Bank proxied the MEV incorporated in the ECL models to those applied by BOCHK, the Parent Bank. The Group and the Bank substituted the proxied MEV with Malaysia's macroeconomic data. Management has consulted with Business Units to conclude that the proxied MEV are relevant to BOCM's loans and advances. A correlation analysis is applied to determine the correlation between Parent Bank's MEV and BOCM's MEV. The correlation analysis indicated the MEV between the two countries are correlated.

Amongst the MEV selected by the Group and the Bank are GDP, Unemployment Rate, House Price Index and Consumer Price Index; The forward-looking ECL projection is based on the probability weighted scenario of Good, Neutral and Downturn.

These MEV and their associated impacts on the PD, LGD and EAD vary by financial instruments. Hence, local's expert judgement is applied in this process.

Stage Determination

Stage determination is determined at borrower level and it is based on the worst stage amongst the facilities.

The Bank considers the PD upon initial recognition of the financial asset (Stage 1) and whether there has been a SICR (Stage 2) on an on-going basis throughout each reporting period since its recognition.

Financial asset is classified as impaired (Stage 3) when it meets the definition of default as below:

- where the principal or interest or both of the loan is past due for more than 90 days or 3 months. In the case of revolving facilities, (e.g. overdraft facilities), the facility shall be classified as impaired when the outstanding amount exceeds the approved limit for a period of more than 90 days or 3 months; or

- where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less and the loan exhibits weaknesses in accordance with Bank’s Credit Risk Measurement Framework that would render the account as impaired; or

- where repayments are scheduled on intervals of 3 months or longer, the loans and advances is classified as impaired as soon as a default occurs.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) ECL models application (continued)

SICR

The Group and the Bank determine the exposures of financial instruments to have significantly increased in credit risk when the financial instruments trigger the quantitative, qualitative or backstop criteria.

Exposures of financial instruments will be classified under Stage 2 based on the following criteria:

- exposures with days-past-due ("DPD") more than 30 days; or
- loan is classified as Special Mention account; or
- significant downgrade in credit risk rating since its recognition (applicable to corporate customers which are risk graded); or
- loans rescheduled and restructured by Agensi Kaunseling and Pengurusan Kredit ("AKPK"); or
- where a modification (restructured and rescheduled) is made to the original terms and conditions of an SME loan/financing to assist viable SMEs.

(v) Credit quality of financial assets

The table below shows credit quality of the Group's and the Bank's financial assets based on the following risk grades:

Risk Grades	Definition
Performing	Borrower is able to honour contracts and there is no reason to doubt that the loan principal and interest cannot be repaid fully and timely.
Special Mention	Borrower’s credit risk profile is weak, or 1 or more of the borrower loan account has been overdue for 8 to 90 days. Despite borrower is currently capable of repaying loan principal and interest, there are symptoms or factors that may have an adverse impact in the future repayment ability.
Sub-standard	Impaired loans in arrears for 91 to 180 days. Refer to credit facilities involve more than a normal risk of loss due to one or combination of factors namely rescheduling and restructuring of credit facility due to credit deterioration, sporadic delays in debt servicing, unfavourable financial condition, insufficient operating cashflow to meet current debt commitments, insufficient security or other adverse factors which give rise to some doubt on the ability of the borrower and guarantor to comply with the present and / or revised repayment terms.
Doubtful	Impaired loans in arrears for more than 180 days. Refer to credit facilities where full collection is improbable.
Bad	Refer to credit facilities which are deemed uncollectible and worthless.
Investment grade	BOCHK internal rating 4C and above.
Non-investment grade	BOCHK internal rating 4C and below.
Unrated	Indicates that the securities are not assigned or have been assigned with a rating by any credit rating agencies.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(v) Credit quality of financial assets (continued)

The table below shows the Group's and the Bank's gross loans and advances and their corresponding commitments and contingencies, based on the following risk grades (continued):

	GROUP AND BANK			
	2020			
Loans and Advances (On Balance Sheet Exposure)	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Pass	7,863,759	132,353	-	7,996,112
Special Mention	-	417,198	-	417,198
Sub-standard	-	-	91,073	91,073
Loss	-	-	108,875	108,875
	7,863,759	549,551	199,948	8,613,258

	GROUP AND BANK			
	2019			
Loans and Advances (On Balance Sheet Exposure)	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Pass	6,155,452	906,688	-	7,062,140
Special Mention	-	392,592	-	392,592
Sub-standard	-	-	94,245	94,245
Doubtful	-	-	50,175	50,175
Loss	-	-	97,558	97,558
	6,155,452	1,299,280	241,978	7,696,710

	GROUP AND BANK			
	2020			
Commitments and Contingencies	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Pass	1,788,849	2,258	-	1,791,107
Special Mention	-	9,797	-	9,797
Sub-standard	-	-	92	92
	1,788,849	12,055	92	1,800,996

	GROUP AND BANK			
	2019			
Commitments and Contingencies	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Pass	1,770,149	123,066	-	1,893,215
Special Mention	-	19,360	-	19,360
Sub-standard	-	-	45	45
	1,770,149	142,426	45	1,912,620

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(v) Credit quality of financial assets (continued)

The table below shows credit quality of the Group's and the Bank's other debt instruments (including short term fund, interbank lending and debt instrument), based on Investment Grade and Non-Investment Grade:

	GROUP 2020			
Other Debt Instruments	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment Grade	1,158,551	-	-	1,158,551
Non-investment Grade	61,704	-	-	61,704
Unrated	3,776,903	-	-	3,776,903
Total	4,997,158	-	-	4,997,158

	GROUP 2019			
Other Debt Instruments	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment Grade	2,459,782	-	-	2,459,782
Unrated	2,695,110	-	-	2,695,110
Total	5,154,892	-	-	5,154,892

	BANK 2020			
Other Debt Instruments	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment Grade	1,158,101	-	-	1,158,101
Non-investment Grade	61,704	-	-	61,704
Unrated	3,776,903	-	-	3,776,903
Total	4,996,708	-	-	4,996,708

	BANK 2019			
Other Debt Instruments	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment Grade	2,448,792	-	-	2,448,792
Unrated	2,695,110	-	-	2,695,110
Total	5,143,902	-	-	5,143,902

The table below shows credit quality of the Group's and the Bank's other assets, based on ageing matrix:

	GROUP		BANK	
Other Assets	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Aged more than 365 days	302	291	297	289
Aged between 181 - 365 days	147	461	138	458
Aged between 91 - 180 days	4	-	4	-
Aged 90 days or less	879	657	158	314
Total	1,332	1,409	597	1,061

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(vi) Maximum exposure to credit risk

For financial assets recognised in the statements of financial position, the maximum exposure to credit risk before taking account of any collateral held or credit enhancements equals their carrying amount in the statement of financial position. For financial guarantees and similar contract granted, it is the maximum amount that the Group and the Bank would have to pay if the guarantees were called upon. For credit related commitments and contingents that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

	GROUP		BANK	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Items recognised in the statements of financial position				
Cash and short-term funds (exclude cash in hand)	2,942,336	2,356,576	2,941,886	2,345,586
Deposits and placements with banks and other financial institutions	100,145	1,089,510	100,145	1,089,510
Debt instruments at FVOCI	1,435,343	897,817	1,435,343	897,817
Equity instruments at FVOCI	18,719	16,483	18,719	16,483
Equity instrument at FVTPL	-	1,486	-	1,486
Debt instruments at amortised cost	500,233	792,846	500,233	792,846
Loans and advances	8,403,416	7,487,408	8,403,416	7,487,408
Other assets	4,636	4,004	3,718	3,231
Statutory deposits with Bank Negara Malaysia	5,580	99,600	5,580	99,600
Derivative financial assets	18,219	2,913	18,219	2,913
	13,428,627	12,748,643	13,427,259	12,736,880
Items not recognised in the statements of financial position				
Contingent liabilities	2,433,628	2,441,277	2,433,628	2,441,277
Credit commitments	2,836,299	2,681,933	2,836,299	2,681,933
Foreign exchange related contracts	231,536	218,308	231,536	218,308
Interest/Profit rate related contracts	440,262	250,475	440,262	250,475
Total maximum credit risk exposure	19,370,352	18,340,636	19,368,984	18,328,873

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans and advances for the Group and Bank is 37% (2019: 41%). The financial effect of collateral held for the other financial assets are insignificant.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(vii) Collateral

The Group and the Bank grant credit facilities based on the credit standing of the customer, legitimate loan purpose, source of repayment, debt servicing ability, collateral(s), guarantees and etc. as the credit risk mitigant(s) ("CRM"). The credit facilities may be granted unsecured premised on the merit of the customer's credibility.

The main types of collateral obtained by the Group and the Bank to mitigate credit risk are as follows:

No	Types of Collaterals
1	Fixed Deposit, Cash Margin
2	Property / Land
3	Quoted Share
4	Bond
5	Standby Letter of Credit by Financial Institution
6	Others (e.g. Machinery, Vessels, Assignment of proceeds, etc.)

The Group and the Bank also accept guarantees from individuals, corporates and institutional customers to mitigate credit risk subject to internal guidelines on eligibility.

Valuation report of property by panel valuer is required by the Group and the Bank to ensure the value is fair unless is exempted by the Group and the Bank. Generally, the value of the property charged is updated during the periodic credit review to reflect the current market value. The estimated market value of the collateral as at reporting date being RM35.0 billion; of which RM1.4 billion being collateral of financial assets that are impaired.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(viii) The following tables set out the credit risk concentrations by sector:

GROUP 2020	Short-term funds and placements with financial institutions RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	327,757	-	327,757	36,767
Mining and quarrying	-	-	-	-	731,064	-	731,064	21,124
Manufacturing	-	-	-	-	1,544,849	-	1,544,849	516,590
Electricity, gas and water supply	-	-	-	-	645,348	-	645,348	152,293
Construction and real estate	-	-	-	-	2,743,855	-	2,743,855	578,891
Wholesale, retail trade and restaurants and hotels	-	-	-	-	154,040	-	154,040	43,302
Transport, storage and communication	-	-	-	-	70,563	-	70,563	23,608
Finance, insurance and business services	516,115	203,807	-	500,233	1,291,909	18,219	2,530,283	434,522
Household	-	-	-	-	797,142	-	797,142	21,061
Government and government agencies	2,526,451	1,250,452	-	-	-	5,580	3,782,483	-
Education, health and others	-	-	-	-	306,731	-	306,731	9,316
	3,042,566	1,454,259	-	500,233	8,613,258	23,799	13,634,115	1,837,474
Non-financial assets	23,339	-	-	-	-	134,701	158,040	-
	3,065,905^	1,454,259^	-	500,233	8,613,258^	158,500#	13,792,155	1,837,474*

^ Excludes allowance for ECL.
# Other assets include right-of-assets, intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.
* Credit equivalent amount as disclosed in Note 34.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(viii) The following tables set out the credit risk concentrations by sector (continued):

GROUP 2019	Short-term funds and placements with financial institutions RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	388,628	-	388,628	38,354
Mining and quarrying	-	-	-	-	752,604	-	752,604	27,265
Manufacturing	-	-	1,486	-	1,381,043	-	1,382,529	611,339
Electricity, gas and water supply	-	-	-	-	91,200	-	91,200	72,630
Construction and real estate	-	-	-	-	2,620,579	-	2,620,579	664,043
Wholesale, retail trade and restaurants and hotels	-	-	-	-	227,521	-	227,521	41,081
Transport, storage and communication	-	-	-	-	113,583	-	113,583	95,536
Finance, insurance and business services	1,517,214	148,262	-	792,846	1,014,484	2,913	3,475,719	330,178
Household	-	-	-	-	741,322	-	741,322	14,691
Government and government agencies	1,928,983	766,127	-	-	-	99,600	2,794,710	-
Education, health and others	-	-	-	-	365,746	-	365,746	37,007
	3,446,197	914,389	1,486	792,846	7,696,710	102,513	12,954,141	1,932,124
Non-financial assets	24,928	-	-	-	-	124,317	149,245	-
	3,471,125^	914,389^	1,486	792,846	7,696,710^	226,830#	13,103,386	1,932,124*

^ Excludes allowance for ECL.
# Other assets include right-of-assets, intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.
* Credit equivalent amount as disclosed in Note 34.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(viii) The following tables set out the credit risk concentrations by sector (continued):

BANK 2020	Short-term funds and placements with financial institutions RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	327,757	-	327,757	36,767
Mining and quarrying	-	-	-	-	731,064	-	731,064	21,124
Manufacturing	-	-	-	-	1,544,849	-	1,544,849	516,590
Electricity, gas and water supply	-	-	-	-	645,348	-	645,348	152,293
Construction and real estate	-	-	-	-	2,743,855	-	2,743,855	578,891
Wholesale, retail trade and restaurants and hotels	-	-	-	-	154,040	-	154,040	43,302
Transport, storage and communication	-	-	-	-	70,563	-	70,563	23,608
Finance, insurance and business services	515,665	203,807	-	500,233	1,291,909	18,219	2,529,833	434,522
Household	-	-	-	-	797,142	-	797,142	21,061
Government and government agencies	2,526,451	1,250,452	-	-	-	5,580	3,782,483	-
Education, health and others	-	-	-	-	306,731	-	306,731	9,316
	3,042,116	1,454,259	-	500,233	8,613,258	23,799	13,633,665	1,837,474
Non-financial assets	23,337	-	-	-	-	128,991	152,328	-
	3,065,453 ^	1,454,259 ^	-	500,233	8,613,258 ^	152,790 #	13,785,993	1,837,474 *

^ Excludes allowance for ECL.
# Other assets include right-of-assets, intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.
* Credit equivalent amount as disclosed in Note 34.

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37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(viii) The following tables set out the credit risk concentrations by sector (continued):

BANK 2019	Short-term funds and placements with financial institutions RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	388,628	-	388,628	38,354
Mining and quarrying	-	-	-	-	752,604	-	752,604	27,265
Manufacturing	-	-	1,486	-	1,381,043	-	1,382,529	611,339
Electricity, gas and water supply	-	-	-	-	91,200	-	91,200	72,630
Construction and real estate	-	-	-	-	2,620,579	-	2,620,579	664,043
Wholesale, retail trade and restaurants and hotels	-	-	-	-	227,521	-	227,521	41,081
Transport, storage and communication	-	-	-	-	113,583	-	113,583	95,536
Finance, insurance and business services	1,506,224	148,262	-	792,846	1,014,484	2,913	3,464,729	330,178
Household	-	-	-	-	741,322	-	741,322	14,691
Government and government agencies	1,928,983	766,127	-	-	-	99,600	2,794,710	-
Education, health and others	-	-	-	-	365,746	-	365,746	37,007
	3,435,207	914,389	1,486	792,846	7,696,710	102,513	12,943,151	1,932,124
Non-financial assets	24,926	-	-	-	-	119,934	144,860	-
	3,460,133^	914,389^	1,486	792,846	7,696,710^	222,447#	13,088,011	1,932,124*

^ Excludes allowance for ECL.
# Other assets include right-of-assets, intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.
* Credit equivalent amount as disclosed in Note 34.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk

Liquidity risk is the potential inability of the Group and the Bank to meet its payment obligations. The Group and the Bank are exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives.

The objective of the liquidity policy of the Group and the Bank are to ensure that the Group and the Bank are able to meet its financial obligations, whether such obligations are scheduled or unforeseen. The Group and the Bank have set liquidity risk appetites and established necessary management action triggers to manage its liquidity risk for regulatory compliance and to meet holding companies expectations. Necessary policies and procedures, including the escalation processes are established to promote effective oversight of the liquidity risk. In addition, the Group and the Bank have also formulated a Contingency Funding Plan to manage potential liquidity crisis.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2020 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

GROUP 2020	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Cash and short-term funds	1,511,333	1,454,427	-	-	-	-	2,965,760 ^
Deposits and placements with banks and other financial institutions	100,145	-	-	-	-	-	100,145 ^
Derivative financial assets	87	367	11,563	18	-	6,184	18,219
Financial investments	-	400,173	75,859	100,060	205,737	1,172,663	1,954,492 ^
Gross loans and advances	609,678	726,290	993,821	163,980	355,146	5,764,343	8,613,258 ^
Other assets	9,708	1,418	103	1,600	30,681	96,771	140,281 #
Total assets	2,230,951	2,582,675	1,081,346	265,658	591,564	7,039,961	13,792,155
Deposits from customers	2,258,233	1,621,309	818,983	1,354,887	1,322,757	-	7,376,169
Deposits and placements of banks and other financial institutions	618,662	1,086,475	980,150	2,627	401,618	-	3,089,532
Derivative financial liabilities	257	358	11,533	5	-	6,184	18,337
Other liabilities	61,295	19,934	1,329	26,639	10,040	40,589	159,826 ^
Subordinated loan	-	-	-	-	-	1,246,153	1,246,153
Total liabilities	2,938,447	2,728,076	1,811,995	1,384,158	1,734,415	1,292,926	11,890,017
Net liquidity gap - Total assets less total liabilities	(707,496)	(145,401)	(730,649)	(1,118,500)	(1,142,851)	5,747,035	1,902,138

^ Excludes allowance for ECL.
# Other assets include intangible assets, property and equipment, right-of-use assets, statutory deposits with BNM, deferred tax assets and tax recoverable.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2019 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

GROUP 2019	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Cash and short-term funds	1,561,289	820,264	-	-	-	-	2,381,553^
Deposits and placements with banks and other financial institutions	50,411	147,732	891,429	-	-	-	1,089,572^
Derivative financial assets	158	334	191	309	37	1,884	2,913
Financial investments	1,486	501,413	448,284	-	-	757,538	1,708,721^
Gross loans and advances	647,967	890,161	620,351	171,076	166,523	5,200,632	7,696,710^
Other assets	928	1,777	220	336	32,918	187,738	223,917#
Total assets	2,262,239	2,361,681	1,960,475	171,721	199,478	6,147,792	13,103,386
Deposits from customers	2,812,316	981,116	1,024,183	1,335,635	1,000,213	2,076	7,155,539
Deposits and placements of banks and other financial institutions	730,821	176,612	1,401,969	-	409,258	-	2,718,660
Derivatives financial liabilities	150	331	188	290	34	1,884	2,877
Other liabilities	53,597	27,774	1,329	33,569	9,377	30,504	156,150^
Provision for taxation	-	-	-	-	1,200	-	1,200
Subordinated loan	-	-	-	-	-	1,273,640	1,273,640
Total liabilities	3,596,884	1,185,833	2,427,669	1,369,494	1,420,082	1,308,104	11,308,066
Net liquidity gap - Total assets less total liabilities	(1,334,645)	1,175,848	(467,194)	(1,197,773)	(1,220,604)	4,839,688	1,795,320

^ Excludes allowance for ECL.

Other assets include intangible assets, property and equipment, right-of-use assets, statutory deposits with BNM, deferred tax assets and tax recoverable.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2020 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

BANK 2020	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Cash and short-term funds	1,510,881	1,454,427	-	-	-	-	2,965,308^
Deposits and placements with banks and other financial institutions	100,145	-	-	-	-	-	100,145^
Derivative financial assets	87	367	11,563	18	-	6,184	18,219
Financial investments	-	400,173	75,859	100,060	205,737	1,172,663	1,954,492^
Gross loans and advances	609,678	726,290	993,821	163,980	355,146	5,764,343	8,613,258^
Other assets	9,708	598	103	250	30,771	93,141	134,571 #
Total assets	2,230,499	2,581,855	1,081,346	264,308	591,654	7,036,331	13,785,993
Deposits from customers	2,259,555	1,621,309	818,983	1,354,887	1,322,757	-	7,377,491
Deposits and placements of banks and other financial institutions	618,662	1,086,475	980,150	2,627	401,618	-	3,089,532
Derivatives financial liabilities	257	358	11,533	5	-	6,184	18,337
Other liabilities	61,295	19,652	1,105	25,933	9,057	39,694	156,736^
Subordinated loan	-	-	-	-	-	1,246,153	1,246,153
Total liabilities	2,939,769	2,727,794	1,811,771	1,383,452	1,733,432	1,292,031	11,888,249
Net liquidity gap - Total assets less total liabilities	(709,270)	(145,939)	(730,425)	(1,119,144)	(1,141,778)	5,744,300	1,897,744

^ Excludes allowance for ECL.
# Other assets include intangible assets, property and equipment, right-of-use assets, statutory deposits with BNM, deferred tax assets, tax recoverable and investment in subsidiary.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2019 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

BANK 2019	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Cash and short-term funds	1,550,297	820,264	-	-	-	-	2,370,561^
Deposits and placements with banks and other financial institutions	50,411	147,732	891,429	-	-	-	1,089,572^
Derivative financial assets	158	334	191	309	37	1,884	2,913
Financial investments	1,486	501,413	448,284	-	-	757,538	1,708,721^
Gross loans and advances	647,967	890,161	620,351	171,076	166,523	5,200,632	7,696,710^
Other assets	928	1,406	217	336	32,627	184,020	219,534#
Total assets	2,251,247	2,361,310	1,960,472	171,721	199,187	6,144,074	13,088,011
Deposits from customers	2,825,664	981,116	1,024,183	1,335,635	1,000,213	2,076	7,168,887
Deposits and placements of banks and other financial institutions	730,821	176,612	1,401,969	-	409,258	-	2,718,660
Derivatives financial liabilities	150	331	188	290	34	1,884	2,877
Other liabilities	53,597	23,078	1,115	32,181	7,991	28,385	146,347^
Subordinated loan	-	-	-	-	-	1,273,640	1,273,640
Total liabilities	3,610,232	1,181,137	2,427,455	1,368,106	1,417,496	1,305,985	11,310,411
Net liquidity gap - Total assets less total liabilities	(1,358,985)	1,180,173	(466,983)	(1,196,385)	(1,218,309)	4,838,089	1,777,600

^ Excludes allowance for ECL.
# Other assets include intangible assets, property and equipment, right-of-use assets, statutory deposits with BNM, deferred tax assets, tax recoverable and investment in subsidiary.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below shows the undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturities on undiscounted basis. All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the fair values. The balances in the table below is based on undiscounted basis and do not agree to the balances reported in the statements of financial position.

GROUP 2020	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Financial liabilities							
Deposits from customers	2,258,233	1,622,747	822,095	1,367,870	1,341,505	-	7,412,450
Deposits and placements of banks and other financial institutions	618,669	1,086,517	980,408	2,628	402,191	-	3,090,413
Derivatives financial liabilities	257	358	11,533	5	-	6,184	18,337
Other liabilities	40,412	12,407	1,329	2,006	3,892	26,889	86,935
Subordinated loan	-	-	-	-	-	1,288,787	1,288,787
	2,917,571	2,722,029	1,815,365	1,372,509	1,747,588	1,321,860	11,896,922
2019							
Financial liabilities							
Deposits from customers	2,812,369	982,742	1,031,200	1,353,552	1,022,903	2,145	7,204,911
Deposits and placements of banks and other financial institutions	730,921	176,583	1,405,173	-	416,708	-	2,729,385
Derivatives financial liabilities	150	331	188	290	34	1,884	2,877
Other liabilities	27,161	20,278	1,533	2,292	4,568	23,984	79,816
Provision for taxation	-	-	-	-	1,200	-	1,200
Subordinated loan	-	-	-	-	-	1,491,299	1,491,299
	3,570,601	1,179,934	2,438,094	1,356,134	1,445,413	1,519,312	11,509,488

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below shows the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities on undiscounted basis. All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the fair values. The balances in the table below is based on undiscounted basis and do not agree to the balances reported in the statements of financial position.

BANK 2020	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Financial liabilities							
Deposits from customers	2,259,555	1,622,747	822,095	1,367,870	1,341,505	-	7,413,772
Deposits and placements of banks and other financial institutions	618,669	1,086,517	980,408	2,628	402,191	-	3,090,413
Derivatives financial liabilities	257	358	11,533	5	-	6,184	18,337
Other liabilities	40,412	12,125	1,105	1,668	3,204	25,995	84,509
Subordinated loan	-	-	-	-	-	1,288,787	1,288,787
	2,918,893	2,721,747	1,815,141	1,372,171	1,746,900	1,320,966	11,895,818
2019							
Financial liabilities							
Deposits from customers	2,825,717	982,742	1,031,200	1,353,552	1,022,903	2,145	7,218,259
Deposits and placements of banks and other financial institutions	730,921	176,583	1,405,173	-	416,708	-	2,729,385
Derivatives financial liabilities	150	331	188	290	34	1,884	2,877
Other liabilities	27,161	15,569	1,296	1,940	3,864	21,785	71,615
Subordinated loan	-	-	-	-	-	1,491,299	1,491,299
	3,583,949	1,175,225	2,437,857	1,355,782	1,443,509	1,517,113	11,513,435

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The following table presents the contractual expiry by maturity of the Group's and of the Bank’s commitments and contingencies:

	2020			2019		
	Less than 1 year	Over 1 year	Total	Less than 1 year	Over 1 year	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	6,285	-	6,285	2,547	-	2,547
Transaction-related contingent items	1,168,907	985,717	2,154,624	1,257,844	1,125,291	2,383,135
Short-term self-liquidating trade-related contingencies	272,719	-	272,719	55,595	-	55,595
Irrevocable commitments to extend credit	2,517,649	318,650	2,836,299	2,034,346	647,567	2,681,913
Foreign exchange related contracts	231,536	-	231,536	218,308	-	218,308
Interest/Profit rate related contracts	122,889	317,373	440,262	-	250,475	250,475
Unutilised credit card lines	-	-	-	20	-	20
	4,319,985	1,621,740	5,941,725	3,568,660	2,023,333	5,591,993

The above commitments and contingencies are available for draw down or could be called upon within a period of less than one year.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk

Market risk is the risk of potential losses resulting from the changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in the market risk factors such as foreign exchange rates, interest rates, credit spreads, equity prices, commodities prices and their associated volatility.

The Bank’s RMICC is responsible for the oversight of market risk management of the Bank and executing the BRMC and Board’s mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Market Risk Management Policy to govern BOCM’s market risk governance structure, risk identification, measurement, monitoring and reporting processes. Various market risk indicators (e.g. Foreign Exchange Net Open Position, Value-at-Risk, Price Value of Basis Point, Stop Loss, etc) are regularly measured and monitored, in order to proactively manage the fluctuations of market interest rates and foreign exchange rates.

The Group's and the Bank’s interest rate risk are monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. Sensitivity is measured using the Earnings-at-Risk ("EaR") methodology. An increase or decrease by 25 basis points, the impact of increase/decrease on the Group’s and the Bank’s post-tax loss for the financial year end is estimated at RM8.3 million (2019: RM9.2 million).

The Group and the Bank are exposed to commodity price risk mainly related to precious metal. The Group and the Bank manage such risk together with foreign exchange risk. An increase or decrease of 1% in market price would impact the fair value by RM3,600 (2019: RM3,860).

The Group's and the Bank’s foreign exchange risk are managed by matching the quantum and timing of cash flow of the foreign exchange lending with foreign exchange borrowing. The mismatch between currencies mainly arises from the Group's and the Bank’s short term foreign currencies lending and borrowing.

The following table demonstrates the sensitivity of the Group's and the Bank's profit after taxation and equity to a reasonable possible change in foreign exchange rates with all other variables remaining constant.

Impact on profit after taxation:

	GROUP AND BANK			
	2020		2019	
Currency	Foreign exchange rate +1% RM'000	Foreign exchange rate +1% RM'000	Foreign exchange rate +1% RM'000	Foreign exchange rate +1% RM'000
USD	298	(298)	264	(264)
SGD	(150)	150	(136)	136
CNY	(710)	710	(120)	120
Others	14	(14)	18	(18)

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks indicating the effective interest rate ("EIR") at the reporting date. Included in the tables are the Group's and the Bank's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time the Group and the Bank may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

	Non-trading book							
GROUP 2020	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Assets								
Cash and short-term funds	2,932,750	-	-	-	-	32,925	2,965,675	1.83
Deposits and placements with banks and other financial institutions	100,145	-	-	-	-	-	100,145	1.82
Derivative financial assets	-	-	-	-	-	18,219	18,219	
Debt instruments at FVOCI	-	75,859	205,737	1,153,944	-	(197)	1,435,343	3.18
Equity instruments at FVOCI	-	-	-	-	-	18,719	18,719	
Debt instruments at amortised cost	400,173	-	100,060	-	-	-	500,233	1.88
Loans and advances								
- non-impaired	5,389,408	768,862	143,784	1,865,315	245,941	(111,867)	8,301,443	2.63
- impaired	199,948	-	-	-	-	(97,975)	101,973	
Other assets	-	-	-	-	-	14,920	14,920	
Tax recoverable	-	-	-	-	-	15,457	15,457	
Deferred tax assets	-	-	-	-	-	15,588	15,588	
Right-of-use assets	-	-	-	-	-	33,794	33,794	
Property and equipment	-	-	-	-	-	52,510	52,510	
Intangible assets	-	-	-	-	-	2,040	2,040	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	5,580	5,580	
Total assets	9,022,424	844,721	449,581	3,019,259	245,941	(287)	13,581,639	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

GROUP 2020	Non-trading book: Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Liabilities								
Deposits from customers	2,617,610	818,983	2,677,645	-	-	1,261,931	7,376,169	1.97
Deposits and placements of banks and other financial institutions	1,655,004	980,151	404,245	-	-	50,132	3,089,532	0.17
Derivatives financial liabilities	-	-	-	-	-	18,337	18,337	
Other liabilities	23,797	1,329	5,897	21,772	5,117	110,568	168,480	
Subordinated loan	-	-	-	-	1,246,153	-	1,246,153	0.51
Total liabilities	4,296,411	1,800,463	3,087,787	21,772	1,251,270	1,440,968	11,898,671	
Total equity	-	-	-	-	-	1,682,968	1,682,968	
Total liabilities and equity	4,296,411	1,800,463	3,087,787	21,772	1,251,270	3,123,936	13,581,639	
On balance sheet - interest sensitivity gap	4,726,013	(955,742)	(2,638,206)	2,997,487	(1,005,329)	(3,124,223)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	4,726,013	(955,742)	(2,638,206)	2,997,487	(1,005,329)	(3,124,223)	-	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

GROUP 2019	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Assets								
Cash and short-term funds	2,329,616	-	-	-	-	51,888	2,381,504	2.88
Deposits and placements with banks and other financial institutions	198,143	891,429	-	-	-	(62)	1,089,510	2.88
Derivative financial assets	-	-	-	-	-	2,913	2,913	
Debt instruments at FVOCI	-	156,851	-	741,055	-	(89)	897,817	3.54
Equity instruments at FVOCI	-	-	-	-	-	16,483	16,483	
Equity instrument at FVTPL	-	-	-	-	-	1,486	1,486	
Debt instruments at amortised cost	501,414	291,432	-	-	-	-	792,846	3.21
Loans and advances								
- non-impaired	3,999,113	2,203,229	646,066	606,324	-	(87,479)	7,367,253	4.19
- impaired	241,978	-	-	-	-	(121,823)	120,155	
Other assets	-	-	-	-	-	5,522	5,522	
Tax recoverable	-	-	-	-	-	24,611	24,611	
Deferred tax assets	-	-	-	-	-	8,306	8,306	
Right-of-use assets	-	-	-	-	-	29,947	29,947	
Property and equipment	-	-	-	-	-	54,032	54,032	
Intangible assets	-	-	-	-	-	1,376	1,376	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	99,600	99,600	
Total assets	7,270,264	3,542,941	646,066	1,347,379	-	86,711	12,893,361	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

GROUP 2019	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Liabilities								
Deposits from customers	2,626,621	1,024,182	2,335,850	2,076	-	1,166,810	7,155,539	2.88
Deposits and placements of banks and other financial institutions	907,434	1,401,969	409,257	-	-	-	2,718,660	1.63
Derivatives financial liabilities	-	-	-	-	-	2,877	2,877	
Other liabilities	18,468	1,328	6,058	20,849	1,498	113,475	161,676	
Provision for taxation	-	-	-	-	-	1,200	1,200	
Subordinated loan	-	-	-	-	1,273,640	-	1,273,640	2.76
Total liabilities	3,552,523	2,427,479	2,751,165	22,925	1,275,138	1,284,362	11,313,592	
Total equity	-	-	-	-	-	1,579,769	1,579,769	
Total liabilities and equity	3,552,523	2,427,479	2,751,165	22,925	1,275,138	2,864,131	12,893,361	
On balance sheet - interest sensitivity gap	3,717,741	1,115,462	(2,105,099)	1,324,454	(1,275,138)	(2,777,420)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	3,717,741	1,115,462	(2,105,099)	1,324,454	(1,275,138)	(2,777,420)	-	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

BANK 2020	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
	← Non-trading book →							
Assets								
Cash and short-term funds	2,932,750	-	-	-	-	32,473	2,965,223	1.83
Deposits and placements with banks and other financial institutions	100,145	-	-	-	-	-	100,145	1.82
Derivative financial assets	-	-	-	-	-	18,219	18,219	
Debt instruments at FVOCI	-	75,859	205,737	1,153,944	-	(197)	1,435,343	3.18
Equity instruments at FVOCI	-	-	-	-	-	18,719	18,719	
Debt instruments at amortised cost	400,173	-	100,060	-	-	-	500,233	1.88
Loans and advances								
- non-impaired	5,389,408	768,862	143,784	1,865,315	245,941	(111,867)	8,301,443	2.63
- impaired	199,948	-	-	-	-	(97,975)	101,973	
Other assets	-	-	-	-	-	13,918	13,918	
Deferred tax assets	-	-	-	-	-	15,467	15,467	
Tax recoverable	-	-	-	-	-	14,106	14,106	
Right-of-use assets	-	-	-	-	-	31,627	31,627	
Property and equipment	-	-	-	-	-	50,457	50,457	
Intangible assets	-	-	-	-	-	2,040	2,040	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	5,580	5,580	
Total assets	9,022,424	844,721	449,581	3,019,259	245,941	(6,433)	13,575,493	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

BANK 2020	Non-trading book: Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Liabilities								
Deposits from customers	2,617,610	818,983	2,677,645	-	-	1,263,253	7,377,491	1.97
Deposits and placements of banks and other financial institutions	1,655,004	980,151	404,245	-	-	50,132	3,089,532	0.17
Derivatives financial liabilities	-	-	-	-	-	18,337	18,337	
Other liabilities	23,686	1,106	4,871	20,876	5,117	109,734	165,390	
Subordinated loan	-	-	-	-	1,246,153	-	1,246,153	0.51
Total liabilities	4,296,300	1,800,240	3,086,761	20,876	1,251,270	1,441,456	11,896,903	
Total equity	-	-	-	-	-	1,678,590	1,678,590	
Total liabilities and equity	4,296,300	1,800,240	3,086,761	20,876	1,251,270	3,120,046	13,575,493	
On balance sheet - interest sensitivity gap	4,726,124	(955,519)	(2,637,180)	2,998,383	(1,005,329)	(3,126,479)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	4,726,124	(955,519)	(2,637,180)	2,998,383	(1,005,329)	(3,126,479)	-	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk

	Non-trading book							
BANK 2019	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Assets								
Cash and short-term funds	2,329,616	-	-	-	-	40,896	2,370,512	2.88
Deposits and placements with banks and other financial institutions	198,143	891,429	-	-	-	(62)	1,089,510	2.88
Derivative financial assets	-	-	-	-	-	2,913	2,913	
Debt instruments at FVOCI	-	156,851	-	741,055	-	(89)	897,817	3.54
Equity instruments at FVOCI	-	-	-	-	-	16,483	16,483	
Equity instrument at FVTPL	-	-	-	-	-	1,486	1,486	
Debt instruments at amortised cost	501,414	291,432	-	-	-	-	792,846	3.21
Loans and advances								
- non-impaired	3,999,113	2,203,229	646,066	606,324	-	(87,479)	7,367,253	4.19
- impaired	241,978	-	-	-	-	(121,823)	120,155	
Other assets	-	-	-	-	-	4,743	4,743	
Deferred tax assets	-	-	-	-	-	8,016	8,016	
Tax recoverable	-	-	-	-	-	24,611	24,611	
Right-of-use assets	-	-	-	-	-	26,607	26,607	
Property and equipment	-	-	-	-	-	53,064	53,064	
Intangible assets	-	-	-	-	-	1,376	1,376	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	99,600	99,600	
Total assets	7,270,264	3,542,941	646,066	1,347,379	-	71,342	12,877,992	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

BANK 2019	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	EIR %
Liabilities								
Deposits from customers	2,626,621	1,024,182	2,335,850	2,076	-	1,180,158	7,168,887	2.88
Deposits and placements of banks and other financial institutions	907,434	1,401,969	409,257	-	-	-	2,718,660	1.63
Derivatives financial liabilities	-	-	-	-	-	2,877	2,877	
Other liabilities	18,357	1,116	5,091	18,731	1,498	107,080	151,873	
Subordinated loan	-	-	-	-	1,273,640	-	1,273,640	2.76
Total liabilities	3,552,412	2,427,267	2,750,198	20,807	1,275,138	1,290,115	11,315,937	
Total equity	-	-	-	-	-	1,562,055	1,562,055	
Total liabilities and equity	3,552,412	2,427,267	2,750,198	20,807	1,275,138	2,852,170	12,877,992	
On balance sheet - interest sensitivity gap	3,717,852	1,115,674	(2,104,132)	1,326,572	(1,275,138)	(2,780,828)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	3,717,852	1,115,674	(2,104,132)	1,326,572	(1,275,138)	(2,780,828)	-	

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent in all activities, products and services of financial institutions and can transverse multiple activities and business lines within the bank. It includes a wide spectrum of heterogeneous risk such as fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches as well as employee health and safety hazards. Operational risk may result in direct financial losses as well as indirect financial losses (e.g. loss of business and market share) due to reputational damage.

To manage operational risk, the Bank has established “Three lines of defense” to manage operational risk events, where:

First line of defense – Business and functional lines are primarily responsible in managing operational risk of their respective businesses and functions.

Second line of defense – perform reviewing and identification and management of major operational risk by business and functional lines as well as integrating operational risks at the enterprise level.

Third line of defense – provide regular reviews and assessments of the operational risk management framework, processes and systems.

Risk Management and Internal Control Committee (“RMICC”), Compliance Risk Management Committee (“CRMC”), and Board Risk Committees (“BRC”) are the Bank’s risk governance committees accountable in overseeing the enterprise wide operational risk function. The committee is responsible to monitor and deliberate on operational risk issues specific to the business or functional lines, and promote risk ownership and management by the business and functional lines.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

MFRS 7 *Financial Instruments*: *Disclosures* requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. MFRS 13 *Fair Value Measurement* also requires the hierarchical disclosure for financial instruments of which their fair values are disclosed. The following levels of hierarchy are used for determining the disclosing the fair value of financial instruments:

Level 1 – Quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2 – Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the financial statements date.

Where available, quoted and observable market prices are used as the measures of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(a) Financial instruments carried at fair value

As at 31 December 2020, the Group and the Bank only have fair valued financial instruments that fall under Level 1, Level 2 and Level 3 as listed below:

	GROUP AND BANK							
	2020				2019			
	Valuation Technique				Valuation Technique			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets								
Debt instruments at FVOCI	1,250,452	184,891	-	1,435,343	766,127	131,690	-	897,817
Equity instruments at FVOCI	-	-	18,719	18,719	-	-	16,483	16,483
Equity instrument at FVTPL	-	-	-	-	1,486	-	-	1,486
Derivative financial assets	-	18,219	-	18,219	-	2,913	-	2,913
	1,250,452	203,110	18,719	1,472,281	767,613	134,603	16,483	918,699
Financial liabilities								
Derivative financial liabilities	-	18,337	-	18,337	-	2,877	-	2,877

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments carried at fair value (Continued)

(i) Debt instruments at FVOCI

The estimated fair value of Malaysian Government Securities and Malaysian Government Investment Issues is generally based on quoted and observable market prices and classified under Level 1 of the fair value hierarchy.

(ii) Equity instruments at FVOCI

The Bank derived the fair value of the unquoted equity investments based on the "revised net assets" method. The revised net assets were obtained based on the fair value net assets as derived in the investee's latest publicly available audited financial statement of these investments. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can be reliably measured are measured at cost.

Cagamas Holdings Berhad's shares is revalued based on fair value of net tangible asset approach. The net tangible asset is inclusive of retained profits of Cagamas Holdings Berhad's subsidiary, Cagamas MBS Berhad, in which is subject to discretionary bonus fees to Lembaga Pembiayaan Perumahan Sektor Awam ("LPPSA") upon full settlement of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS"). The payment of discretionary bonus fees is done via payment of dividend on redeemable preference shares ("RPS") held by Skim Rumah Pertamaku (My First Home Scheme) ("SRP") in trust.

(iii) Equity instrument at FVTPL

The estimated fair value of shares is valued based on quoted and observable market prices and classified under Level 1 of the fair value hierarchy.

(iv) Derivative financial assets and liabilities

The fair values of derivative assets and liabilities are from foreign exchange related contracts. These are the estimated amounts the Group and the Bank would receive or pay to terminate the contracts at the reporting date.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments not carried at fair value

A range of methodologies and assumptions had been used in deriving the fair values of the Group's and the Bank's financial instruments at the reporting date. The total fair value by each class of financial instruments is not materially different from the total carrying amount, except for the following financial assets:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
GROUP AND BANK	RM'000	RM'000	RM'000	RM'000
Financial assets				
Debt instruments at amortised cost				
- Level 2	500,233	499,392	792,846	791,071
Other assets				
Precious metal inventories				
- Level 2	250	361	336	388
	500,483	499,753	793,182	791,459

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000
GROUP AND BANK				
Financial liabilities				
Deposits and placements of banks and other financial institutions				
- Level 2	3,089,532	3,089,532	2,718,660	2,718,660
Subordinated loan				
- Level 3	1,246,153	1,007,949	1,273,640	1,107,450
Group				
Financial liabilities				
Deposits from customers				
- Level 2	7,376,169	7,376,169	7,155,539	7,155,539
Bank				
Financial liabilities				
Deposits from customers				
- Level 2	7,377,491	7,377,491	7,168,887	7,168,887

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments not carried at fair value (Continued)

(i) Debt instruments at amortised cost

The estimated fair value of negotiable instruments of deposits is based on market yield of similar assets and classified under Level 2 of the fair value hierarchy.

(ii) Precious metal inventories

The fair values of financial assets are determined by quoted market prevailing prices of the respective precious metals as quoted by the London Bullion Market Association.

(iii) Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than one year approximate the carrying amounts.

(iv) Deposits from customers

For deposits from customers with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair value.

(c) Fair values of other financial instruments carried at cost or amortised cost

Cash and short-term funds and deposits and placements with banks and other financial institutions, as well as interest and other short-term receivables and payables included in other assets and other liabilities respectively, fair values are expected to approximate the carrying amounts in the statements of financial position due to their short-term maturity.

The fair value of fixed rate loans and advances are estimated based on discounted cash flows using prevailing market rates of loans and advances of similar credit risks and maturity. The fair value of the fixed rate loans are approximate their carrying amounts due to their short-term maturity.

For fair values of variable rate loans and advances, the fair values are estimated to approximate their carrying amounts.

The fair value of other financial assets approximates their carrying amounts due to their short term in nature.

(d) Subordinated loan

The fair value of subordinated loan is estimated by discounting the expected future cash flows using the applicable prevailing interest rates for similar instruments as at reporting date.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Sensitivity of fair value measurement to changes in unobservable inputs assumptions

Equity instruments at FVOCI was revalued using net tangible asset value approach, where higher net tangible assets result in higher fair value.

39. ACCOUNTING ESTIMATES AND ASSUMPTIONS

<u>Allowance for impairment on loans and advances</u>

The preparation of financial statements in conformity with MFRS requires the use of certain accounting estimates and assumptions that underlie the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. These estimates require the Group's and the Bank’s management to exercise their judgement in the process of applying the Group's and the Bank’s accounting policies. Although these estimates and judgement are based on the management’s best knowledge of current events and actions actual results may differ. The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances.

The Group and the Bank adopt a forward-looking approach in making allowance for impairment on ECL for assets and financial instruments. The management is guided by the relevant Bank Negara Malaysia guidelines and accounting standards in making judgement on the future and key factors in estimation of the amount and timing of the cash flows arising from impairment on loans and advances. Amongst the factors considered are the Group’s and the Bank's aggregate loan exposures, the realisable values of the underlying collaterals, the customers' credit risk rating, the capacity to generate sufficient cash flows to service debt obligations.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. In the case where the Group and the Bank have no entity-specific loss experience or insufficient experience, the Group and the Bank may use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data that have an impact on the current conditions and irrelevant data are removed.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as change in economic variables such as Gross Domestic Product, unemployment rates, property prices, or other relevant factors and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to enhance accuracy of the estimates by minimizing the variance between estimated and actual outcomes.

The amounts of allowances for impairment on ECL recognised by the Group and the Bank are as disclosed in Note 9. The Group’s and the Bank’s allowance for ECL on loans and advances as at 31 December 2020 was estimated based on a range of forecast economic conditions as at the reporting date and the assumptions used for management ECL overlays are as disclosed in Note 37 (b). There is no significant adjusting post balance sheet event that will impact the Group’s and the Bank’s financial results for the current financial year ended 31 December 2020.

39. ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

Fair value of financial instruments

The majority of the Group's and the Bank's financial instruments reported at fair value are based on quoted and observable market prices. Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more details in Note 38.

Deferred tax assets and income taxes

In determining the Bank's tax charge for the year it involves estimation and judgement, which includes an interpretation of local tax law and an assessment of whether the tax authority will accept the position taken. The Bank provides for current tax liabilities at the best estimate based on all available evidence and the amount that is expected to be paid to the tax authority where and outflow is probable.

The recoverability of the Bank's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors 30 April 2021.