

**BANK OF CHINA (MALAYSIA) BERHAD**

(Registration No.: 200001008645 (511251-V))

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 DECEMBER 2019

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**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 2019.

**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**

	<u>GROUP</u> RM'000	<u>BANK</u> RM'000
Profit before taxation	69,814	61,740
Taxation	<u>(20,871)</u>	<u>(15,061)</u>
Net profit for the financial year	<u><u>48,943</u></u>	<u><u>46,679</u></u>

**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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**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**

The outbreak of the coronavirus (“COVID-19”) towards the first quarter for the financial year ending 31 December 2020 in Malaysia is likely to have an impact on the Malaysian economy. The magnitude of the COVID-19 impact depends on the progress of prevention and containment of the pandemic and its duration. This also include the various wide range of Relief Measures implemented by the Malaysian Government and Bank Negara Malaysia.

The Group and the Bank will continuously and closely monitor the developments of COVID-19, evaluate and proactively address its impact on the Group’s and the Bank’s financial position and performance. As of the date of this report, such evaluation is still in progress, and it is expected to be finalised in the next financial year ending 31 December 2020.

The COVID-19 pandemic also impacted the business performance of the Bank’s whole-owned subsidiary. However, the healthy financial performance that has been previously accumulated has sufficient reserve and cash to sustain the financial activities of the subsidiary and to continue as a going concern.

Based on the Directors’ assessment, 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 2019.

**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:

The Bank

Zhu Yanlai

Zhang Min

Chai Woon Chew

Eugene Khoo Kong Hooi

Dato’ Low Kian Chuan

The subsidiary

Qiu Hengchang

Zhang Fengmei (appointed on 11 November 2019)

Chew Lee Lin (resigned on 11 November 2019)

**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.

## **BANK OF CHINA (MALAYSIA) BERHAD**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **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 2019**

In 2019, the Group continued to enhance and widen its products and services, particularly at the retail segment. During the year, the Bank has launched the Wealth Management services and enhanced electronic banking services for better customer experience. The Group's total assets contracted marginally by 3% to RM12.9 billion due to liability management. Despite the challenging external factors, loan growth remained resilient and the bank's long-term financial institution rating was reaffirmed AA1 by RAM Rating Services Berhad ("RAM").

#### **ECONOMIC OUTLOOK FOR 2020**

Malaysia's near-term growth outlook, particularly in first quarter of the year, will be affected by the Covid-19 outbreak. In year 2020, GDP growth is expected to be ranging from -2.0% to +0.5%, where growth will continue to be supported by the realisation of approved private investment projects in recent periods and higher public sector capital spending. Nevertheless, the downside risks to growth comprises the uncertainties in external conditions arising from the ongoing virus outbreak, the various trade negotiations and geopolitical risks, along with domestic factors, including weaknesses in the commodities sector and delays in project implementation.

#### **BUSINESS PLAN 2020**

The Group's objective is to achieve sustainable and balanced development in Year 2020, the Group is actively responding to market changes, at the same time strengthening its core business development and enhancing product and service innovation.

The Group is expanding its corporate customer base through identify target customers, collaboration with immediate holding company and related companies in South East Asia region as well as business partner. In addition, providing comprehensive financial solutions to "Going-out" enterprises of China and continue promoting Renminbi settlement and clearing businesses.

At the retail banking segment, the Group will continue to increase retail lending product competitiveness, enhance wealth management products to cater for different risk profile and investment needs. As part of the Group's efforts to improve customer experience, the Group will further enrich mobile banking service functions.

In view of the opportunities and challenges ahead, the Bank is committed to strengthen management capabilities in risk management, compliance and internal control, as well as anti-money laundering in order to ensure stable and balanced business development.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**RATINGS BY EXTERNAL RATING AGENCY**

RAM has assigned Bank of China (Malaysia) Berhad's Financial Institution Ratings at AA1 and P1, with stable outlook, on 10 October 2019.

**DIRECTORS' PROFILES**

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

Madam Zhu Yanlai, Chinese, aged 66, 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 55, 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.

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES (CONTINUED)**

**Chai Woon Chew – Independent Non-Executive Director**

Mr. Chai Woon Chew, Malaysian, aged 62, 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 54, was appointed to the Board on 9 January 2017. He holds a Bachelor of Economics degree (majoring in Accounting and Statistics) from Monash University, Australia and is a member of the Malaysian Institute of Accountants and 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.



**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES (CONTINUED)**

**Dato' Low Kian Chuan – Independent Non-Executive Director**

Dato' Low Kian Chuan, Malaysian, aged 60, 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 Chief Executive Officer 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 chairman of the Malaysian Timber Council, 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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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 Control

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 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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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 on 9 December 2016 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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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 (Continued)**

Directors' attendance at the Board meetings held during the financial year ended 31 December 2019 is as reflected below:

Directors	Number of Meetings	
	Held	Attended
Zhu Yanlai (Chairman) Non-Independent Non-Executive Director	6	6
Zhang Min Executive Director	6	6
Chai Woon Chew Independent Non-Executive Director	6	6
Eugene Khoo Kong Hooi Independent Non-Executive Director	6	6
Dato' Low Kian Chuan Independent Non-Executive Director	6	6

**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.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**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 5 to 7.

(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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**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 have 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**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:-

- FIDE FORUM Workshop: Building an Effective Board - Board Selection
- Rethinking Strategy
- Market Outlook Talk
- National Economic Forum 2019
- Nikkei Conference - New Malaysia
- The Science Behind Change and How to Adapt to Digital Transformation
- Digital to the Core
- Leadership in a Disruptive World
- Cyber Security Awareness
- Corporate Criminal Liability for Corruption (Section 17A MACC Act)
- Emerging Trends in Mergers & Acquisitions, Risks and Opportunities
- Malaysia Budget Briefing
- Seminar on Scaling Business Potential with AI
- Malaysia Korea Business Forum
- Bank Negara Malaysia Annual Report 2018 & Financial Stability and Payment Systems Report 2018 Briefing Session
- FIDE FORUM: Anti Money Laundering/Counter Financing of Terrorism - Banking Sector
- FIDE Core Programme
- 1st Group-wide Compliance Trainings (Staff code of Conduct, Prevention of Money Laundering, Fraud Prevention)
- 2nd Group-wide Compliance Trainings (Reputation Risk, Information Security, Personal Data Privacy)
- 3rd Group-wide Compliance Trainings (Anti-Money Laundering, Anti-Fraud)
- 4th Group-wide Compliance Trainings (Employee Compliance, Technology Risk, Anti-Corruption, Operational Risk Management & Ongoing Business Operation)
- Crisis Management and Communication Skill Training
- Belt and Road Initiative Forum
- Digital Transformation Plan and IT 3-Year Planning

**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.



**BANK OF CHINA (MALAYSIA) BERHAD**  
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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 2019 is as reflected below:

Members	Number of Meetings	
	Held	Attended
Eugene Khoo Kong Hooi (Chairman) (Independent Non-Executive Director)	7	7
Chai Woon Chew (Independent Non-Executive Director)	7	7
Dato' Low Kian Chuan (Independent Non-Executive Director)	7	7

(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.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**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. 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 2019 is as reflected below:

Members	Number of Meetings	
	Held	Attended
Chai Woon Chew (Chairman) (Independent Non-Executive Director)	6	6
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	6	6
Zhu Yanlai (Non-Independent Non-Executive Director)	6	6

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

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 oversee 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 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;
- (x) 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;

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**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 approve the establishment of compliance function and the position of Chief Compliance Officer ("CCO");
- (xii) 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
- (xiii) 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 2019 is as reflected below:

Members	Number of Meetings	
	Held	Attended
Dato' Low Kian Chuan (Chairman) (Independent Non-Executive Director)	7	7
Chai Woon Chew (Independent Non-Executive Director)	7	7
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	7	6

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

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 Director/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 regards 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 are 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 least 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**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 2019, the Senior Management Members of the Bank consist of one (1) CEO, three (3) Deputy CEO, one (1) Assistant CEO and one (1) Chief Risk Officer cum Chief Compliance 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

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 2019, 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.



**BANK OF CHINA (MALAYSIA) BERHAD**

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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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

3. Board Remuneration and Nomination Committee (Continued)

(h) Linking Pay to Performance (Continued)

- (iv) Benefit-in-kind referred 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 Defferral Policy.
- (iii) Total amount of remuneration received by CEO and Directors during the financial year ended 31 December 2019 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)	1,643	135	135	114
Benefits-in-kind	42	-	-	-
<b>TOTAL</b>	<b>1,685</b>	<b>135</b>	<b>135</b>	<b>114</b>

**BANK OF CHINA (MALAYSIA) BERHAD**

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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 (Continued)

(iv) Total amount of remuneration awards in respect of Senior Management for the financial year ended 31 December 2019 are as follows:

	Senior Management RM'000
Fixed Remuneration	
- Cash based (non-deferred)	6,321
- Number of officers entitled	7
Variable Remuneration	
- Cash based (non-deferred)	2,952
- Number of officers entitled	6
Variable Remuneration	
- Cash based (deferred)	870
- Number of officers entitled	6
Benefits-in-kind	44
<b>Total</b>	<b>10,187</b>

(v) Summary of deferred remuneration for Senior Management:

	Senior Management RM'000
Variable Remuneration	
- Cash based (deferred)	2,142
- Number of officers entitled	9
Variable Remuneration	
- Cash based (deferred vested)	1,072
- Number of officers entitled	9

There is no reduction value of outstanding deferred remuneration in the year 2019 due to ex-post explicit or implicit adjustments. All risk measurements are met and deficiency ratio is zero.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

**4. 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 embedded 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.
- (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 imangement 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.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

4. Risk Management and Internal Control (Continued)

(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 2019, 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**ACCOUNTABILITY AND AUDIT (CONTINUED)**

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, have expressed their willingness to continue in office.

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

In accordance with a resolution of the Board of Directors dated 18 May 2020.

EUGENE KHOO KONG HOOI  
DIRECTOR

ZHANG MIN  
DIRECTOR

Kuala Lumpur  
18 May 2020



**BANK OF CHINA (MALAYSIA) BERHAD**

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**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 36 to 141 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 2019 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 18 May 2020.

EUGENE KHOO KONG HOOI  
DIRECTOR

ZHANG MIN  
DIRECTOR

Kuala Lumpur  
18 May 2020

**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 36 to 141 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 18 May 2020, 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 2019 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 36 to 141.

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 2019, 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.

*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.

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)**

*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  
18 May 2020

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

**STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019**

	Note	GROUP		BANK	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	2,381,504	3,558,550	2,370,512	3,553,075
Deposits and placements with banks and other financial institutions	3	1,089,510	1,700,081	1,089,510	1,700,081
Derivative financial assets	4	2,913	454	2,913	454
Debt instruments at fair value through other comprehensive income ("FVOCI")	5	897,817	467,541	897,817	467,541
Equity instruments at FVOCI	6	16,483	14,936	16,483	14,936
Equity instrument at fair value through profit and loss ("FVTPL")	7	1,486	1,072	1,486	1,072
Debt instruments at amortised cost	8	792,846	655,390	792,846	655,390
Loans and advances	9	7,487,408	6,693,130	7,487,408	6,693,130
Other assets	10	5,522	5,093	4,743	4,344
Right-of-use assets	11	29,947	-	26,607	-
Tax recoverable		24,611	4,000	24,611	4,000
Deferred tax assets	12	8,306	17,233	8,016	16,959
Statutory deposits with Bank Negara Malaysia	13	99,600	98,000	99,600	98,000
Investment in a subsidiary	14	-	-	1,000	1,000
Property and equipment	15	54,032	59,977	53,064	58,956
Intangible assets	16	1,376	914	1,376	914
<b>TOTAL ASSETS</b>		<b>12,893,361</b>	<b>13,276,371</b>	<b>12,877,992</b>	<b>13,269,852</b>
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers	17	7,155,539	8,356,277	7,168,887	8,369,316
Deposits and placements of banks and other financial institutions	18	2,718,660	1,954,232	2,718,660	1,954,232
Derivative financial liabilities	4	2,877	227	2,877	227
Other liabilities	19	161,676	151,352	151,873	147,744
Provision for taxation		1,200	500	-	-
Subordinated loan	20	1,273,640	1,287,303	1,273,640	1,287,303
<b>TOTAL LIABILITIES</b>		<b>11,313,592</b>	<b>11,749,891</b>	<b>11,315,937</b>	<b>11,758,822</b>
Share capital	21	760,518	760,518	760,518	760,518
Reserves	22	819,251	765,962	801,537	750,512
<b>TOTAL EQUITY</b>		<b>1,579,769</b>	<b>1,526,480</b>	<b>1,562,055</b>	<b>1,511,030</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>12,893,361</b>	<b>13,276,371</b>	<b>12,877,992</b>	<b>13,269,852</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	34	<b>5,591,993</b>	<b>4,896,737</b>	<b>5,591,993</b>	<b>4,896,737</b>

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

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Note	GROUP		BANK	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Operating revenue	23	619,126	622,119	602,943	608,494
Interest income	24	509,720	524,457	509,720	524,457
Interest expense	25	(293,277)	(293,128)	(293,277)	(293,128)
Net interest income		216,443	231,329	216,443	231,329
Other operating income	26	109,406	97,662	93,223	84,037
Other operating expenses	27	(149,608)	(138,894)	(141,502)	(130,852)
Operating profit before allowance Allowance for impairment on loans and advances and other financial assets	29	176,241 (106,427)	190,097 (76)	168,164 (106,424)	184,514 (70)
Profit before taxation		69,814	190,021	61,740	184,444
Taxation	30	(20,871)	(46,387)	(15,061)	(41,749)
Profit for the financial year		48,943	143,634	46,679	142,695
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		4,346	6,446	4,346	6,446
Total comprehensive income for the financial year, net of tax		53,289	150,080	51,025	149,141
Earnings per share - Basic/fully diluted (sen)	31	6.44	18.89		

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

GROUP	← Non-distributable →			Distributable		Total RM'000
	Share capital RM'000	Revaluation reserve RM'000	Fair value through other comprehensive reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
As at 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 from retained profits to regulatory reserve	-	-	-	17,416	(17,416)	-
As at 31 December 2019	760,518	-	12,539	33,607	773,105	1,579,769
As at 31 December 2017	760,518	1,163	-	30,067	621,693	1,413,441
Effect of adopting MFRS 9 <i>Financial Instrument</i>	-	(1,163)	1,163	-	(37,625)	(37,625)
Effect of adopting MFRS 9 <i>Financial Instrument</i> - OCI	-	-	584	-	-	584
1 January 2018, as restated	760,518	-	1,747	30,067	584,068	1,376,400
Profit for the financial year	-	-	-	-	143,634	143,634
Other comprehensive income, net of tax	-	-	6,446	-	-	6,446
Total comprehensive income for the financial year, net of tax	-	-	6,446	-	143,634	150,080
Transfer from regulatory reserve to retained profits	-	-	-	(13,876)	13,876	-
As at 31 December 2018	760,518	-	8,193	16,191	741,578	1,526,480



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

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	← Non-distributable →				Distributable	
	Share capital RM'000	Revaluation reserve RM'000	Fair value through other comprehensive reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
<b>BANK</b>						
As at 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 from retained profits to regulatory reserve	-	-	-	17,416	(17,416)	-
As at 31 December 2019	760,518	-	12,539	33,607	755,391	1,562,055
As at 31 December 2017	760,518	1,163	-	30,067	607,180	1,398,928
Effect of adopting MFRS 9 <i>Financial Instrument</i>	-	(1,163)	1,163	-	(37,623)	(37,623)
Effect of adopting MFRS 9 <i>Financial Instrument</i> - OCI	-	-	584	-	-	584
1 January 2018, as restated	760,518	-	1,747	30,067	569,557	1,361,889
Profit for the financial year	-	-	-	-	142,695	142,695
Other comprehensive income, net of tax	-	-	6,446	-	-	6,446
Total comprehensive income for the financial year, net of tax	-	-	6,446	-	142,695	149,141
Transfer from regulatory reserve to retained profits	-	-	-	(13,876)	13,876	-
As at 31 December 2018	760,518	-	8,193	16,191	726,128	1,511,030

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		69,814	190,021	61,740	184,444
Adjustments for:					
Depreciation of property and equipment	27	7,322	7,286	6,689	6,595
Depreciation of right-of-use assets	27	8,483	-	7,107	-
Amortisation of intangible assets	27	759	434	759	434
Amortisation of premium less accretion of discount	24	1,768	1,406	1,768	1,406
Allowance for impairment on loans and advances and other financial assets	29	108,708	79	108,705	73
Interest income from debt instruments at FVOCI	24	(22,504)	(15,464)	(22,504)	(15,464)
Interest income from debt instruments at amortised cost	24	(19,926)	(25,007)	(19,926)	(25,007)
Finance cost on lease liabilities	27	1,313	-	1,132	-
Interest expense on subordinated loan	25	35,461	31,328	35,461	31,328
Unrealised foreign exchange loss	26	44	2,732	44	2,732
Unrealised (gain)/loss on equity instrument at FVTPL	26	(367)	1,250	(367)	1,250
Net loss/(gain) on revaluation of derivatives	26	191	(78)	191	(78)
Dividend income received from equity instruments at FVOCI	26	(60)	-	(60)	-
Dividend income from a subsidiary	26	-	-	(15,450)	(14,500)
Property and equipment written-off	27	94	294	94	293
Operating profit before changes in operating assets and liabilities		191,100	194,281	165,383	173,506
<b>(INCREASE)/DECREASE IN OPERATING ASSETS</b>					
Deposits and placements with banks and other financial institutions		610,521	(57,473)	610,521	(57,473)
Loans and advances		(902,986)	(857,304)	(902,986)	(857,304)
Right-of-use assets		(38,430)	-	(33,714)	-
Other assets		(924)	5,813	(891)	(2,362)
Statutory deposits with Bank Negara Malaysia		(1,600)	14,300	(1,600)	14,300
		(142,319)	(700,383)	(163,287)	(729,333)

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>					
Deposits from customers		(1,200,738)	132,399	(1,200,429)	138,410
Deposits and placements of banks and other financial institutions		764,428	488,233	764,428	488,233
Other liabilities		18,786	(20,984)	11,288	(21,741)
Subordinated loan		(12,171)	25,885	(12,171)	25,885
Cash generated from operating activities		(572,014)	(74,850)	(600,171)	(98,546)
Taxes paid		(33,228)	(52,461)	(28,102)	(47,740)
Net cash used in operating activities		(605,242)	(127,311)	(628,273)	(146,286)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Dividend income received from equity instrument at FVOCI		60	-	60	-
Dividend income received from a subsidiary		-	-	15,450	14,500
Purchase of property and equipment	15	(1,471)	(5,417)	(891)	(5,342)
Purchase of intangible assets	16	(1,221)	(88)	(1,221)	(88)
Purchases of debt instruments at FVOCI		(739,040)	(212,315)	(739,040)	(212,315)
Proceeds from debt instruments at FVOCI		310,000	150,000	310,000	150,000
Purchase of equity instruments at FVOCI		-	(1,800)	-	(1,800)
Purchases of debt instruments at amortised cost		(3,440,000)	(2,730,000)	(3,440,000)	(2,730,000)
Proceeds from debt instruments at amortised cost		3,300,000	3,395,000	3,300,000	3,395,000
Interest received on debt instruments at FVOCI		23,602	14,146	23,602	14,146
Interest received on debt instruments at amortised cost		22,470	26,516	22,470	26,516
Net cash (used in)/generated from investing activities		(525,600)	636,042	(509,570)	650,617

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Payment of lease liabilities		(9,251)	-	(7,767)	-
Interest paid on subordinated loan		<u>(36,953)</u>	<u>(28,536)</u>	<u>(36,953)</u>	<u>(28,536)</u>
Net cash used in financing activities		<u>(46,204)</u>	<u>(28,536)</u>	<u>(44,720)</u>	<u>(28,536)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR</b>					
		(1,177,046)	480,195	(1,182,563)	475,795
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>					
		<u>3,558,550</u>	<u>3,078,355</u>	<u>3,553,075</u>	<u>3,077,280</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>					
	2	<u><u>2,381,504</u></u>	<u><u>3,558,550</u></u>	<u><u>2,370,512</u></u>	<u><u>3,553,075</u></u>

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

The following accounting policies have 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 2019.

Changes in accounting policies

The Group and the Bank applied MFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time during the financial year, but do not have an impact on the consolidated financial statements of the Group and the Bank. The Group and the Bank have not early adopted any standards, interpretations or amendments that have been issued but not yet effective.

On 1 January 2019, the Group and the Bank adopted the following amendments to MFRS mandatory for annual financial periods beginning on or after 1 January 2019.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
IC Int 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
MFRS 16: <i>Leases</i>	1 January 2019
Amendments to MFRS 9 <i>Financial Instruments - Prepayment Features with Negative Compensation</i>	1 January 2019
Annual Improvement to MFRS 2015-2017 Cycle	1 January 2019

**MFRS 16 *Leases* ("MFRS 16")**

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117 *Leases*. The Group and the Bank assess at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group and the Bank adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group and the Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)

**MFRS 16 Leases (Continued)**

Instead, the Group and the Bank applied the standard only to contracts that were previously identified as leases applying MFRS 117 and IC Interpretation 4 Determining whether an Arrangement Contains a Lease at the date of initial application. Weighted average incremental borrowing rate as at 1 January 2019 being 4.37%.

The effect of adopting MFRS 16 as at 1 January 2019 is as follows:

	<u>GROUP</u> RM'000	<u>BANK</u> RM'000
Assets		
Right-of-use assets	<u>32,834</u>	<u>28,118</u>
Liabilities		
Lease liabilities	<u>32,834</u>	<u>28,118</u>

Reconciliation between the operating lease commitment to MFRS 16 on 1 January 2019:

	<u>GROUP</u> RM'000	<u>BANK</u> RM'000
Operating lease commitments disclosed as at 31 December 2018 (Note 35)	9,682	8,796
Add: adjustments as a result of a different treatment of extension options	26,295	22,082
Discounted using the incremental borrowing rate	<u>(3,143)</u>	<u>(2,760)</u>
Lease liabilities recognised as at 1 January 2019	<u>32,834</u>	<u>28,118</u>

The Group and the Bank have lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of MFRS 16, the Group and the Bank classified each at the inception date as an operating lease. Upon adoption of MFRS 16, the Group and the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

*Leases previously accounted for as operating leases*

The Group and the Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group and the Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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A BASIS OF PREPARATION (CONTINUED)

Significant changes in regulatory requirement

On 27 September 2019, BNM issued a revised Policy Document on Credit Risk and Financial Reporting which are applicable to banking institution in Malaysia effective on 1 October 2019. The revised BNM Policy Document were updated to clarify the classification of a credit facility as credit impaired, specifically the treatment of rescheduled and restructured credit facilities. The application of the revised policy documents only affected disclosure and classification of a scheduled and restructured credit facility as credit-impaired and did not have any financial impact to the Group and the Bank.

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 3 <i>Business Combination</i> ("MFRS 3") - <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 - <i>Presentation of Financial Statements</i> ("MFRS 101") and 108 <i>Accounting Policies, Changes in Accounting Estimates and Error</i> ("MFRS 108") - <i>Definition of Material</i>	1 January 2020
Revised Conceptual Framework for Financial Reporting (the Conceptual Framework)	1 January 2020
Amendments to MFRS 7 <i>Financial Instruments: Disclosure</i> ("MFRS 7"), 9 <i>Financial Instruments</i> ("MFRS 9") and 139 <i>Financial Instruments: Recognition and Measurement</i> ("MFRS 139") - Interest Rate Benchmark Reform	1 January 2020

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 except as described below:

**Amendments to MFRS 3 - *Definition of a Business***

Under MFRS 3 *Business Combination*, the amendments to the definition of a business is to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the following:

- Minimum requirements to be a business
- Market participants' ability to replace missing element;
- Assessing whether an acquired process is substantive;
- Narrowed the definitions of outputs; and
- Introduced an optional concentration test.

Effective for annual periods beginning or after 1 January 2020.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

Standards and IC interpretation issued but not yet effective (continued)

**Amendments to MFRS 3 - *Definition of a Business (Continued)***

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

**Amendments to MFRS 101 and MFRS 108 - *Definition of Material***

Under MFRS 101 and MFRS 108, the amendments were made to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Effective for annual periods beginning on or after 1 January 2020.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

**Revised Conceptual Framework for Financial Reporting (the Conceptual Framework)**

On 30 April 2018, MASB issued a revised Conceptual Framework for Financial Reporting. The purpose of the Conceptual Framework is, amongst others, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The main changes in the Conceptual Framework are as follows:

- Reintroduces the concept of stewardship and the information needed to assess management's stewardship
- Reintroduces the concept of prudence
- Defines the concept of measurement uncertainty
- Reinstates an explicit reference to the need to "faithfully represent the substance of the phenomena that is purports to represent"
- Made changes to the definitions of an asset and a liability

Effective for annual periods beginning on or after 1 January 2020.



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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**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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**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.

Business combinations

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. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

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 G below.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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**B BASIS OF CONSOLIDATION (CONTINUED)**

Subsidiary

A subsidiary is an investee 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 equipments	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 G 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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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, as follows:

Premises	2 to 6 years
Motor vehicle	2 to 6 years

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 has applied the practical expedient, the Group and the Bank initially measures 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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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

From 1 January 2018, 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 measures 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

F FINANCIAL ASSETS (CONTINUED)

(c) Classification (Continued)

(ii) Debt instruments at FVOCI with recycling

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 holding 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.

For debt instruments at FVOCI with recycling, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income ("OCI"). Upon derecognition, the cumulative fair value changes recognised in OCI is recycled to profit or loss.

The Group's and the Bank's debt instruments at FVOCI with recycling includes investments in quoted debt instruments included under other non-current financial assets.

(iii) Equity instruments at FVOCI without recycling

Upon initial recognition, the Group and the Bank can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI without recycling when they meet the definition of equity under *MFRS 132 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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F FINANCIAL ASSETS (CONTINUED)

(c) Classification (Continued)

(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.

(d) De-recognition

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 Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

- The Bank has transferred its contractual right to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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**G IMPAIRMENT OF FINANCIAL ASSETS**

The Group and the Bank recognise allowance for ECL for all financial assets classified as debt instruments not held 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.



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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K FINANCIAL LIABILITIES (CONTINUED)

(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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**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 of the 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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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 discloses 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.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**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 income statements.

**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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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.

**BANK OF CHINA (MALAYSIA) BERHAD**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**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**

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	274,685	170,031	263,693	164,556
Money at call and deposit placements with original maturity within one month	2,106,868	3,388,543	2,106,868	3,388,543
	<u>2,381,553</u>	<u>3,558,574</u>	<u>2,370,561</u>	<u>3,553,099</u>
Less: allowance for ECL	(49)	(24)	(49)	(24)
	<u>2,381,504</u>	<u>3,558,550</u>	<u>2,370,512</u>	<u>3,553,075</u>

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

	<u>GROUP AND BANK</u>	
	2019 RM'000	2018 RM'000
As at 1 January	24	27
ECL allowance made/(written-back) during the financial year (Note 29)	25	(3)
As at 31 December	<u>49</u>	<u>24</u>



**BANK OF CHINA (MALAYSIA) BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**3. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Licensed banks	1,089,572	1,700,093
	<u>1,089,572</u>	<u>1,700,093</u>
Less: allowance for ECL	(62)	(12)
	<u><u>1,089,510</u></u>	<u><u>1,700,081</u></u>

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

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
As at 1 January	12	121
ECL allowance made/(written-back) during the financial year (Note 29)	50	(109)
As at 31 December	<u><u>62</u></u>	<u><u>12</u></u>

**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.

	<u>GROUP AND BANK</u>		
	<u>Contract or underlying principal amount</u>	<u>Derivative financial assets</u>	<u>Derivative financial liabilities</u>
	RM'000	RM'000	RM'000
31 December 2019			
Foreign exchange related contracts:			
- spots/forwards/swap	<u>468,783</u>	<u>2,913</u>	<u>(2,877)</u>
31 December 2018			
Foreign exchange related contracts:			
- spots/forwards	<u>142,455</u>	<u>454</u>	<u>(227)</u>

**BANK OF CHINA (MALAYSIA) BERHAD**

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Money market instrument:		
Malaysian Government Securities	358,654	457,402
Malaysian Government Investment Issue	407,473	-
Unquoted securities		
Corporate bond	101,719	10,158
Foreign bond	30,060	-
Less: allowance for ECL	(89)	(19)
	<u>131,690</u>	<u>10,139</u>
	<u>897,817</u>	<u>467,541</u>

**Movements in allowance for impairment on Corporate Bond**

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
As at 1 January	19	-
ECL allowance made during the financial year (Note 29)	70	19
As at 31 December	<u>89</u>	<u>19</u>

**6. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
At fair value:		
Unquoted securities		
Shares of corporations in Malaysia	16,483	14,936
	<u>16,483</u>	<u>14,936</u>

**7. EQUITY INSTRUMENT AT FAIR VALUE THROUGH PROFIT AND LOSS**

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
At fair value:		
Quoted securities		
Shares of corporation outside Malaysia	1,486	1,072
	<u>1,486</u>	<u>1,072</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**8. DEBT INSTRUMENTS AT AMORTISED COST**

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
At amortised cost:		
Money market instrument:		
Negotiable instruments of deposits	792,846	655,390
	<u>792,846</u>	<u>655,390</u>

**9. LOANS AND ADVANCES**

(i) By type:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Overdrafts	410,275	502,703
Term loans		
- Housing loans	362,399	339,769
- Syndicated term loans	3,512,566	2,509,956
- Other term loans	1,456,418	1,457,758
Bills receivables	130,466	293,130
Trust receipts	3,994	17,201
Claims on customers under acceptance credits	647,252	511,745
Revolving credits	1,171,218	1,161,040
Staff loans	2,122	2,013
Gross loans and advances	<u>7,696,710</u>	<u>6,795,315</u>
Less: Allowance for ECL	<u>(209,302)</u>	<u>(102,185)</u>
Total net loans and advances	<u>7,487,408</u>	<u>6,693,130</u>

(ii) By geographical distribution:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Malaysia	4,950,630	4,948,182
Other countries	2,746,080	1,847,133
Gross loans and advances	<u>7,696,710</u>	<u>6,795,315</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**9. LOANS AND ADVANCES (CONTINUED)**

(iii) By interest rate sensitivity:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Fixed rate		
- Other fixed rate loans	1,329,443	1,193,769
Variable rate		
- Base lending rate/base rate plus	1,575,013	1,772,455
- Cost of funds plus	4,327,544	3,465,332
- Other variable rates	464,710	363,759
Gross loans and advances	<u>7,696,710</u>	<u>6,795,315</u>

(iv) By economic sector:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Primary agriculture	388,628	534,893
Mining and quarrying	752,604	604,244
Manufacturing	1,381,043	1,029,828
Electricity, gas and water supply	91,200	132,734
Construction	521,060	405,338
Real estate	2,099,519	1,539,053
Wholesale and retail trade and restaurants and hotels	227,521	220,067
Transport, storage and communication	113,583	116,993
Finance, insurance and business services	1,014,484	1,137,859
Education, health and others	365,746	279,685
Household	741,322	794,621
Gross loans and advances	<u>7,696,710</u>	<u>6,795,315</u>

(v) By residual contractual maturity - remaining:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Up to one month	1,538,127	1,462,601
More than one month to three months	620,351	1,141,951
More than three months to six months	171,076	362,361
More than six months to twelve months	166,523	133,066
More than twelve months	5,200,633	3,695,336
Gross loans and advances	<u>7,696,710</u>	<u>6,795,315</u>

The loans and advances were based on the remaining length of time that will be carried and from the report date to the expiry date of the contract created.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**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 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
Bad debts written-off	-	-	(1,591)	(1,591)
Gross carrying amount as at 31 December 2019	<u>6,155,452</u>	<u>1,299,280</u>	<u>241,978</u>	<u>7,696,710</u>
As at 1 January 2018	4,971,176	895,748	97,765	5,964,689
Transferred to 12-month ECL (Stage 1)	122,615	(122,615)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(426,330)	426,330	-	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(6,681)	(4,439)	11,120	-
Changes due to change in credit risk	(1,693,728)	(340,764)	(15,127)	(2,049,619)
New loans and advances originated	2,724,226	181,721	965	2,906,912
Bad debts written-off	-	-	(26,667)	(26,667)
Gross carrying amount as at 31 December 2018	<u>5,691,278</u>	<u>1,035,981</u>	<u>68,056</u>	<u>6,795,315</u>

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**9. LOANS AND ADVANCES (CONTINUED)**

(vii) Credit impaired loans and advances:

(a) Movements in credit impaired loans and advances:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
As at 1 January	68,056	97,765
Classified as credit impaired during the year	183,336	12,085
Reclassified as non-credit impaired during the year	(518)	(15,127)
Amount recovered	(7,305)	-
Amount written-off	(1,591)	(26,667)
As at 31 December	<u>241,978</u>	<u>68,056</u>
Less: Lifetime ECL (credit impaired) (Stage 3)	<u>(121,823)</u>	<u>(32,044)</u>
	<u>120,155</u>	<u>36,012</u>
Ratio of net impaired loans and advances to gross loans and advances less Lifetime ECL (credit impaired) (Stage 3)	<u>1.586%</u>	<u>0.532%</u>

(viii) Gross credit impaired loans and advances

(a) By geographical distribution:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Malaysia	218,502	68,056
Other countries	23,476	-
	<u>241,978</u>	<u>68,056</u>

(b) By economic sector:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Primary agriculture	21,678	-
Manufacturing	77,370	40,887
Electricity, gas and water supply	23,476	-
Construction	3,465	3,255
Wholesale and retail trade and restaurants and hotels	6,633	6,667
Education, health and others	75,704	-
Household	20,503	14,961
Real estate	13,149	2,286
	<u>241,978</u>	<u>68,056</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**9. LOANS AND ADVANCES (CONTINUED)**

(ix) 12-month ECL (Stage 1) and Lifetime ECL (non-credit impaired) (Stage 2) by sector:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Primary agriculture	3,312	2,530
Mining and quarrying	3,053	1,338
Manufacturing	19,352	23,665
Electricity, gas and water supply	254	2,953
Construction	3,341	2,920
Real estate	20,354	23,173
Wholesale and retail trade and restaurants and hotels	5,446	3,561
Transport, storage and communication	844	997
Finance, insurance and business services	871	1,660
Education, health and others	25,003	1,032
Household	5,649	6,312
	<u>87,479</u>	<u>70,141</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**9. LOANS AND ADVANCES (CONTINUED)**(x) Movements in allowance for impairment on loans and advances measured at amortised costGROUP 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	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	<u>20,427</u>	<u>67,052</u>	<u>121,823</u>	<u>209,302</u>
As at 1 January 2018	29,456	45,216	53,822	128,494
Transferred to 12-month ECL (Stage 1)	3,663	(3,663)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(4,176)	4,176	-	-
Transferred to lifetime ECL (credit impaired) (Stage 3)	(23)	(216)	239	-
New loans and advances originated	5,595	1,886	-	7,481
(Reversal)/allowance during the year	(11,188)	7,421	4,650	883
Full settlement	(5,275)	(2,731)	-	(8,006)
Amount written-off	-	-	(26,667)	(26,667)
Allowance for ECL as at 31 December 2018	<u>18,052</u>	<u>52,089</u>	<u>32,044</u>	<u>102,185</u>



**BANK OF CHINA (MALAYSIA) BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**10. OTHER ASSETS**

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Other receivables	2,577	1,249	2,206	905
Sundry deposits	2,782	2,909	2,373	2,500
Prepayments	350	487	345	482
Precious metal inventories	336	576	336	576
	<u>6,045</u>	<u>5,221</u>	<u>5,260</u>	<u>4,463</u>
Less: allowance for ECL	(523)	(128)	(517)	(119)
	<u>5,522</u>	<u>5,093</u>	<u>4,743</u>	<u>4,344</u>

Movements in allowance for impairment on other assets

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
As at 1 January	128	19	119	16
ECL allowance made during the financial year (Note 29)	451	234	448	228
Amount written-off	(56)	(125)	(50)	(125)
As at 31 December	<u>523</u>	<u>128</u>	<u>517</u>	<u>119</u>

**11 RIGHT-OF-USE ASSETS**

<u>Group</u> <u>COST</u>	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	<u>32,202</u>	<u>632</u>	<u>32,834</u>
Additions	242	-	242
Modification to lease terms	3,946	-	3,946
Disposal	(139)	-	(139)
As at 31 December 2019	<u>36,251</u>	<u>632</u>	<u>36,883</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>			
As at 1 January 2019	-	-	-
Charge for the financial year	8,210	273	8,483
Modification to lease terms	(1,493)	-	(1,493)
Disposal	(54)	-	(54)
As at 31 December 2019	<u>6,663</u>	<u>273</u>	<u>6,936</u>
<b>NET CARRYING AMOUNT</b>	<u>29,588</u>	<u>359</u>	<u>29,947</u>

**BANK OF CHINA (MALAYSIA) BERHAD**

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**11 RIGHT-OF-USE ASSETS (CONTINUED)**

<u>Bank</u> <u>COST</u>	Premises RM'000	Motor vehicles RM'000	Total 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
Modification to lease terms	3,946	-	3,946
Disposal	(139)	-	(139)
As at 31 December 2019	<u>31,535</u>	<u>632</u>	<u>32,167</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>			
As at 1 January 2019	-	-	-
Charge for the financial year	6,834	273	7,107
Modification to lease terms	(1,493)	-	(1,493)
Disposal	(54)	-	(54)
As at 31 December 2019	<u>5,287</u>	<u>273</u>	<u>5,560</u>
<b>NET CARRYING AMOUNT</b>	<u>26,248</u>	<u>359</u>	<u>26,607</u>

The Group and the Bank have applied MFRS 16 using modified retrospective method on 1 January 2019, with the cumulative effect adopting MFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current year. Prior periods have not been restated.

The following are the amounts recognised in profit or loss:

	<u>GROUP</u> 2019 RM'000	<u>BANK</u> 2019 RM'000
Expense relating to short-term leases (included in establishment cost)	21	21
Expense relating to leases of low value assets (included in establishment cost)	34	22

**12. DEFERRED TAX ASSETS**

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
As at 1 January	17,233	5,813	16,959	5,623
Recognised in profit or loss (Note 30)	(7,554)	13,456	(7,570)	13,372
Recognised in other comprehensive income	(1,373)	(2,036)	(1,373)	(2,036)
As at 31 December	<u>8,306</u>	<u>17,233</u>	<u>8,016</u>	<u>16,959</u>

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**12. DEFERRED TAX ASSETS (CONTINUED)**

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deferred tax assets	13,058	20,757	12,768	20,482
Deferred tax liabilities	(4,752)	(3,524)	(4,752)	(3,523)
	<u>8,306</u>	<u>17,233</u>	<u>8,016</u>	<u>16,959</u>

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
<u>GROUP</u>					
As at 1 January 2018	-	-	-	8,214	8,214
Recognised in profit or loss	-	-	10,706	1,837	12,543
As at 31 December 2018	-	-	10,706	10,051	20,757
Recognised in profit or loss	108	109	(7,403)	(513)	(7,699)
As at 31 December 2019	<u>108</u>	<u>109</u>	<u>3,303</u>	<u>9,538</u>	<u>13,058</u>

**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
<u>GROUP</u>				
As at 1 January 2018	551	721	1,129	2,401
Recognised in profit or loss	-	(257)	(656)	(913)
Recognised in other comprehensive income	2,036	-	-	2,036
As at 31 December 2018	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	<u>3,960</u>	<u>330</u>	<u>462</u>	<u>4,752</u>

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**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
<b>BANK</b>					
As at 1 January 2018	-	-	-	8,010	8,010
Recognised in profit or loss	-	-	10,705	1,767	12,472
As at 31 December 2018	-	-	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

**Deferred tax liabilities**

	Revaluation reserve	Fair value through other comprehensive reserve	Accelerated capital allowances	Unrealised forex gains/ losses	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>BANK</b>					
As at 1 January 2018	-	551	707	1,129	2,387
Recognised in profit or loss	-	-	(244)	(656)	(900)
Recognised in other comprehensive income	-	2,036	-	-	2,036
As at 31 December 2018	-	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

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.

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**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) and Section 26(3) of the Central Bank of Malaysia Act, 2009. The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

**14. INVESTMENT IN A SUBSIDIARY**

	<u>BANK</u>	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost, in Malaysia	<u>1,000</u>	<u>1,000</u>

The subsidiary of the Bank is as follow:

<u>Name</u>	<u>Principal activity</u>	<u>Percentage of equity held</u>	
		2019 %	2018 %
China Bridge (Malaysia) Sdn. Bhd.	Chinese visa application services	<u>100</u>	<u>100</u>

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**15. PROPERTY AND EQUIPMENT**

<u>GROUP</u>	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Office equipment and furniture</u>	<u>Renovations</u>	<u>Freehold land</u>	<u>Buildings</u>	<u>ATM machine</u>	<u>Work-in-progress</u>	<u>Total</u>
<u>COST</u>	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)
Transfer 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
<b><u>ACCUMULATED DEPRECIATION</u></b>									
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
<b>NET CARRYING AMOUNT</b>	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)**

<u>GROUP</u>	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Office equipment and furniture</u>	<u>Renovations</u>	<u>Freehold land</u>	<u>Buildings</u>	<u>ATM machine</u>	<u>Work-in-progress</u>	<u>Total</u>
<u>COST</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2018	8,662	4,009	8,608	13,505	14,000	26,375	2,321	8,028	85,508
Additions	1,375	-	445	92	-	-	97	3,433	5,442
Reclassification/ Adjustments	(25)	-	1,531	3,727	-	-	642	(5,900)	(25)
Transfer to intangible assets (Note 16)	-	-	-	-	-	-	-	(538)	(538)
Disposal	(20)	-	(23)	-	-	-	-	-	(43)
Write-offs	(174)	-	(210)	(434)	-	-	-	(274)	(1,092)
As at 31 December 2018	9,818	4,009	10,351	16,890	14,000	26,375	3,060	4,749	89,252
<b><u>ACCUMULATED DEPRECIATION</u></b>									
As at 1 January 2018	4,508	2,443	4,443	8,561	-	1,626	1,249	-	22,830
Charge for the financial year (Note 27)	2,084	417	1,224	1,950	-	788	823	-	7,286
Disposal	(20)	-	(23)	-	-	-	-	-	(43)
Write-offs	(167)	-	(201)	(430)	-	-	-	-	(798)
As at 31 December 2018	6,405	2,860	5,443	10,081	-	2,414	2,072	-	29,275
<b>NET CARRYING AMOUNT</b>	<b>3,413</b>	<b>1,149</b>	<b>4,908</b>	<b>6,809</b>	<b>14,000</b>	<b>23,961</b>	<b>988</b>	<b>4,749</b>	<b>59,977</b>

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**15. PROPERTY AND EQUIPMENT (CONTINUED)**

<u>BANK</u>	Computer	Motor	Office		Freehold		ATM	Work-in-	
<u>COST</u>	<u>equipment</u>	<u>vehicles</u>	<u>equipment</u>	<u>Renovations</u>	<u>land</u>	<u>Buildings</u>	<u>machine</u>	<u>progress</u>	<u>Total</u>
	RM'000	RM'000	and furniture	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)
Transfer 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
<b><u>ACCUMULATED DEPRECIATION</u></b>									
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
<b>NET CARRYING AMOUNT</b>	<b>1,813</b>	<b>816</b>	<b>3,765</b>	<b>6,334</b>	<b>14,000</b>	<b>23,173</b>	<b>586</b>	<b>2,577</b>	<b>53,064</b>



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**15. PROPERTY AND EQUIPMENT (CONTINUED)**

<u>BANK</u>	Computer	Motor	Office		Freehold		ATM	Work-in-	
<u>COST</u>	equipment	vehicles	equipment	Renovations	land	Buildings	machine	progress	Total
	RM'000	RM'000	and furniture	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2018	8,097	4,008	7,445	11,233	14,000	26,375	2,250	8,028	81,436
Additions	1,347	-	398	92	-	-	97	3,433	5,367
Reclassification/ Adjustments	(25)	-	1,531	3,727	-	-	642	(5,900)	(25)
Transfer to intangible assets (Note 16)	-	-	-	-	-	-	-	(538)	(538)
Disposal	-	-	(23)	-	-	-	-	-	(23)
Write-offs	(174)	-	(196)	(434)	-	-	-	(274)	(1,078)
As at 31 December 2018	9,245	4,008	9,155	14,618	14,000	26,375	2,989	4,749	85,139
<b><u>ACCUMULATED DEPRECIATION</u></b>									
As at 1 January 2018	4,053	2,442	3,717	7,315	-	1,626	1,243	-	20,396
Charge for the financial year (Note 27)	2,045	417	1,049	1,496	-	788	800	-	6,595
Disposal	-	-	(23)	-	-	-	-	-	(23)
Write-offs	(167)	-	(188)	(430)	-	-	-	-	(785)
As at 31 December 2018	5,931	2,859	4,555	8,381	-	2,414	2,043	-	26,183
<b>NET CARRYING AMOUNT</b>	<b>3,314</b>	<b>1,149</b>	<b>4,600</b>	<b>6,237</b>	<b>14,000</b>	<b>23,961</b>	<b>946</b>	<b>4,749</b>	<b>58,956</b>

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**16. INTANGIBLE ASSETS**

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Computer software</u>				
<b>Cost:</b>				
As at 1 January	2,271	1,645	2,268	1,642
Additions	96	88	96	88
Transfer from property and equipment (Note 15)	1,125	538	1,125	538
Write-offs	-	-	-	-
As at 31 December	<u>3,492</u>	<u>2,271</u>	<u>3,489</u>	<u>2,268</u>
<b>Accumulated amortisation:</b>				
As at 1 January	1,357	923	1,354	920
Charge for the financial year (Note 27)	759	434	759	434
Write-offs	-	-	-	-
As at 31 December	<u>2,116</u>	<u>1,357</u>	<u>2,113</u>	<u>1,354</u>
<b>Net book value</b>	<u>1,376</u>	<u>914</u>	<u>1,376</u>	<u>914</u>

**17. DEPOSITS FROM CUSTOMERS**

(i) By type of deposits

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Demand deposits	2,330,275	3,900,463	2,343,623	3,913,502
Savings deposits	300,451	220,092	300,451	220,092
Fixed deposits	4,221,215	4,033,289	4,221,215	4,033,289
Negotiable instruments of deposits	303,598	202,433	303,598	202,433
	<u>7,155,539</u>	<u>8,356,277</u>	<u>7,168,887</u>	<u>8,369,316</u>

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**17. DEPOSITS FROM CUSTOMERS (CONTINUED)**

(ii) By type of customers

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Business enterprises	2,622,120	4,485,510	2,635,468	4,498,549
Individuals	3,266,465	2,794,119	3,266,465	2,794,119
Others	1,266,954	1,076,648	1,266,954	1,076,648
	<u>7,155,539</u>	<u>8,356,277</u>	<u>7,168,887</u>	<u>8,369,316</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Due within six months	3,522,523	3,318,315	3,522,523	3,318,315
Six months to one year	1,000,214	914,953	1,000,214	914,953
One year to three years	2,076	2,454	2,076	2,454
	<u>4,524,813</u>	<u>4,235,722</u>	<u>4,524,813</u>	<u>4,235,722</u>

**18. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>GROUP AND BANK</u>	
	2019 RM'000	2018 RM'000
Bank Negara Malaysia	43,382	44,020
Licensed banks	2,674,283	1,909,810
Licensed investment banks	148	170
Licensed Islamic banks	844	229
Other financial institutions	3	3
	<u>2,718,660</u>	<u>1,954,232</u>

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**19. OTHER LIABILITIES**

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Accrued expenses	35,711	39,292	33,984	38,064
Margin deposits	36,517	45,026	36,517	45,026
Other liabilities	53,524	60,984	48,861	58,604
Lease liabilities	30,398	-	26,985	-
Allowance for ECL on commitments and contingencies	5,526	6,050	5,526	6,050
	<u>161,676</u>	<u>151,352</u>	<u>151,873</u>	<u>147,744</u>

The margin deposits include interest bearing deposits amounting to RM17,802,000 (2018: RM19,983,000) with a range of interest between 0.30% - 3.00% (2018: 0.30% - 3.15%), and the non-interest bearing deposits amounting to RM18,715,000 (2018: RM25,043,000).

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 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	<u>2,831</u>	<u>2,695</u>	<u>-</u>	<u>5,526</u>

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**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 2018	3,720	441	1	4,162
Transferred to 12-month ECL (Stage 1)	40	(40)	-	-
Transferred to lifetime ECL (non-credit impaired) (Stage 2)	(1,284)	1,284	-	-
New loans and advances originated	3,112	365	-	3,477
(Reversal)/allowance during the year	(143)	(334)	2	(475)
Full settlement	(999)	(115)	-	(1,114)
As at 31 December 2018	<u>4,446</u>	<u>1,601</u>	<u>3</u>	<u>6,050</u>

The exposure at default of the commitments and contingencies are disclosed in Note 38 (b)(i).

**20. SUBORDINATED LOAN**

	<u>GROUP AND BANK</u>	
	2019 RM'000	2018 RM'000
At cost	1,254,725	1,254,725
Interest accrued	5,120	6,693
Foreign exchange difference	13,795	25,885
	<u>1,273,640</u>	<u>1,287,303</u>

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.

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**21. SHARE CAPITAL**

	Number of ordinary shares		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'000
<u>GROUP AND BANK</u>				
Issued and fully paid:				
At beginning and end of the financial year	<u>760,518</u>	<u>760,518</u>	<u>760,518</u>	<u>760,518</u>

**22. RESERVES**

(a) Retained profits

The Bank may distribute dividends out of its entire retained profits as at 31 December 2019 under the single tier system.

(b) Regulatory reserve

Under MFRS 9, 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 guidelines.

(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.

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	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Loans and advances		
- Interest income on non-credit impaired loans and advances	315,384	295,964
- Interest income on credit impaired loans and advances	5,932	7,561
Money at call and deposit placements with financial institutions	147,726	181,867
Debt instruments at FVOCI	22,504	15,464
Debt instruments at amortised cost	19,926	25,007
Other interest income	16	-
	<u>511,488</u>	<u>525,863</u>
Amortisation of premium less accretion of discount	(1,768)	(1,406)
	<u><u>509,720</u></u>	<u><u>524,457</u></u>

**25. INTEREST EXPENSE**

	<u>GROUP</u>		<u>BANK</u>	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	26,598	23,171	26,598	23,171
Deposits from customers	230,658	238,062	230,658	238,062
Subordinated loan	35,461	31,328	35,461	31,328
Others	560	567	560	567
	<u>293,277</u>	<u>293,128</u>	<u>293,277</u>	<u>293,128</u>

**26. OTHER OPERATING INCOME**

	<u>GROUP</u>		<u>BANK</u>	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Fee income:				
- Fee on loans and advances	17,237	23,180	17,237	23,180
- Service charges and fees	57,199	51,941	4,944	4,014
- Guarantee fees	14,608	11,335	14,608	11,335
	<u>89,044</u>	<u>86,456</u>	<u>36,789</u>	<u>38,529</u>
Fee expense:				
- Commission related expenses	(20,572)	(19,594)	-	-
Net fee income	<u>68,472</u>	<u>66,862</u>	<u>36,789</u>	<u>38,529</u>
Foreign exchange gain/(loss):				
- Realised	37,514	34,254	37,514	34,254
- Unrealised	(44)	(2,732)	(44)	(2,732)
Net (loss)/gain on revaluation of derivatives	<u>(191)</u>	<u>78</u>	<u>(191)</u>	<u>78</u>
Unrealised gain/(loss) on equity instrument at FVTPL	367	(1,250)	367	(1,250)
Revenue from sale of precious metal products	570	405	570	405
Gain from derivative financial instrument	2,366	-	2,366	-
Dividend income:				
- Investment in a subsidiary	-	-	15,450	14,500
- Equity instruments at FVOCI	60	-	60	-
Other income	292	45	342	253
	<u>109,406</u>	<u>97,662</u>	<u>93,223</u>	<u>84,037</u>

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	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Personnel expenses</u>				
Salaries and wages (includes CEO/ED)	62,193	53,357	59,240	50,624
Bonuses	24,246	25,194	23,346	24,120
Defined contribution plan ("EPF")	10,483	9,648	10,100	9,281
Staff welfare expenses	2,919	2,744	2,621	2,467
Other personnel costs	8,094	8,227	7,821	7,958
	<u>107,935</u>	<u>99,170</u>	<u>103,128</u>	<u>94,450</u>
<u>Marketing expenses</u>				
Entertainment	1,227	952	1,218	927
Other marketing	2,187	1,794	2,187	1,794
	<u>3,414</u>	<u>2,746</u>	<u>3,405</u>	<u>2,721</u>
<u>Establishment costs</u>				
Rental of premises	31	8,997	31	7,513
Depreciation of property and equipment (Note 15)	7,322	7,286	6,689	6,595
Depreciation of right-of-use assets (Note 11)	8,483	-	7,107	-
Amortisation of intangible assets (Note 16)	759	434	759	434
Finance cost on lease liabilities	1,313	-	1,132	-
Repairs and maintenance	1,145	1,251	1,133	1,243
Property and equipment written-off	94	294	94	293
Information technology expenses	3,818	3,050	3,806	3,041
Other establishment costs	2,516	2,186	2,462	2,139
	<u>25,481</u>	<u>23,498</u>	<u>23,213</u>	<u>21,258</u>
<u>Administration and general expenses</u>				
Insurance premium	1,330	1,215	1,322	1,207
Travelling and accommodation	2,640	2,657	2,498	2,540
Telecommunication and utilities	1,395	1,263	1,252	1,119
Printing, stationery and postage	1,472	1,580	1,159	1,211
Legal and professional fees	418	534	415	529
Other administration and general expenses	5,009	5,894	4,596	5,480
	<u>12,264</u>	<u>13,143</u>	<u>11,242</u>	<u>12,086</u>
<u>Other expenses</u>				
Cost of sales of precious metal products	514	337	514	337
	<u>149,608</u>	<u>138,894</u>	<u>141,502</u>	<u>130,852</u>

The above expenditure includes the following statutory disclosures:

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Auditors' remuneration				
- current year audit	223	221	179	177
- overprovision in prior financial years	(16)	-	(16)	-
- regulatory-related services	291	585	291	585
- other services	116	30	105	18
Directors' remuneration (Note 28)	2,069	348	2,069	348
	<u>2,069</u>	<u>348</u>	<u>2,069</u>	<u>348</u>



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**28. DIRECTORS' REMUNERATION**

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

	<u>GROUP AND BANK</u>	
	2019 RM'000	2018 RM'000
<u>Executive Director</u>		
- salary and other remuneration	1,643	-
- benefits-in-kind	42	-
	<u>1,685</u>	<u>-</u>
 <u>Non-Executive Directors</u>		
Fees		
- Chai Woon Chew	135	130
- Eugene Khoo Kong Hooi	135	130
- Dato' Low Kian Chuan	114	88
	<u>384</u>	<u>348</u>
	<u>2,069</u>	<u>348</u>

The remuneration and benefits-in-kind attributable to the Executive Director/Chief Executive Officer of the Bank during the financial year amounted to RM1,685,245 (2018: Nil).

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

	<u>GROUP AND BANK</u>	
	<u>Number of Directors</u>	
	2019	2018
<u>Executive Director</u>		
RM1,500,001 - RM2,000,000	1	-
 <u>Non-Executive Directors</u>		
RM20,001 - RM100,000	-	1
RM100,001 - RM150,000	3	2

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Allowance/(write-back) for impairment on:				
Cash and short-term funds (Note 2)				
- Stage 1	25	(3)	25	(3)
Deposits and placements with banks and other financial institutions (Note 3)				
- Stage 1	50	(109)	50	(109)
Debt instruments at FVOCI (Note 5)				
- Stage 1	70	19	70	19
Other assets (Note 10)				
- Stage 1	451	234	448	228
Loans and advances				
- Stage 1	(4,370)	(10,868)	(4,370)	(10,868)
- Stage 2	25,975	6,576	25,975	6,576
- Stage 3	87,103	4,650	87,103	4,650
Commitments and contingencies				
- Stage 1	(1,886)	1,970	(1,886)	1,970
- Stage 2	1,370	(84)	1,370	(84)
- Stage 3	(8)	2	(8)	2
Bad debt recover during the financial year	(2,353)	(2,311)	(2,353)	(2,311)
	<u>106,427</u>	<u>76</u>	<u>106,424</u>	<u>70</u>

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**30. TAXATION**

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Tax expense for the financial year:				
- Malaysian income tax	21,000	59,911	15,300	54,910
- Foreign tax	21	39	-	39
Less : Double taxation relief	-	(29)	-	(29)
- Overprovision in prior financial years	(7,704)	(78)	(7,809)	201
	<u>13,317</u>	<u>59,843</u>	<u>7,491</u>	<u>55,121</u>
Deferred tax (Note 12):				
- Origination and reversal of temporary differences, net	(2,088)	(13,476)	(2,072)	(13,384)
- Overprovision in prior financial years	9,642	20	9,642	12
	<u>7,554</u>	<u>(13,456)</u>	<u>7,570</u>	<u>(13,372)</u>
Total tax expense	<u>20,871</u>	<u>46,387</u>	<u>15,061</u>	<u>41,749</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before taxation	<u>69,814</u>	<u>190,021</u>	<u>61,740</u>	<u>184,444</u>
Statutory tax rate in Malaysia, 24% (2018: 24%)	16,755	45,605	14,818	44,267
Tax effects in respect of:				
- Non-allowable expenses	2,192	862	2,132	739
- Non-taxable income	(14)	-	(3,722)	(3,480)
Effect of different tax rates in other countries	-	10	-	10
Effect of preferential tax rate	-	(32)	-	-
(Over)/underprovision in prior years:				
- Income tax	(7,704)	(78)	(7,809)	201
- Deferred tax	9,642	20	9,642	12
Tax expense	<u>20,871</u>	<u>46,387</u>	<u>15,061</u>	<u>41,749</u>

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

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**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.

	<u>GROUP</u>	
	2019	2018
	RM'000	RM'000
Net profit attributable to equity holder	48,943	143,634
Weighted average number of ordinary shares in issue	760,518	760,518
Basic/fully diluted earnings per share (sen)	<u>6.44</u>	<u>18.89</u>

**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 and 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 direct or indirectly. The key management personnel includes the Directors and senior management of the Group and of the Bank.

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**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.

<u>GROUP</u>	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries</u> RM'000	Key management <u>personnel</u> RM'000
<u>2019</u>				
<b>INCOME</b>				
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	-	-
	<u>5,120</u>	<u>8,114</u>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>				
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	-	-
	<u>13,930</u>	<u>80,713</u>	<u>-</u>	<u>167</u>
<u>2018</u>				
<b>INCOME</b>				
Interest income:				
- Cash and short-term funds	83	741	-	-
- Deposits and placements with banks and other financial institutions	11,619	3,399	32	-
Fee income	-	1,064	-	-
	<u>11,702</u>	<u>5,204</u>	<u>32</u>	<u>-</u>
<b>EXPENSES</b>				
Interest expenses:				
- Deposits from customers	-	-	-	82
- Deposits and placements of banks and other financial institutions	11,238	40,003	69	-
- Subordinated loan	-	31,328	-	-
Personnel expenses	40	763	-	-
Marketing expenses	-	1	-	-
Establishment expenses	2,080	189	-	-
Administrative expenses	-	3	-	-
	<u>13,358</u>	<u>72,287</u>	<u>69</u>	<u>82</u>

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**32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

(a) Related party transactions (Continued)

<u>BANK</u>	Penultimate holding <u>company</u>	Immediate holding <u>company</u>	Fellow <u>subsidiaries</u>	<u>Subsidiary</u>	Key management <u>personnel</u>
<u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000
<b>INCOME</b>					
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	-
	<u>5,120</u>	<u>8,114</u>	<u>-</u>	<u>15,661</u>	<u>-</u>
<b>EXPENSES</b>					
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	-	-	-
	<u>13,930</u>	<u>80,713</u>	<u>-</u>	<u>-</u>	<u>163</u>
<u>2018</u>					
<b>INCOME</b>					
Interest income:					
- Cash and short-term funds	83	741	-	-	-
- Deposits and placements with banks and other financial institutions	11,619	3,399	32	-	-
Fee income	-	1,064	-	-	-
Other operating income:					
- Dividend income	-	-	-	14,500	-
- Others	-	-	-	211	-
	<u>11,702</u>	<u>5,204</u>	<u>32</u>	<u>14,711</u>	<u>-</u>

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**32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

(a) Related party transactions (Continued)

	Penultimate holding company RM'000	Immediate holding company RM'000	Fellow subsidiaries RM'000	Subsidiary RM'000	Key management personnel RM'000
<u>BANK</u> <u>2018</u> EXPENSES					
Interest expenses:					
- Deposits from customers	-	-	-	-	82
- Deposits and placements of banks and other financial institutions	11,238	40,003	69	-	-
- Subordinated loan	-	31,328	-	-	-
Personnel expenses	40	763	-	-	-
Marketing expenses	-	1	-	-	-
Establishment expenses	2,080	189	-	-	-
Administrative expenses	-	3	-	-	-
	<u>13,358</u>	<u>72,287</u>	<u>69</u>	<u>-</u>	<u>82</u>

(b) Related party balances

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

	Penultimate holding company RM'000	Immediate holding company RM'000	Fellow subsidiaries RM'000	Key management personnel RM'000
<u>GROUP</u> <u>2019</u>				
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	-	-
	<u>182,921</u>	<u>377,575</u>	<u>-</u>	<u>-</u>
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	-	-
	<u>700,385</u>	<u>2,471,281</u>	<u>-</u>	<u>10,783</u>

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**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):

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries</u> RM'000	Key management <u>personnel</u> RM'000
<b>GROUP</b>				
<b>2018</b>				
AMOUNT DUE FROM				
Cash and short-term funds	180,220	73,867	950	-
Deposits and placements with banks and other financial institutions	266,852	128	-	-
	<u>447,072</u>	<u>73,995</u>	<u>950</u>	<u>-</u>
AMOUNT DUE TO				
Deposits from customers	-	-	-	4,865
Deposits and placements of banks and other financial institutions	1,080,428	692,818	-	-
Subordinated loan	-	1,287,302	-	-
Other liabilities	2,080	19	-	-
	<u>1,082,508</u>	<u>1,980,139</u>	<u>-</u>	<u>4,865</u>
<b>BANK</b>				
<b>2019</b>				
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	-	-
	<u>182,921</u>	<u>377,575</u>	<u>-</u>	<u>-</u>
AMOUNT DUE TO				
Deposits from customers	-	-	-	13,348
Deposits and placements of banks and other financial institutions	699,906	1,197,534	-	-
Subordinated loan	-	1,273,640	-	-
Other liabilities	479	107	-	-
	<u>700,385</u>	<u>2,471,281</u>	<u>-</u>	<u>13,348</u>



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**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):

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries</u> RM'000	<u>Subsidiary</u> RM'000	Key management <u>personnel</u> RM'000
<u>BANK</u> <u>2018</u>					
AMOUNT DUE FROM					
Cash and short-term funds	180,220	73,867	950	-	-
Deposits and placements with banks and other financial institutions	266,852	128	-	-	-
	<u>447,072</u>	<u>73,995</u>	<u>950</u>	<u>-</u>	<u>-</u>
AMOUNT DUE TO					
Deposits from customers	-	-	-	13,039	4,865
Deposits and placements of banks and other financial institutions	1,080,428	692,818	-	-	-
Subordinated loan	-	1,287,302	-	-	-
Other liabilities	2,080	19	-	-	-
	<u>1,082,508</u>	<u>1,980,139</u>	<u>-</u>	<u>13,039</u>	<u>4,865</u>

Included in the table above are deposits from the Directors of the Group and of the Bank is RM1,938,000 (2018: Nil).

(c) Intercompany charges breakdown by geographical distribution:

i) By geographical distribution:

	GROUP AND BANK	
	2019 RM'000	2018 RM'000
Other countries	<u>1,818</u>	<u>3,076</u>

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**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:

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fees	384	348	384	348
Salaries and other short-term benefits	9,996	9,540	9,273	8,856
EPF	413	359	413	359
Benefits-in-kind	77	83	44	50
	<u>10,870</u>	<u>10,330</u>	<u>10,114</u>	<u>9,613</u>

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:

	<u>GROUP AND BANK</u>	
	2019 RM'000	2018 RM'000
Outstanding credit exposures with connected parties	<u>1,401,496</u>	<u>1,394,983</u>
Outstanding credit exposures with connected parties as a percentage of total credit exposures	15%	17%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	<u>Nil</u>	<u>Nil</u>

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**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 2019			31 December 2018		
	Principal	Credit*	Risk	Principal	Credit*	Risk
	RM'000	equivalent RM'000	weighted RM'000	RM'000	equivalent RM'000	weighted RM'000
Direct credit substitutes	2,547	2,547	2,547	2,136	2,136	2,136
Transaction-related contingent items	2,383,135	1,191,568	614,304	2,480,797	1,240,398	656,134
Short-term self-liquidation trade related contingencies	55,595	11,119	9,578	132,751	26,550	26,223
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	2,111,915	422,383	345,813	1,603,671	320,734	295,055
- Maturity exceeding one year	569,998	284,999	264,533	534,907	267,453	241,417
Foreign exchange related contracts:						
- Less than one year	218,308	2,591	1,274	142,455	1,508	973
Interest/Profit rate related contracts:						
- More than five year	250,475	16,913	13,156	-	-	-
Unutilised credit card lines	20	4	3	20	4	3
<b>Total</b>	<b>5,591,993</b>	<b>1,932,124</b>	<b>1,251,208</b>	<b>4,896,737</b>	<b>1,858,783</b>	<b>1,221,941</b>

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

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**35. LEASE COMMITMENTS**

The Group and the Bank have lease commitments in respect of rental of premises and equipment on hire, all of which are classified as operating leases. The future minimum lease payments under non-cancellable operating leases as follows (prior to 1 January 2019):

	<u>GROUP</u>	<u>BANK</u>
	2018	2018
	RM'000	RM'000
Not later than 1 year	6,245	5,398
Later than 1 year but not later than 5 years	3,437	3,398
	<u>9,682</u>	<u>8,796</u>

**36. CAPITAL COMMITMENTS**

	<u>GROUP</u>		<u>BANK</u>	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property and equipment approved by the Board and contracted for	<u>3,332</u>	<u>3,248</u>	<u>3,332</u>	<u>3,248</u>

**37. 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 2 February 2018. 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 comprises sum of the following:

- a) Capital Conservation Buffer ("CCB") of 2.5% phased-in from 2016 to 2019 [2018: +1.875%; 2019 onwards: +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%)

The minimum regulatory capital adequacy ratios for year 2019 are as follows:

CET 1 Capital Ratio (including CCB and CCyB)	7.000% (6.375% in the year 2018)
Tier 1 Capital Ratio (including CCB and CCyB)	8.500% (7.875% in the year 2018)
Total Capital Ratio (including CCB and CCyB)	10.500% (9.875% in the year 2018)

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**37. CAPITAL ADEQUACY (CONTINUED)**

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Common Equity Tier 1 ("CET 1") Capital</u>				
Paid-up ordinary share capital	760,518	760,518	760,518	760,518
Retained profits	773,105	741,578	755,391	726,128
Regulatory reserve	33,607	16,191	33,607	16,191
Fair value through other comprehensive reserve	12,539	8,193	12,539	8,193
	<u>1,579,769</u>	<u>1,526,480</u>	<u>1,562,055</u>	<u>1,511,030</u>
Regulatory adjustment applied in the calculation of CET 1 Capital				
- Deferred tax assets	(8,306)	(17,233)	(8,016)	(16,959)
- 55% of cumulative gains of debt instruments at FVOCI	(6,896)	(4,506)	(6,896)	(4,506)
- Regulatory reserve attributable to financial assets	(33,607)	(16,191)	(33,607)	(16,191)
	<u>(48,809)</u>	<u>(37,930)</u>	<u>(48,519)</u>	<u>(37,656)</u>
Total CET 1 Capital/Total Tier 1 Capital	<u>1,530,960</u>	<u>1,488,550</u>	<u>1,513,536</u>	<u>1,473,374</u>
<u>Tier-2 Capital</u>				
General provision *	105,347	92,562	105,253	92,553
Subordinated loan	1,268,520	1,280,610	1,268,520	1,280,610
Less: Investment in a subsidiary company	-	-	(1,000)	(1,000)
Total Tier-2 Capital	<u>1,373,867</u>	<u>1,373,172</u>	<u>1,372,773</u>	<u>1,372,163</u>
<b>Total Capital Base</b>	<b><u>2,904,827</u></b>	<b><u>2,861,722</u></b>	<b><u>2,886,309</u></b>	<b><u>2,845,537</u></b>

	<u>GROUP</u>		<u>BANK</u>	
	2019	2018	2019	2018
<u>Capital ratios</u>				
CET 1 Capital Ratio	16.950%	17.722%	16.872%	17.648%
Tier 1 Capital Ratio	16.950%	17.722%	16.872%	17.648%
Total Capital Ratio	32.160%	34.070%	32.174%	34.084%

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

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**37. CAPITAL ADEQUACY (CONTINUED)**

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Credit risk	8,427,751	7,825,343	8,420,222	7,822,480
Market risk	5,047	16,273	5,047	16,273
Operational risk	599,522	557,978	545,542	509,932
	<u>9,032,320</u>	<u>8,399,594</u>	<u>8,970,811</u>	<u>8,348,685</u>

**38. 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) 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 Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD").

The details of these three components are as below:

- PD is an estimate 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.

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (continued)

(i) ECL models application (continued)

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

The PD and LGD are proxied to peer banks and Parent Bank (for LGD only) 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.

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 year 2019, the Bank has enhanced the MEV model for Corporate Portfolio by using internal portfolio data and Malaysia local macroeconomic parameters. The Bank monitors macroeconomic factors on regular basis to ensure ECL is reflective of forward-looking information. The enhancement process takes into consideration statistical results (i.e. correlation analysis, single factor analysis and multiple regression) and expert opinion from key stakeholders and Management.

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.

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (continued)

(i) ECL models application (continued)

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 loan/financing is classified as impaired as soon as a default occurs; or
- when the loan is classified as rescheduled and restructured in the Central Credit Reference Information System ("CCRIS") in accordance with regulatory requirements.

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.



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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (continued)

(i) ECL models application (continued)

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.

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

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

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (continued)

(i) ECL models application (continued)

Credit quality of financial assets (continued)

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

<u>Loans and Advances</u> <u>(On Balance Sheet Exposure)</u>	<u>GROUP AND BANK</u> 2018			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Pass	5,691,279	508,228	-	6,199,507
Special Mention	-	527,752	-	527,752
Substandard	-	-	9,425	9,425
Doubtful	-	-	5,670	5,670
Loss	-	-	52,961	52,961
	<u>5,691,279</u>	<u>1,035,980</u>	<u>68,056</u>	<u>6,795,315</u>

<u>Commitments and</u> <u>contingencies</u>	<u>GROUP AND BANK</u> 2019			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Pass	1,770,149	123,066	-	1,893,215
Special Mention	-	19,360	-	19,360
Substandard	-	-	45	45
	<u>1,770,149</u>	<u>142,426</u>	<u>45</u>	<u>1,912,620</u>

<u>Commitments and</u> <u>contingencies</u>	<u>GROUP AND BANK</u> 2018			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Pass	1,774,985	69,181	-	1,844,166
Special Mention	-	13,099	-	13,099
Loss	-	-	10	10
	<u>1,774,985</u>	<u>82,280</u>	<u>10</u>	<u>1,857,275</u>

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (continued)

(i) ECL models application (continued)

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:

	<u>GROUP AND BANK</u>			Total RM'000
	2019			
<u>Other Debt Instruments</u>	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Investment Grade	2,430,824	-	-	2,430,824
Total	<u>2,430,824</u>	<u>-</u>	<u>-</u>	<u>2,430,824</u>

	<u>GROUP AND BANK</u>			Total RM'000
	2018			
<u>Other Debt Instruments</u>	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Investment Grade	1,292,754	-	-	1,292,754
Total	<u>1,292,754</u>	<u>-</u>	<u>-</u>	<u>1,292,754</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Other Assets</u>				
Aged more than 365 days	291	64	289	62
Aged between 181 - 365 days	461	87	458	86
Aged between 91 - 180 days	-	55	-	54
Aged 90 days or less	657	499	314	187
Total	<u>1,409</u>	<u>705</u>	<u>1,061</u>	<u>389</u>

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(ii) 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.

	<u>GROUP</u>		<u>BANK</u>	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Items recognised in the statements of financial position</u>				
Cash and short-term funds (exclude cash in hand)	2,356,576	3,534,568	2,345,586	3,529,095
Deposits and placements with banks and other financial institutions	1,089,510	1,700,081	1,089,510	1,700,081
Debt instruments at FVOCI	897,817	467,541	897,817	467,541
Equity instruments at FVOCI	16,483	14,936	16,483	14,936
Equity instrument at FVTPL	1,486	1,072	1,486	1,072
Debt instruments at amortised cost	792,846	655,390	792,846	655,390
Loans and advances	7,487,408	6,693,130	7,487,408	6,693,130
Statutory deposits with Bank Negara Malaysia	99,600	98,000	99,600	98,000
Derivative financial assets	2,913	454	2,913	454
	<u>12,744,639</u>	<u>13,165,172</u>	<u>12,733,649</u>	<u>13,159,699</u>
<u>Items not recognised in the statements of financial position</u>				
Contingent liabilities	2,441,277	2,615,684	2,441,277	2,615,684
Credit commitments	2,681,933	2,138,598	2,681,933	2,138,598
Foreign exchange related contracts	468,783	142,455	468,783	142,455
Total maximum credit risk exposure	<u>18,336,632</u>	<u>18,061,909</u>	<u>18,325,642</u>	<u>18,056,436</u>

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 41% (2018: 67%). The financial effect of collateral held for the other financial assets are insignificant.

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(iv) 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 RM32.1 billion; of which RM1.4 billion being collateral of financial assets that are impaired.

(v) Loans and advances

Loans and advances are summarised as follows:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Neither past due nor credit impaired	7,315,724	6,572,111
Past due but non-credit impaired	139,008	155,148
Credit impaired	241,978	68,056
Gross loans and advances	<u>7,696,710</u>	<u>6,795,315</u>
Less: Allowance for ECL	<u>(209,302)</u>	<u>(102,185)</u>
Net loans and advances	<u><u>7,487,408</u></u>	<u><u>6,693,130</u></u>

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

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

<u>GROUP</u>	Short-term funds and placements with financial institutions	Debt and equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Loans and advances	Other assets	On-balance sheet total	Commitments and contingencies
<u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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 <sup>^</sup>	914,389 <sup>^</sup>	1,486	792,846	7,696,710 <sup>^</sup>	226,830 <sup>#</sup>	13,103,386	1,932,124 <sup>*</sup>

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> Other assets include right-of-assets, intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.

<sup>\*</sup> Credit equivalent amount as disclosed in Note 34.

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

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

<u>GROUP</u>	Short-term funds and placements with financial institutions	Debt and equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Loans and advances	Other assets	On-balance sheet total	Commitments and Contingencies
<u>2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	-	-	534,893	-	534,893	37,256
Mining and quarrying	-	-	-	-	604,244	-	604,244	58,870
Manufacturing	-	-	1,072	-	1,029,828	-	1,030,900	486,720
Electricity, gas and water supply	-	-	-	-	132,734	-	132,734	87,378
Construction and real estate	-	-	-	-	1,944,391	-	1,944,391	644,002
Wholesale, retail trade and restaurants and hotels	-	-	-	-	220,067	-	220,067	33,889
Transport, storage and communication	-	-	-	-	116,993	-	116,993	101,241
Finance, insurance and business services	2,855,842	25,094	-	655,390	1,137,859	454	4,674,639	368,624
Household	-	-	-	-	794,621	-	794,621	8,856
Government and government agencies	2,378,843	457,402	-	-	-	98,000	2,934,245	-
Education, health and others	-	-	-	-	279,685	-	279,685	31,947
	5,234,685	482,496	1,072	655,390	6,795,315	98,454	13,267,412	1,858,783
Non-financial assets	23,982	-	-	-	-	87,345	111,327	-
	5,258,667 <sup>^</sup>	482,496 <sup>^</sup>	1,072	655,390	6,795,315 <sup>^</sup>	185,799 <sup>#</sup>	13,378,739	1,858,783 <sup>*</sup>

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative financial assets.

<sup>\*</sup> Credit equivalent amount as disclosed in Note 34.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

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

<u>BANK</u>	Short-term funds and placements with financial institutions	Debt and equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Loans and advances	Other assets	On-balance sheet total	Commitments and contingencies
<u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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
	<u>3,435,207</u>	<u>914,389</u>	<u>1,486</u>	<u>792,846</u>	<u>7,696,710</u>	<u>102,513</u>	<u>12,943,151</u>	<u>1,932,124</u>
Non-financial assets	24,926	-	-	-	-	119,934	144,860	-
	<u>3,460,133</u> <sup>^</sup>	<u>914,389</u> <sup>^</sup>	<u>1,486</u>	<u>792,846</u>	<u>7,696,710</u> <sup>^</sup>	<u>222,447</u> <sup>#</sup>	<u>13,088,011</u>	<u>1,932,124</u> <sup>*</sup>

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> Other assets include right-of-assets, intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.

<sup>\*</sup> Credit equivalent amount as disclosed in Note 34.



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

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

<u>BANK</u> <u>2018</u>	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	-	-	-	-	534,893	-	534,893	37,256
Mining and quarrying	-	-	-	-	604,244	-	604,244	58,870
Manufacturing	-	-	1,072	-	1,029,828	-	1,030,900	486,720
Electricity, gas and water supply	-	-	-	-	132,734	-	132,734	87,378
Construction and real estate	-	-	-	-	1,944,391	-	1,944,391	644,002
Wholesale, retail trade and restaurants and hotels	-	-	-	-	220,067	-	220,067	33,889
Transport, storage and communication	-	-	-	-	116,993	-	116,993	101,241
Finance, insurance and business services	2,850,369	25,094	-	655,390	1,137,859	454	4,669,166	368,624
Household	-	-	-	-	794,621	-	794,621	8,856
Government and government agencies	2,378,843	457,402	-	-	-	98,000	2,934,245	-
Education, health and others	-	-	-	-	279,685	-	279,685	31,947
	5,229,212	482,496	1,072	655,390	6,795,315	98,454	13,261,939	1,858,783
Non-financial assets	23,980	-	-	-	-	86,292	110,272	-
	5,253,192 <sup>^</sup>	482,496 <sup>^</sup>	1,072	655,390	6,795,315 <sup>^</sup>	184,746 <sup>#</sup>	13,372,211	1,858,783 <sup>*</sup>

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative financial assets.

<sup>\*</sup> Credit equivalent amount as disclosed in Note 34.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

**Loans and advances neither past due nor credit impaired**

Gross loans and advances which are neither past due nor credit impaired are identified with the following credit levels:

- “AAA – A” refers to customers with a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.
- “BBB – B” refers to customers with acceptable credit status, relatively low probability of default within the next year, acceptable repayment capability and some credit risk.
- “CCC – C” refers to customers with a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant increase in credit

The following table sets out an analysis of loans and advances by internal credit grading which are neither past due nor impaired.

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
AAA - A	4,763,233	4,246,179
BBB - B	1,850,173	1,424,460
CCC - C	54,038	54,601
Unrated	648,280	846,871
	<u>7,315,724</u>	<u>6,572,111</u>

Loans and advances classified as non-rated mainly comprise of personal loans and other loans which are not rated under the above internal credit grading model.

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

**Loans and advances past due but non-credit impaired**

The following table sets out the ageing of loans and advances which are past due and for which no individual impairment allowance has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that a loan is credit impaired. Stage 3 ECL allowance is generally raised at 90 days past due and any other events occurred as per the policies.

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Between 1 – 30 days past due	88,722	66,749
Between 31 – 60 days past due	28,925	62,688
Between 61 – 90 days past due	21,361	25,711
	<u>139,008</u>	<u>155,148</u>

**Loans and advances credit impaired**

Loans and advances that are individually determined to be impaired as at 31 December 2019 and 31 December 2018 are as follows:

	<u>GROUP AND BANK</u>	
	2019	2018
	RM'000	RM'000
Corporate	221,475	53,095
Individual	20,503	14,961
	<u>241,978</u>	<u>68,056</u>

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

**Financial assets other than loans and advances**

All financial assets other than loans and advances for the Group and the Bank were neither past due nor impaired.

The tables below presents an analysis of financial assets other than loans and advances by rating agency designation as at 31 December 2019, based on Moody's ratings or their equivalent:

	Cash and short-term funds	Deposits and placements with banks and other financial institutions ("FIs")	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Other assets
<u>GROUP</u> <u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aa3/AAA/AA-/A-	257,912	628,055	131,779	16,483	-	-	-
A1/A2	169,725	24,343	-	-	-	-	-
A3/Baa1/BBB+/BBB/BBB-/B+	5	437,174	-	-	-	792,846	-
Unrated							
- Bank Negara Malaysia/sovereign	1,928,983	-	766,127	-	-	-	99,600
- Others	24,928	-	-	-	1,486	-	2,913
	<u>2,381,553</u>	<u>1,089,572</u>	<u>897,906</u>	<u>16,483</u>	<u>1,486</u>	<u>792,846</u>	<u>102,513</u>

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

**Financial assets other than loans and advances (continued)**

	Cash and short-term funds	Deposits and placements with banks and other FIs	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Other assets
<u>GROUP</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2018</u>							
Aa3/Aa2/A-/A	1,055,556	1,700,081	-	-	-	605,036	-
A1/A2	-	-	-	-	-	-	-
A3/Baa1/BBB+	100,168	-	10,139	14,936	-	50,354	-
Baa2/Baa3/BBB	-	-	-	-	-	-	-
Ba1/Ba2/BB+/BB	-	-	-	-	-	-	-
Unrated							
- Bank Negara Malaysia/sovereign	2,378,843	-	457,402	-	-	-	98,000
- Others	23,983	-	-	-	1,072	-	454
	<u>3,558,550</u>	<u>1,700,081</u>	<u>467,541</u>	<u>14,936</u>	<u>1,072</u>	<u>655,390</u>	<u>98,454</u>

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

**Financial assets other than loans and advances (Continued)**

	Cash and short-term funds	Deposits and placements with banks and other FIs	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Other assets
<u>BANK</u> <u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aa3/AAA/AA-/A-	246,922	628,055	131,779	16,483	-	-	-
A1/A2	169,725	24,343	-	-	-	-	-
A3/Baa1/BBB+/BBB/BBB-/B+	5	437,174	-	-	-	792,846	-
Unrated							
- Bank Negara Malaysia/sovereign	1,928,983	-	766,127	-	-	-	99,600
- Others	24,926	-	-	-	1,486	-	2,913
	<u>2,370,561</u>	<u>1,089,572</u>	<u>897,906</u>	<u>16,483</u>	<u>1,486</u>	<u>792,846</u>	<u>102,513</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

**Financial assets other than loans and advances (Continued)**

	Cash and short-term funds	Deposits and placements with banks and other FIs	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Other assets
<u>BANK</u> <u>2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aa3/Aa2/A-/A	1,050,084	1,700,081	-	-	-	605,036	-
A1/A2	-	-	-	-	-	-	-
A3/Baa1/BBB+	100,168	-	10,139	14,936	-	50,354	-
Baa2/Baa3/BBB	-	-	-	-	-	-	-
Ba1/Ba2/BB+/BB/BB-	-	-	-	-	-	-	-
Unrated							
- Bank Negara Malaysia/sovereign	2,378,843	-	457,402	-	-	-	98,000
- Others	23,980	-	-	-	1,072	-	454
	<u>3,553,075</u>	<u>1,700,081</u>	<u>467,541</u>	<u>14,936</u>	<u>1,072</u>	<u>655,390</u>	<u>98,454</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. 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.



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**38. 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:

<u>GROUP</u> <u>2019</u>	Within <u>1 week</u> RM'000	>1 week <u>to 1 month</u> RM'000	>1-3 <u>months</u> RM'000	>3-6 <u>months</u> RM'000	>6-12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,561,289	820,264	-	-	-	-	2,381,553 <sup>^</sup>
Deposits and placements with banks and other financial institutions	50,411	147,732	891,429	-	-	-	1,089,572 <sup>^</sup>
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 <sup>^</sup>
Gross loans and advances	647,967	890,161	620,351	171,076	166,523	5,200,632	7,696,710 <sup>^</sup>
Other assets	928	1,777	220	336	32,918	187,738	223,917 <sup>#</sup>
<b>Total assets</b>	<b>2,262,239</b>	<b>2,361,681</b>	<b>1,960,475</b>	<b>171,721</b>	<b>199,478</b>	<b>6,147,792</b>	<b>13,103,386</b>
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
Derivative 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 <sup>^</sup>
Provision for taxation	-	-	-	-	1,200	-	1,200
Subordinated loan	-	-	-	-	-	1,273,640	1,273,640
<b>Total liabilities</b>	<b>3,596,884</b>	<b>1,185,833</b>	<b>2,427,669</b>	<b>1,369,494</b>	<b>1,420,082</b>	<b>1,308,104</b>	<b>11,308,066</b>
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

<sup>^</sup> Excludes allowance for ECL.

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

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2018 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

<u>GROUP</u> <u>2018</u>	<u>Within</u> <u>1 week</u> RM'000	<u>&gt;1 week</u> <u>to 1 month</u> RM'000	<u>&gt;1-3</u> <u>months</u> RM'000	<u>&gt;3-6</u> <u>months</u> RM'000	<u>&gt;6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,458,509	2,100,065	-	-	-	-	3,558,574
Deposits and placements with banks and other financial institutions	100,325	465,705	1,134,063	-	-	-	1,700,093
Derivative financial assets	174	5	180	95	-	-	454
Financial investments	404,722	151,172	171,427	-	80,852	330,785	1,138,958
Gross loans and advances	685,586	777,014	1,141,951	362,361	133,066	3,695,337	6,795,315 <sup>^</sup>
Other assets	279	1,353	248	666	21,234	161,565	185,345 <sup>#</sup>
<b>Total assets</b>	<b>2,649,595</b>	<b>3,495,314</b>	<b>2,447,869</b>	<b>363,122</b>	<b>235,152</b>	<b>4,187,687</b>	<b>13,378,739</b>
Deposits from customers	4,512,354	1,142,120	835,995	948,401	914,953	2,454	8,356,277
Deposits and placements of banks and other financial institutions	738,744	380,321	835,167	-	-	-	1,954,232
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	82,961	22,252	-	34,410	6,179	-	145,802
Provision for taxation	-	-	-	-	500	-	500
Subordinated loan	-	-	-	-	-	1,287,303	1,287,303
<b>Total liabilities</b>	<b>5,334,097</b>	<b>1,544,696</b>	<b>1,671,295</b>	<b>982,864</b>	<b>921,632</b>	<b>1,289,757</b>	<b>11,744,341</b>
Net liquidity gap - Total assets less total liabilities	(2,684,502)	1,950,618	776,574	(619,742)	(686,480)	2,897,930	1,634,398

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM and deferred tax assets.

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**38. 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:

<u>BANK</u> <u>2019</u>	<u>Within</u> <u>1 week</u> RM'000	<u>&gt;1 week</u> <u>to 1 month</u> RM'000	<u>&gt;1-3</u> <u>months</u> RM'000	<u>&gt;3-6</u> <u>months</u> RM'000	<u>&gt;6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,550,297	820,264	-	-	-	-	2,370,561 <sup>^</sup>
Deposits and placements with banks and other financial institutions	50,411	147,732	891,429	-	-	-	1,089,572 <sup>^</sup>
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 <sup>^</sup>
Gross loans and advances	647,967	890,161	620,351	171,076	166,523	5,200,632	7,696,710 <sup>^</sup>
Other assets	928	1,406	217	336	32,627	184,020	219,534 <sup>#</sup>
<b>Total assets</b>	<b>2,251,247</b>	<b>2,361,310</b>	<b>1,960,472</b>	<b>171,721</b>	<b>199,187</b>	<b>6,144,074</b>	<b>13,088,011</b>
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 <sup>^</sup>
Subordinated loan	-	-	-	-	-	1,273,640	1,273,640
<b>Total liabilities</b>	<b>3,610,232</b>	<b>1,181,137</b>	<b>2,427,455</b>	<b>1,368,106</b>	<b>1,417,496</b>	<b>1,305,985</b>	<b>11,310,411</b>
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

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> 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.

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**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2018 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

<u>BANK</u> <u>2018</u>	Within <u>1 week</u> RM'000	>1 week <u>to 1 month</u> RM'000	>1-3 <u>months</u> RM'000	>3-6 <u>months</u> RM'000	>6-12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,453,034	2,100,065	-	-	-	-	3,553,099
Deposits and placements with banks and other financial institutions	100,325	465,705	1,134,063	-	-	-	1,700,093
Derivative financial assets	174	5	180	95	-	-	454
Financial investments	404,722	151,172	171,427	-	80,852	330,785	1,138,958
Gross loans and advances	685,586	777,014	1,141,951	362,361	133,066	3,695,337	6,795,315 <sup>^</sup>
Other assets	279	620	248	666	20,959	161,520	184,292 <sup>#</sup>
<b>Total assets</b>	<b>2,644,120</b>	<b>3,494,581</b>	<b>2,447,869</b>	<b>363,122</b>	<b>234,877</b>	<b>4,187,642</b>	<b>13,372,211</b>
Deposits from customers	4,525,393	1,142,120	835,995	948,401	914,953	2,454	8,369,316
Deposits and placements of banks and other financial institutions	738,744	380,321	835,167	-	-	-	1,954,232
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	82,961	20,411	-	33,270	5,052	-	141,694
Subordinated loan	-	-	-	-	-	1,287,303	1,287,303
<b>Total liabilities</b>	<b>5,347,136</b>	<b>1,542,855</b>	<b>1,671,295</b>	<b>981,724</b>	<b>920,005</b>	<b>1,289,757</b>	<b>11,752,772</b>
Net liquidity gap - Total assets less total liabilities	(2,703,016)	1,951,726	776,574	(618,602)	(685,128)	2,897,885	1,619,439

<sup>^</sup> Excludes allowance for ECL.

<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and investment in subsidiary.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. 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.

<u>GROUP</u>	Within <u>1 week</u>	>1 week <u>to 1 month</u>	>1-3 <u>months</u>	>3-6 <u>months</u>	>6-12 <u>months</u>	Over <u>1 year</u>	<u>Total</u>
<u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities</u>							
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
	<u>3,570,601</u>	<u>1,179,934</u>	<u>2,438,094</u>	<u>1,356,134</u>	<u>1,445,413</u>	<u>1,519,312</u>	<u>11,509,488</u>
<u>2018</u>							
<u>Financial liabilities</u>							
Deposits from customers	4,525,458	1,143,742	856,477	956,973	932,165	2,523	8,417,338
Deposits and placements of banks and other financial institutions	738,738	380,822	837,860	-	-	-	1,957,420
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	89,011	22,266	-	34,410	5,679	-	151,366
Provision for taxation	-	-	-	-	500	-	500
Subordinated loan	-	-	-	-	-	1,314,706	1,314,706
	<u>5,353,245</u>	<u>1,546,833</u>	<u>1,694,470</u>	<u>991,436</u>	<u>938,344</u>	<u>1,317,229</u>	<u>11,841,557</u>

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. 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.

<u>BANK</u>	Within <u>1 week</u>	>1 week <u>to 1 month</u>	>1-3 <u>months</u>	>3-6 <u>months</u>	>6-12 <u>months</u>	Over <u>1 year</u>	<u>Total</u>
<u>2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities</u>							
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
	<u>3,583,949</u>	<u>1,175,225</u>	<u>2,437,857</u>	<u>1,355,782</u>	<u>1,443,509</u>	<u>1,517,113</u>	<u>11,513,435</u>
<u>2018</u>							
<u>Financial liabilities</u>							
Deposits from customers	4,512,418	1,143,742	856,477	956,973	932,165	2,523	8,404,298
Deposits and placements of banks and other financial institutions	738,738	380,822	837,860	-	-	-	1,957,420
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	89,011	20,420	-	33,270	5,052	-	147,753
Subordinated loan	-	-	-	-	-	1,314,706	1,314,706
	<u>5,340,205</u>	<u>1,544,987</u>	<u>1,694,470</u>	<u>990,296</u>	<u>937,217</u>	<u>1,317,229</u>	<u>11,824,404</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. 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:

	<u>2019</u>			<u>2018</u>		
	Less <u>than 1 year</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000	Less <u>than 1 year</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
Direct credit substitutes	2,547	-	2,547	2,136	-	2,136
Transaction-related contingent items	1,257,844	1,125,291	2,383,135	968,386	1,512,411	2,480,797
Short-term self-liquidating trade-related contingencies	55,595	-	55,595	132,751	-	132,751
Irrevocable commitments to extend credit	2,034,346	647,567	2,681,913	1,603,671	534,907	2,138,578
Foreign exchange related contracts	218,308	-	218,308	142,455	-	142,455
Interest/Profit rate related contracts	-	250,475	250,475	-	-	-
Unutilised credit card lines	20	-	20	20	-	20
	<u>3,568,660</u>	<u>2,023,333</u>	<u>5,591,993</u>	<u>2,849,419</u>	<u>2,047,318</u>	<u>4,896,737</u>

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. 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 profit for the financial year end is estimated at RM0.1 million (2018: -RM11.9 million).

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 financial impact of appreciation or depreciation by 1% for each foreign currency exposure would result in a post-tax profit/loss of RM26,000 (2018: RM648,000) to the Group and the Bank.

The Group and the Bank are exposed to commodity price risk mainly related to bullion. 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 RM3,860 (2018: RM6,073).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. 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.

<u>GROUP</u> <u>2019</u>	← Non-trading book →					Non-interest		<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>sensitive</u> RM'000			
<b>Assets</b>									
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		
<b>Total assets</b>	<b>7,270,264</b>	<b>3,542,941</b>	<b>646,066</b>	<b>1,347,379</b>	<b>-</b>	<b>86,711</b>	<b>12,893,361</b>		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>GROUP</u> <u>2019</u>	←————— Non-trading book —————→					<u>Non-interest</u> <u>sensitive</u>	<u>Total</u>	<u>EIR</u>
	<u>Up to 1 month</u>	<u>&gt;1-3 months</u>	<u>&gt;3-12 months</u>	<u>&gt;1-5 years</u>	<u>Over 5 years</u>			
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>3,552,523</b>	<b>2,427,479</b>	<b>2,751,165</b>	<b>22,925</b>	<b>1,275,138</b>	<b>1,284,362</b>	<b>11,313,592</b>	
Total equity	-	-	-	-	-	1,579,769	1,579,769	
<b>Total liabilities and equity</b>	<b>3,552,523</b>	<b>2,427,479</b>	<b>2,751,165</b>	<b>22,925</b>	<b>1,275,138</b>	<b>2,864,131</b>	<b>12,893,361</b>	
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)	-	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>GROUP</u> <u>2018</u>	← Non-trading book →					<u>Non-interest</u> <u>sensitive</u>	<u>Total</u>	<u>EIR</u> <u>%</u>
	<u>Up to 1 month</u>	<u>&gt;1-3 months</u>	<u>&gt;3-12 months</u>	<u>&gt;1-5 years</u>	<u>Over 5 years</u>			
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	
<b>Assets</b>								
Cash and short-term funds	3,506,955	-	-	-	-	51,595	3,558,550	3.31
Deposits and placements with banks and other financial institutions	566,030	1,134,063	-	-	-	(12)	1,700,081	3.71
Derivative financial assets	-	-	-	-	-	454	454	
Debt instruments at FVOCI	-	70,858	80,852	315,850	-	(19)	467,541	3.56
Equity instruments at FVOCI	-	-	-	-	-	14,936	14,936	
Equity instrument at FVTPL	-	-	-	-	-	1,072	1,072	
Debt instruments at amortised cost	554,822	100,568	-	-	-	-	655,390	3.65
Loans and advances							-	
- non-impaired	2,501,290	365,786	165,150	630,661	3,064,372	(70,141)	6,657,118	4.69
- impaired	68,056	-	-	-	-	(32,044)	36,012	
Other assets	-	-	-	-	-	5,093	5,093	
Tax recoverable	-	-	-	-	-	4,000	4,000	
Deferred tax assets	-	-	-	-	-	17,233	17,233	
Property and equipment	-	-	-	-	-	59,977	59,977	
Intangible assets	-	-	-	-	-	914	914	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	98,000	98,000	
<b>Total assets</b>	<b>7,197,153</b>	<b>1,671,275</b>	<b>246,002</b>	<b>946,511</b>	<b>3,064,372</b>	<b>151,058</b>	<b>13,276,371</b>	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>GROUP</u> <u>2018</u>	← Non-trading book →					Non-interest		<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>sensitive</u> RM'000			
<b>Liabilities</b>									
Deposits from customers	3,811,088	835,995	1,863,354	2,454	-	1,843,386	8,356,277	2.49	
Deposits and placements of banks and other financial institutions	890,985	835,167	-	-	-	228,080	1,954,232	1.79	
Derivatives financial liabilities	-	-	-	-	-	227	227		
Other liabilities	12,590	-	-	-	-	138,762	151,352		
Provision for taxation	-	-	-	-	-	500	500		
Subordinated loan	-	-	-	-	1,287,303	-	1,287,303	2.81	
<b>Total liabilities</b>	<b>4,714,663</b>	<b>1,671,162</b>	<b>1,863,354</b>	<b>2,454</b>	<b>1,287,303</b>	<b>2,210,955</b>	<b>11,749,891</b>		
Total equity	-	-	-	-	-	1,526,480	1,526,480		
<b>Total liabilities and equity</b>	<b>4,714,663</b>	<b>1,671,162</b>	<b>1,863,354</b>	<b>2,454</b>	<b>1,287,303</b>	<b>3,737,435</b>	<b>13,276,371</b>		
On balance sheet - interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-		
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-		
Total interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>BANK</u> <u>2019</u>	← Non-trading book →					Non-interest		<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>sensitive</u> RM'000			
<b>Assets</b>									
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		
<b>Total assets</b>	<b>7,270,264</b>	<b>3,542,941</b>	<b>646,066</b>	<b>1,347,379</b>	<b>-</b>	<b>71,342</b>	<b>12,877,992</b>		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>BANK</u> <u>2019</u>	← Non-trading book →					Non-interest		<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>sensitive</u> RM'000			
<b>Liabilities</b>									
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	
<b>Total liabilities</b>	<b>3,552,412</b>	<b>2,427,267</b>	<b>2,750,198</b>	<b>20,807</b>	<b>1,275,138</b>	<b>1,290,115</b>	<b>11,315,937</b>		
Total equity	-	-	-	-	-	1,562,055	1,562,055		
<b>Total liabilities and equity</b>	<b>3,552,412</b>	<b>2,427,267</b>	<b>2,750,198</b>	<b>20,807</b>	<b>1,275,138</b>	<b>2,852,170</b>	<b>12,877,992</b>		
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	<b>3,717,852</b>	<b>1,115,674</b>	<b>(2,104,132)</b>	<b>1,326,572</b>	<b>(1,275,138)</b>	<b>(2,780,828)</b>	<b>-</b>		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk

<u>BANK</u> <u>2018</u>	Non-trading book					Non-interest sensitive	<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
<b>Assets</b>								
Cash and short-term funds	3,506,955	-	-	-	-	46,120	3,553,075	3.31
Deposits and placements with banks and other financial institutions	566,030	1,134,063	-	-	-	(12)	1,700,081	3.71
Derivative financial assets	-	-	-	-	-	454	454	
Debt instruments at FVOCI	-	70,858	80,852	315,850	-	(19)	467,541	3.56
Equity instruments at FVOCI	-	-	-	-	-	14,936	14,936	
Equity instrument at FVTPL	-	-	-	-	-	1,072	1,072	
Debt instruments at amortised cost	554,822	100,568	-	-	-	-	655,390	3.65
Loans and advances							-	
- non-impaired	2,501,290	365,786	165,150	630,661	3,064,372	(70,141)	6,657,118	4.69
- impaired	68,056	-	-	-	-	(32,044)	36,012	
Other assets	-	-	-	-	-	4,344	4,344	
Deferred tax assets	-	-	-	-	-	16,959	16,959	
Tax recoverable	-	-	-	-	-	4,000	4,000	
Property and equipment	-	-	-	-	-	58,956	58,956	
Intangible assets	-	-	-	-	-	914	914	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	98,000	98,000	
<b>Total assets</b>	<b>7,197,153</b>	<b>1,671,275</b>	<b>246,002</b>	<b>946,511</b>	<b>3,064,372</b>	<b>144,539</b>	<b>13,269,852</b>	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>BANK</u> <u>2018</u>	Non-trading book					Non-interest		<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>sensitive</u> RM'000			
<b>Liabilities</b>									
Deposits from customers	3,811,088	835,995	1,863,354	2,454	-	1,856,425	8,369,316	2.49	
Deposits and placements of banks and other financial institutions	890,985	835,167	-	-	-	228,080	1,954,232	1.79	
Derivatives financial liabilities	-	-	-	-	-	227	227		
Other liabilities	12,590	-	-	-	-	135,154	147,744		
Subordinated loan	-	-	-	-	1,287,303	-	1,287,303	2.81	
<b>Total liabilities</b>	<b>4,714,663</b>	<b>1,671,162</b>	<b>1,863,354</b>	<b>2,454</b>	<b>1,287,303</b>	<b>2,219,886</b>	<b>11,758,822</b>		
Total equity	-	-	-	-	-	1,511,030	1,511,030		
<b>Total liabilities and equity</b>	<b>4,714,663</b>	<b>1,671,162</b>	<b>1,863,354</b>	<b>2,454</b>	<b>1,287,303</b>	<b>3,730,916</b>	<b>13,269,852</b>		
On balance sheet - interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-		
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-		
Total interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-		



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**38. 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.

**39. 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).

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**39. 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 2019, the Group and the Bank only have fair valued financial instruments that falls under Level 1, Level 2 and Level 3 as listed below:

	<u>GROUP AND BANK</u>							
	<u>2019</u>				<u>2018</u>			
	Valuation Technique				Valuation Technique			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>								
Debt instruments at FVOCI	766,127	131,690	-	897,817	457,402	10,139	-	467,541
Equity instruments at FVOCI	-	-	16,483	16,483	-	-	14,936	14,936
Equity instrument at FVTPL	1,486	-	-	1,486	1,072	-	-	1,072
Derivative financial assets	-	2,913	-	2,913	-	454	-	454
	<u>767,613</u>	<u>134,603</u>	<u>16,483</u>	<u>918,699</u>	<u>458,474</u>	<u>10,593</u>	<u>14,936</u>	<u>484,003</u>
<b>Financial liabilities</b>								
Derivative financial liabilities	-	2,877	-	2,877	-	227	-	227

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**39. 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. 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.

(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.

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.



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**39. 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. For deposits and placements of banks and other financial institutions with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing market interest rates for deposits and placements with similar remaining period to maturities.

(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. For deposits from customers with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing market rates for similar deposits from customers.

(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, 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.

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**39. 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.

**40. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Allowance for impairment on loans and advances

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that underlie the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. These estimates require The Bank's management to exercise their judgment in the process of applying the Group's and the Bank's accounting policies. Although these estimates and judgment are based on the management's best knowledge of current and expected events. 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 judgments 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 2019 was estimated based on a range of forecast economic conditions as at the reporting date. 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 2019.

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**40. CRITICAL 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 39.

**41. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors 18 May 2020.