CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jiang Jianhua
Qian Lihong
Datuk Tan Leh Kiah
Ng Soon Lai @ Ng Siek Chuan
Lim Kheng Boon

COMPANY SECRETARY

Wong Bee Ping

REGISTERED OFFICE

Ground Floor, South Block
Wisma SDB
142A Jalan Ampang
50450 Kuala Lumpur
Malaysia

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat, Kuala Lumpur Sentral
50470 Kuala Lumpur

P.O. Box 10192
50706 Kuala Lumpur
Malaysia

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DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

The Directors hereby submit their report and the audited financial statements of the Bank for the financial period from 1 October 2016 to 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and related financial services.

FINANCIAL RESULTS

	RM'000
Loss before taxation	1,456
Taxation	3,079
Net loss for the financial period	4,535

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

During the financial period, the Bank issued 822,600,002 ordinary shares with RM1.00 per shares.

DIVIDENDS

No dividends have been paid or declared by the Bank. The Directors do not recommend the payment of any dividends for the financial period ended 31 December 2017.

DIRECTORS

The Directors in office during the financial period are:
Jiang Jianhua
Qian Lihong
Datuk Tan Leh Kiah
Ng Soon Lai @ Ng Siek Chuan
Lim Kheng Boon

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial period held any shares or debentures in the Bank or its holding company or subsidiaries of the holding company during the financial period.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

DIRECTORS' BENEFITS

Since the beginning of the financial period, no Director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 19 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial period was the Bank a party to any arrangements whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 19 to the financial statements.

HOLDING COMPANY

The Directors regard China Construction Bank Corporation ("CCBC"), a company incorporated in China, as the ultimate holding company.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

Profile of Directors

Mr Jiang Jianhua
Non-Independent Non-Executive Director/Chairman

Mr Jiang Jianhua, aged 60, holds a Doctorate in Economics majoring in Finance from Dongbei University of Finance and Economics, China. He also studied accounting in University of Lausanne, Switzerland for 2 years. Mr Jiang was appointed Non-Independent Non-Executive Director and Chairman of China Construction Bank (Malaysia) Berhad on 20 January 2017. He is also a member of the Audit Committee, Board Risk Management Committee and Board Remuneration Committee of the Bank.

Mr Jiang carries with him more than 23 years of banking experience. He started his banking career with China Construction Bank "CCB" Dalian Branch International Business Department in 1994 and held various positions ranging from Deputy General Manager to General Manager before he moved on as General Manager heading the Banking Department of Dalian branch in February 1998 and General Manager of Credit Management Committee office of Dalian Branch in March 1999. Mr Jiang assumed the position as Director and Deputy Chief Executive of Hong Kong Jian Sing Bank Limited for about four years since December 2001. He was then appointed Deputy General Manager of International Business Department at CCB's Head Office since July 2005 till October 2015. During his tenure of office as Deputy General Manager of CCB International Business Department, Mr Jiang also headed the International Trading Document Processing Center from January 2006 till May 2009 and assumed the position as General Manager of Overseas Institution Management Department from December 2009 till October 2013. He is currently also serving as a Non-Executive Director of CCB London.

Mr Jiang has attended the FIDE Programme organised by The Iclif Leadership and Governance Centre and also in-house training programmes covering ICAAP and Anti-Money Laundering/Counter Financing Terrorism during the year. Mr Jiang had attended all six of the Board meetings held in the financial period of 2017.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

Profile of Directors (Continued)

Ms Qian Lihong
Non-Independent Executive Director

Ms Qian Lihong, aged 53, holds a Bachelor in Economics from Xinjiang University of Finance and Economics and a Master in Economics from Beijing University, China. Ms Qian was appointed Non-Independent Executive Director of China Construction Bank (Malaysia) Berhad on 20 January 2017. She is also a member of the Board Nomination Committee of the Bank.

Ms Qian carries with her more than 32 years of banking experience. She started her banking career with CCB Xinjiang Branch, International Business Department in August 1985 before moving on to CCB Beijing Branch in August 1994 whereby she has held various positions in the International Business Department of the branch ranging from Credit Manager, Deputy Manager and Manager of Credit Department (August 1994 – April 1999), Manager of Credit Sales Department (May 1999 – July 2000) and Credit Management Department (August 2000 – August 2001). She was appointed Deputy General Manager of Assets Security and Management Department of CCB Beijing Branch in September 2001 before appointed as Executive Assistant Director to Olympics Hosting Bank Application Leading Team Office in May 2003 till September 2004. Ms Qian was appointed Deputy General Manager of CCB Beijing Branch Group Customer Department thereafter before promoted to General Manager of the same department in March 2008. She was assigned with greater responsibility in December 2009 following her appointment as a Member of CCB Beijing Branch's Company and Institute Committee, General Manager of Group Customer Business cum General Manager of Infrastructure Facility Sales Team. Ms Qian was subsequently appointed Person-in-charge of International Business Department of CCB Beijing Branch in July 2011 prior to her appointment as General Manager of the department in August 2011. Ms Qian was promoted to Deputy General Manager of CCB Head Office's International Business Department in January 2014 till February 2015. She was appointed Deputy General Manager of CCB Head Office's Strategic Customers Department in March 2015 before assuming the position of General Manager of Investment Banking Department of CCB Head Office in July 2017.

Ms Qian has attended the FIDE Programme organised by The Iclif Leadership and Governance Centre and also in-house training programmes on ICAAP during the year. Ms Qian had attended five (5) out of the six (6) Board meetings held in the financial period of 2017.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

Profile of Directors (Continued)

Datuk Tan Leh Kiah
Independent Non-Executive Director

Datuk Tan Leh Kiah, aged 66, was appointed Independent Non-Executive Director of China Construction Bank (Malaysia) Berhad on 20 January 2017. He is the Chairman of Audit Committee and Board Nomination Committee of the Bank and a member of the Board Remuneration Committee.

Datuk Tan graduated with an LL.B degree from the University of London and was called to the Malaysian Bar in 1986. He is also a Fellow of the Institute of Chartered Secretaries and Administrators and an Associate of the Chartered Tax Institute of Malaysia. He is on the roll of Advocates & Solicitors of Brunei and the Supreme Court of England and Wales.

Datuk Tan has over 30 years' working experience with the government and the private sector. He served as an Assistant Registrar of Companies in the Registry of Companies of the then Ministry of Trade and Industry from 1972 to 1976. After leaving government service, he served as the Group Company Secretary of the Inchcape Group from 1977 to 1985. In 1985, he joined Azman, Davidson & Co., Advocates & Solicitors and was subsequently made Managing Partner. He becomes a full time Consultant since January 2009.

Datuk Tan had served the Board of EXIM Bank Berhad as an Independent Non-Executive Director for five (5) year since June 2001. He has been a Member of the Board of the Securities Commission since 1999. Currently, he also serves as an Independent Non-Executive Director of Boustead Holdings Berhad and MPI Generali Insurans Berhad as well as a Director for Yayasan Chow Kit, a charity organisation.

Datuk Tan has attended the in-house training programmes covering ICAAP and Anti-Money Laundering/Counter Financing Terrorism during the year. Datuk Tan had attended all six (6) Board meetings held in the financial period of 2017.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

Profile of Directors (Continued)

Mr Ng Soon Lai @ Ng Siek Chuan
Independent Non-Executive Director

Mr Ng Soon Lai @ Ng Siek Chuan, aged 63, is a fellow member of the Institute of Chartered Accountants in England and Wales. He was appointed Independent Non-Executive Director of China Construction Bank (Malaysia) Berhad on 20 January 2017. Mr Ng is the Chairman of Board Risk Management Committee and a member of the Board Nomination Committee of the Bank.

Mr Ng has had several years of experience in the accounting profession with Coopers & Lybrand in London and Kuala Lumpur before moving on to the financial sector in 1980. He joined AmInvestment Bank, Kuala Lumpur (formerly Arab Malaysian Development Bank and Arab Malaysian Merchant Bank) in January 1980 holding various posts including Head of Group Internal Audit and Senior Manager of Banking department before leaving for Kuala Lumpur Finance Berhad ("KLFB") in November 1987 as General Manager, Credit and Business Development and was appointed Acting CEO of KLFB from January 1989 to June 1989. Mr Ng joined Arab Malaysian Development Berhad as General Manager, Business Development since July 1989. In July 1991, he joined Alliance Bank Malaysia Berhad (formerly Malaysian French Bank/Multi-Purpose Bank) as General Manager, Credit and was renamed as General Manager, Credit & Marketing in September 1991 following his expanded role in marketing function in the company and was subsequently appointed Chief Executive Director in January 1994. During his tenure of office with Alliance Bank Malaysia Berhad, he also assumed the position of Group Chief Executive of the Alliance Bank Group in January 2001 till his retirement in August 2005.

Mr Ng currently serves as an Independent Non-Executive Director and Chairman of Tune Protect Group Berhad and Independent Non-Executive Director of Hiap Teck Venture Berhad and ELK-Desa Resources Berhad and WCT Holding Berhad effective February 2017, respectively.

Mr Ng has attended the 2017 MIA Conference and in-house training programmes covering ICAAP and Anti-Money Laundering/Counter Financing Terrorism as conducted during the year. Mr Ng had attended five (5) out of the six (6) Board meetings held in the financial period of 2017.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

Profile of Directors (Continued)

Mr Lim Kheng Boon
Independent Non-Executive Director

Mr Lim Kheng Boon, aged 66, is a member of The Institute of Chartered Secretaries Australia, Chartered Institute of Marketing London and The Chartered Institute of Bankers London. Mr Lim was appointed Independent Non-Executive Director of China Construction Bank (Malaysia) Berhad on 20 January 2017. He is also the Chairman of Board Remuneration Committee and a member of the Audit Committee and Board Risk Management Committee of the Bank.

Mr Lim is a seasoned banker with 40 years of treasury and financial banking experience working overseas in New York and other major Asian financial cities. Before returning to Malaysia in 2000, Mr Lim has been working overseas in Hong Kong, Taipei, New York, Jakarta and Singapore for various banks including Citic Ka Wah Bank Hong Kong (1979 – 1983) and New York (1983 – 1986), Security Pacific National Bank, Hong Kong (1986 – 1988), Standard Chartered Bank, Taipei (1988 – 1994), Jakarta (1994 – 1999) and Singapore (1999 -2000) and Bank Niaga, Jakarta (January 2000 – March 2000). Mr Lim was appointed Senior Vice President/Treasurer of OCBC Bank (M) Berhad in May 2000 before joining RHB Banking Group in October 2002. During his office of employment with RHB Banking Group, Mr Lim has held various positions ranging from Executive Vice President/Treasurer (October 2002 – November 2007), Chief Operating Officer (November 2007 – December 2009), Director of Global Financial Banking (January 2010 – July 2010), Director of Global Market & Transaction Services (June 2011 – January 2012), Director of Treasury (January 2012 – February 2014) and Director of Group Transaction Banking (July 2010 – December 2014) before his retirement from RHB Banking Group end of December 2014. Mr Lim was a former President of the Financial Markets Association Malaysia (2006 – 2010) and a Director for International Chamber of Commerce (ICC) Malaysia (2011 – 2014).

Mr Lim has attended the FIDE Programme organised by The Iclif Leadership and Governance Centre and also in-house training programmes covering ICAAP and Anti-Money Laundering/Counter Financing Terrorism during the year. Mr Lim had attended all six of the Board meetings held in the financial period of 2017.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

Financial Performance and Business Outlook

China Construction Bank (Malaysia) Berhad ("CCBM")'s total assets stood at RM2.7 billion with stable execution progress. The main assets components are loans and advances (RM1.3 billion), cash and short term fund (RM819.6 million), deposits and placements with banks and other financial institutions (RM393.0 million) and financial investments available-for-sale (RM156.3 million). Whilst total liabilities of the Bank are RM1.9 billion and mainly consists of deposits and placements of banks and other financial institutions (RM1.4 billion) and deposits from customers (RM455.2 million).

As of the end of the financial period 31 December 2017, the Bank recorded a loss before taxation of RM1.5 million, which is mainly due to the allowance for impairment on loans and advances of RM6.5 million with full recognition of impairment allowances in the first financial period in accordance with the relevant guidelines and reporting standards.

In the reporting period, the Bank focused on group direction for overseas development strategy based on the Malaysian and the ASEAN market that includes the following:

(a) Actively cooperate with "One Belt One Road" strategy, in supporting the development of related infrastructure projects, trade financing business, strengthen product innovation.

(b) Cooperation with local banks to expand cross-border CNY settlements business and strengthen CNY capital market in the local financial market, actively promote QFII investment, increase the volume of foreign CNY funds, enrich the overseas CNY investment channels.

(c) Develop and strengthen cash management business with corporate customers, provide short term financing, investment and related financial services riding on the supply chain relationship.

(d) Strive to develop overseas markets, cooperate with CCBC foreign branches and subsidiaries, provide more opportunities and diversified financial services for cross-border corporate clients.

In line with the business strategy, the Bank shall continue to grow in its loan portfolio that contributes to the growth in asset size, enhance the ability in absorbing deposits and fund raising, and to maintain rapid and healthy development momentum.

CORPORATE GOVERNANCE STATEMENTS

The Board of Directors ("the Board") of China Construction Bank (Malaysia) Berhad ("CCBM" or "the Bank") views corporate governance as a fundamental process in promoting the long term viability of the Bank, safeguarding the stakeholders' interest whilst enhancing the shareholder value.

The Board will continue to ensure CCBM's compliance with Bank Negara Malaysia's ("BNM") Corporate Governance Policy Document ("CG Policy") and other best practices on corporate governance.

BOARD OF DIRECTORS

The business and affairs of the Bank are managed under the direction and oversight of the Board, which also has the responsibility to periodically review and approve the overall strategies, business, organisation and significant policies of CCBM. The Board sets and adopts standards to ensure the Bank operates with integrity and complies with the relevant rules and regulations.

Board Charter

The Board has established a Board Charter which outlines among others, the respective duties and responsibilities of the Board (both individually and collectively) and Chief Executive Officer ("CEO"), board balance, tenure of independent directors, appointment/re-appointment of directors/CEO, board meeting, board committees establishment, board effective evaluation, directors' remuneration and continuing development and code of ethics. A full detail of the Board Charter is available on CCBM's corporate website (my.ccb.com).

Board Terms of Reference

Apart from the Board Charter, the Board has set out a Terms of Reference ("TORs") which acts as guidance to the Board in discharging its duties effectively. Key duties and responsibilities are as follows: -

- Approving strategic/business plans and budget for the Bank include but not limited to medium and long term strategic plan.

- Ensure the Bank's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities and to provide oversight on the implementation thereof.

- Determine the Bank's risk appetite and capital management framework and ensuring Senior Management discharges its responsibilities for the development and effective implementation of ICAAP.

- Approving effective and comprehensive risk management policies, processes and infrastructure to identify, measure, monitor and control all risk categories in the key areas of the Bank's operations.

- Providing clear objectives and policies within which Senior Management is to operate which should cover all aspects of operations, including strategic planning, credit administration and control, asset and liability management, accounting system and control, service quality, IT system, anti-money laundering, adequacy of capital and human resource development.

- Approving the corporate organization structure.

- Approving the appointment/re-appointment of Directors and Directors' remuneration in accordance with the relevant regulatory requirement.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Terms of Reference (Continued)

- Overseeing the selection, appointment, performance, remuneration and succession plans of Senior Management and heads of the control function of the Bank.

- Providing oversight on the overall remuneration policy and system of the Bank which is to be in line with the business and risk strategies, corporate values and long term interests of the Bank.

The detailed duties and responsibilities of the Board is published in the Bank’s corporate website.

The Directors, collectively and individually, are aware of their responsibilities to shareholder/stakeholders and the manner in which the affairs of the Bank are managed. They discharge their roles and duties with integrity, honesty and professionalism within the ambit of law and also under such powers as conferred by the Articles of Association of the Bank and shareholder’s mandate.

Some of the activities undertaken by the Board in discharging its responsibilities during the financial period ended 31 December 2017 (“FPE2017”): -

(i) Strategy

The Board places great emphasis on the setting of a clear business direction from the 1^{st} day of the Bank’s business commencement. The Board deliberated and formulated 2017 Business Strategy and Business Plan, risk appetite setting and also supervised the implementation of the Bank’s value propositions for the next five (5) years.

(ii) Compliance, Risk Management and Internal Control

The Board ensures that there is a process for reviewing the adequacy and effectiveness of the Bank’s compliance, risk management and control system through the formulation of various policies governing these aspects. Among the policies include Capital Management Policy, Liquidity Management Policy, Compliance Policy, Anti-Money Laundering/Counter Financing Terrorism Policy, IT Security Policy, Risk Management Framework, Credit Risk Management Policy, Single Counterparty Exposure Limit Policy, Reputational Risk Management Policy, Operational Risk Management Policy, Business Continuity Management Policy, etc. The Bank also set out its Internal Control Roadmap and Common Reporting Standard Framework during the financial period.

(iii) Corporate Governance

The Board reckoned the importance of maintaining a sound corporate governance to support the sustainability of the Bank in the long term. The Board reviewed the Board Charter, Code of Ethics for Directors, Whistleblowing Policy & Procedures and set up various Board Committees (Audit Committee, Board Risk Management Committee, Board Nomination Committee and Board Remuneration Committee) and management committees and Terms of Reference governing the conducts of these committees.

The Board reviewed BNM’s CG Policy against the existing practices and procedures of the Bank and identified areas which needed to be enhanced moving forward in order to comply with the standards set out in the policy document.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Terms of Reference (continued)

(iv) Human Resources

Employees are important human capital of the Bank. The Board reviewed the organisation structure of the Bank to ensure all key positions are filled up with personnel of calibre and the remuneration policy is in place to govern the employee performance reward, benefits, etc.

The Board is assisted by the CEO who is accountable to the Board. The CEO who is assisted by a group of senior personnel assumes the overall responsibilities in driving and executing the business strategies as approved by the Board.

Board Composition and Balance

The Board of the Bank is currently represented by five (5) Members, comprising one (1) Non-Independent Non-Executive Director, one (1) Non-Independent Executive Director and three (3) Independent Non-Executive Directors. A brief profile of each member of the Board is presented on pages 3 to 7 of the financial statements.

The current composition of the Board having a majority of independent directors complies with BNM’s CG Policy with independent director account for 60% of the Board. Their presence ensures an effective check and balance on the functioning of the Board. The non-involvement and non-participation of these Independent Directors in the day-to-day management and business dealings of the Bank ensure they remain free of any conflict of interest and can undertake their roles and responsibilities as independent directors effectively.

Tenure of Independent Non-Executive Directors

As stipulated in the Board Charter of the Bank, the tenure of office for the Independent Non-Executive Directors of CCBM should not exceed a cumulative term of six (6) years in principal, save and except for certain circumstances that the tenure could be further extended up to a maximum term of nine (9) years on cumulative basis.

The Board may consider the retention of the Independent Non-Executive Director upon the expiry of tenure to continue serving on board subject to Board Nomination Committee’s assessment that the service of the Director is still required by the Bank and the Director remains independent in character and judgement. Any re-appointment of Director in this nature would require further approval from the shareholder and BNM.

Independent Assessment

The Board Nomination Committee undertakes the independence assessment of the Independent Non-Executive Directors of the Bank. During financial period ended 2017, all the Independent Non-Executive Directors of the Bank had confirmed their compliance with the criteria and definition of ‘Independent Director’ as stipulated in BNM’s CG Policy. In the assessment, the Board was satisfied that each of the Independent Non-Executive Director continues to be independent and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interest of the Bank.

Appointment and Re-election of Directors

The Board Nomination Committee adopts a sound governance process in the assessment of candidate(s) nominated for directorship and committee membership to ensure the candidate possesses the appropriate skill, core competencies, experience, integrity and time to effectively discharge his or her role as a director in accordance with the Bank’s Fit and Proper Policy.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Appointment and Re-election of Directors (Continued)

Upon approval being obtained from the Board, an application for the appointment of the shortlisted candidate will be submitted to BNM for the requisite approval as required under the Financial Services Act, 2013.

For any re-appointment, the director(s) will be assessed based on their performance and contribution to the Board and board committee. The application for the re-appointment will be submitted to BNM for consideration upon approval of the same by the Board.

In accordance with the Articles of Association of the Bank, all the directors of the Bank shall retire from office at the first annual general meeting ("AGM") and at the AGM in every subsequent year, one-third (1/3) of the directors for the time being or the number nearest to one-third, shall retire from office and be eligible for re-election. Accordingly, for financial period ended 2017, all the Directors of the Bank will be retired and be eligible for re-election at the forthcoming AGM.

Board and Individual Director's Effectiveness

The Board Nomination Committee has formulated a Guideline on Board Performance Evaluation and developed a transparent process to assess the effectiveness of the Board and its committee as well as individual directors during the financial period. This exercise is to be undertaken upon the completion of every financial year. The assessment exercise is primarily based on answers to a detailed questionnaire prepared internally by the Company Secretary incorporating applicable best practices. The assessment questionnaire is distributed to all the Board members and covers topics which include, among others, board responsibilities, composition, board conduct, chairman, board interaction and communication with Management and stakeholder. Other areas include self and peers assessment.

All directors will have access to the final evaluation report with the exception of the detailed comments made targeting on any one individual director, if any, as the same will be communicated directly by the Chairman of Board Nomination Committee or the Chairman of the Board, in appropriate circumstances, to the director concerned for improvement thereof.

The Bank has rolled out the assessment questionnaire for year 2017 to its Directors in early January 2018. The assessment results thereof will be compiled by the Company Secretary for presentation to Board Nomination Committee and the Board in March 2018.

Board Meetings and Information Access by the Board

The Board met six (6) times in FPE2017 to deliberate and consider matters/proposals that required its decision-making. All the current directors have attended more than 75% of the total Board meetings held during the financial period. Details of attendance of each Director at the Board meetings held during FPE2017 are set out below: -

	Board Members	Attendance
1	Jiang Jianhua (Chairman) - Non-Independent Non-Executive Director	6/6
2	Qian Lihong - Non-Independent Executive Director	5/6
3	Datuk Tan Leh Kiah - Independent Non-Executive Director	6/6
4	Ng Soon Lai @ Ng Siek Chuan - Independent Non-Executive Director	5/6
5	Lim Kheng Boon - Independent Non-Executive Director	6/6

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Meetings and Information Access by the Board (Continued)

An agenda together with the relevant papers for each agenda item to be discussed is forwarded to each Director between 5 to 7 days before the scheduled meeting to enable the Directors to review the papers in preparation for the meeting and to obtain further information, explanation or clarification, where required, for deliberation at the meetings. Urgent papers can be presented less than 7 days subject to the approval of the Chairman. Senior Management, Division Heads and advisors are invited to attend Board meetings, where necessary, to provide additional information and insights on the relevant agenda items tabled at Board meetings. Every Director has the right to seek independent professional advice, at the Bank's expenses, should the need arise in discharging their duties. Nonetheless, depending on the urgency of the subject matter, the decision made by the Board may be taken by way of circular resolution in accordance with the Bank's Articles of Association between the interval of the next scheduled board meeting.

The Bank has taken the initiative to implement paperless meetings through the use of tablets by the Directors. This initiative has made the process of creating and distributing the board material more efficient in promoting a go-green office environment.

Before the commencement of financial year 2018, an annual meeting calendar for Board and Board Committee meetings has been circulated to the Directors to plan ahead and accommodate the meetings into their schedule.

Company Secretary

The Directors have full access to the services of the Company Secretary. In addition to acting as the custodian of the Bank’s statutory records, the Company Secretary serves and advises the Board on matters relating to the affairs of the Board and good corporate governance practices, ensures the Board meetings are properly convened and maintains an accurate and proper record of the proceedings and minutes of the meetings.

The Company Secretary is assessed on her fitness and propriety by the Board annually in accordance with the Bank’s Fit and Proper Policy and it was satisfied with the performance and support rendered by the Company Secretary.

Directors' Training

The Board emphasises on the importance of continuing education and training for its Directors to ensure they keep abreast with the latest developments in the marketplace. The Board Performance Assessment exercise also provides an avenue for the Directors to feedback on their training need and identified key areas of focus for the training programme.

All Directors of the Bank have completed the Financial Institutions Directors’ Education (FIDE) Core Programme which promotes high standards of boardroom governance by strengthening board competencies in dealing with corporate governance, risk management and strategic issues in the financial sector. The Directors also attended in-house training programme as organised by the Bank which include ICAAP and Anti-Money Laundering/Counter Financing Terrorism in FPE2017.

Code of Ethics

The Board is committed to inculcating a corporate culture which promotes ethical conduct of Directors within the Bank. A Code of Ethics for Directors has been adopted by the Board to enhance the standard of corporate governance, establish ethical standards and promote ethical conduct for Directors in line with the governing laws, regulations and guidelines. The code adopts five (5) ethical principles which include competence, integrity, fairness, confidentiality and objectivity in promoting a high standard of professionalism and ethics within the Bank. A similar code has also been put in place for adherence of the employee of the Bank.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

BOARD COMMITTEES

To ensure effectiveness in discharging its roles and responsibilities, the Board has delegated specific authorities to the relevant Board Committees as expressly stipulated in the TORs of the respective Board Committees. The Board Committees also play their oversight roles, evaluating and recommending matters under their purview for the Board to consider and approve. The TORs are reviewed periodically to ensure effective and efficient decision making in the Bank.

Audit Committee

The Audit Committee supports the Board in providing independent oversight on the financial reporting, internal control system i.e. ensuring checks and balances within the Bank, risk management functions and governance processes of the Bank.

The Audit Committee comprises entirely of Non-Executive Directors with the majority being Independent Directors and is chaired by an Independent Non-Executive Director. A total of four (4) meetings were held during FPE2017. All members had attended all the meetings held during the financial period as listed below:-

	Committee Members	Attendance
1	Datuk Tan Leh Kiah (Chairman) - Independent Non-Executive Director	4/4
2	Jiang Jianhua - Non-Independent Non-Executive Director	4/4
3	Lim Kheng Boon - Independent Non-Executive Director	4/4

The Audit Committee is assisted by internal and external auditors, where applicable, in the review of the integrity and reliability of the Bank's financial statements on quarterly and yearly basis, prior to the recommendation of the same to the Board for further approval. The Committee scrutinises the internal audit report submitted by Internal Audit on the Bank's operation lapses and the remedial action taken by the Management to rectify any of the shortcomings.

The AC had met once with the external auditors during the FPE2017 without the presence of the Management of the Bank to discuss any key issues and/or areas, if any, that require the attention of the Committee and the Board.

Among the duties and responsibilities of the Audit Committee are as follows: -

- Reviewing the fairness of presentation and transparent reporting of the financial statements and timely publication of the financial accounts.

- Reviewing the comprehensiveness and robustness of the Bank’s compliance function, internal controls and risk management framework; and oversee the effective execution of the relevant policies, functions, etc.

- Ensure timely communication to the Board on issues which have impact on the effectiveness of the governance processes of the Bank.

- Approving the Internal Audit Charter.

- Approving Internal Audit budget and annual audit plan (including material plan changes during the year).

- Reviewing key audit reports and ensures that senior management takes necessary corrective actions in a timely manner to address control weakness, non-compliance with laws, regulatory requirements, policies and other issues identified by the internal audit and other control functions.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Audit Committee (Continued)

- Considering the appointment, transfer and/or dismissal of Head of Internal Audit, remuneration and performance evaluation thereof.
- Establishing a mechanism to assess the performance and effectiveness of the internal audit function.
- Recommending the appointment of external auditor and assessing the independence of the external auditor.

The detailed duties and responsibilities are set out in its TORs which is published in the Bank's corporate website.

Internal Audit Function

Internal Audit ("IA") is an independent functions reporting directly to the Audit Committee mandated under BNM Guidelines on Internal Audit Functions of Licensed Institutions (BNM/RH/GL 013-4). The role of IA is to assist the Audit Committee in discharging its duties and responsibilities by performing independent review on the adequacy and effectiveness of the Bank's risk management, internal control system and governance processes. The Audit Committee oversees the functions of IA including the scope of work, competency and resources requirements as well as the necessary authority of IA to carry out its mandate.

The scope of the IA covers all businesses, operations and support functions of the Bank. In managing the IA activities, an annual audit plan using risk-based methodology, including any risks or control concerns identified by Senior Management will be prepared and submitted to the Audit Committee for review and approval.

In FPE2017, IA has conducted reviews to assess the adequacy and effectiveness of governance processes, risk management and internal control system as well as compliance with the established policies, procedures, guidelines and regulatory requirements. The IA reports containing audit observations, recommendations and management actions plan were submitted to the Audit Committee for deliberations. Follow-up actions were in place to track that appropriate actions have been taken to address the issues highlighted.

Board Risk Management Committee

The Board Risk Management Committee assists the Board on the following functions: -

(i) overseeing the effectiveness of the risk management framework and policies supporting the Bank's strategies and risks, and risk related decision-making activity to ensure the management of bank-wide entity specific risks and alignment to the Bank's risk appetite, strategies and capital, and to promote ethical behaviors and prudent practices in risk taking activities;

(ii) overseeing Senior Management's activities in managing credit, market, liquidity, operational, compliance, legal and other risks; and

(iii) ensure the integrated risk management functions within CCBM are in place and effectively discharged.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Risk Management Committee (Continued)

The Board Risk Management Committee comprises entirely of Non-Executive Directors with the majority being Independent Directors and is chaired by an Independent Non-Executive Director. A total of five (5) meetings were held during FPE2017. All members had attended all the meetings held during the financial period as listed below:-

	Committee Members	Attendance
1	Ng Soon Lai @ Ng Siek Chuan (Chairman) - Independent Non-Executive Director	5/5
2	Jiang Jianhua - Non-Independent Non-Executive Director	5/5
3	Lim Kheng Boon - Independent Non-Executive Director	5/5

Among the duties and responsibilities of the Board Risk Management Committee are as follows: -

- Overseeing the overall management of all risks covering but not limited to credit risk, market risk, operational risk, liquidity risk and compliance risk of the Bank.
- Reviewing Management’s periodic reports on risk exposure, risk portfolio composition and risk management activities and issues or matters relating to compliance.
- Promoting a prudent risk and compliance culture across the Bank.
- Providing oversight in setting of risk appetite/tolerance as well as strategic Key Risk Indicators and ensure the Bank’s business activities are in line with its risk appetite, strategy and profile.
- Recommending the Bank’s overall risk strategy and methodology as well as risk appetite to the Board for approval.
- Reviewing the Bank’s overall stress testing methodology which should cover various material risks and business areas.
- Overseeing the management of the overall compliance risk of the Bank, including the recommendation of various compliance policies for the Board’s approval and to oversee the implementation thereof.
- Evaluating and providing input on risk strategies and policies that are driven by the parent bank to cater for local conditions and where applicable, make appropriate recommendations to the Board on the execution or compliance of such strategies and/or policies.

The detailed duties and responsibilities are set out in the TORs which is published in the Bank’s corporate website. The Bank’s financial risk management framework are set out on pages 57 to 58 of these financial statements.

Board Nomination Committee

The Board Nomination Committee assists the Board to provide a formal, transparent and consistent procedure to assess the Board and committees, take charge of fit & proper assessment, appointment/reappointment and performance evaluation of the Directors, CEO, other Senior Management, control function heads and the Company Secretary to promote the Bank’s governance practices.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Nomination Committee (Continued)

The Board Nomination Committee comprises of one (1) Non-Independent Executive Director and two (2) Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director. A total of three (3) meetings were held during FPE2017. All members had attended all the meetings held in the financial period as listed below:-

	Committee Members	Attendance
1	Datuk Tan Leh Kiah (Chairman) - Independent Non-Executive Director	3/3
2	Qian Lihong - Non-Independent Executive Director	3/3
3	Ng Soon Lai @ Ng Siek Chuan - Independent Non-Executive Director	3/3

Among the duties and responsibilities of Board Nomination Committee are as follows: -

- Recommending the overall composition of the Board and the Board Committees, including the size, qualification and specific competencies to the Board.

- Recommending the appointment/re-appointment and the removal of directors, Senior Management, control function heads and the Company Secretary to the Board.

- Conducting annual evaluation to assess performance and effectiveness of the board, board committees and individual directors as well as Senior Management, control function heads and senior officers considered to take material risks in the Bank.

- Assessing annually if the Company Secretary and key responsible persons as defined in the Bank's Fit and Proper Policy meet the fit and proper requirements and submission of the assessment result to the Board to ensure non disqualification under the Financial Services Act 2013, Companies Act 2016, other Malaysian laws and the guidelines of BNM.

- Assessing annually the independence of the independent directors and to review the suitability of independent directors to remain on the board and board committee(s) when they have reached the maximum tenure as stipulated in the Board Charter of the Bank.

- Reviewing the directors' development and training plan annually and recommend to the Board for approval. This aims to promote an ongoing development, knowledge enhancement and skills improvement to fulfill the responsibilities.

- Overseeing the establishment and regularly review succession plans for the Board, directors, CEO, other Senior Management and to promote board renewal and address any vacancies and processes for removal of directors.

The detailed duties and responsibilities are set out in the TORs which is published in the Bank's corporate website.

Board Remuneration Committee

The Board Remuneration Committee assists the Board to provide a formal, transparent and consistent procedure for developing remuneration policies for Directors, CEO and other Senior Management whilst ensuring the remuneration policies are consistent with the Bank's culture, objectives, strategy and risk appetite, and appropriate to promote good corporate governance practices, as well as to comply with legal and regulatory requirement.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Remuneration Committee (Continued)

The Board Remuneration Committee comprises entirely of Non-Executive Directors with the majority being Independent Directors and is chaired by an Independent Non-Executive Director. A total of two (2) meetings were held during FPE2017. All members had attended all the meetings held in the financial period as listed below:-

	Committee Members	Attendance
1	Lim Kheng Boon (Chairman) - Independent Non-Executive Director	2/2
2	Jiang Jianhua - Non-Independent Non-Executive Director	2/2
3	Datuk Tan Leh Kiah - Independent Non-Executive Director	2/2

Among the duties and responsibilities of Board Remuneration Committee are as follows: -

- Ensure the establishment of the relevant remuneration and human resource policies, strategies and framework governing the Directors, Senior Management and employee of the Bank and recommending the same for approval by the Board.

- Ensure the overall remuneration framework of the Bank comprises, at a minimum, the following elements:-

  (i) in line with the business and risk strategies, corporate values and long term interest of the Bank;

  (ii) promoting prudent risk-taking behaviour and ensuring individuals to act in the interest of the Bank as a whole; and

  (iii) ensuring risk exposures and risk outcomes are adequately considered taking into input from the control functions and Board Risk Management Committee.

  The above said remuneration framework covers all aspects of remuneration including that of the directors.

- Ensure the remuneration outcome for individuals within the Bank are symmetric with risk outcomes which includes:-

  (i) remuneration is adjusted to account for all types of risk and must be determined both by quantitative measures and qualitative judgement;

  (ii) size of the bonus pool is linked to the overall performance of the Bank;

  (iii) the incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Bank; and

  (iv) variables used to measure risk and performance outcomes of the individual are related closely to the level of accountability of the individual.

The detailed duties and responsibilities are set out in the TORs which is published in the Bank's corporate website.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Remuneration of Independent Non-Executive Directors

The Board is mindful that fair remuneration is essential to attract, retain and motivate Directors with the relevant experience and expertise to lead the Bank. The Board Remuneration Committee has been entrusted to review the remuneration package of Independent Non-Executive Directors of the Bank, where necessary, excluding Non-Independent Directors who are drawing their remuneration from the parent bank. Currently, the remuneration structure of Independent Non-Executive Directors of the Bank for FPE2017 is laid out as follows:-

No.	Remuneration Structure		Unrestricted/Non-Deferred
a.	Fixed-Type of Remuneration		
	i.	Cash-based	Fixed Fees - Directors' Fee
	ii.	Share and share-link instruments	Nil
	iii.	Others	Nil

There is no variable-type of remuneration offered to the Independent Non-Executive Directors of the Bank in FPE2017. The details of the above remuneration are disclosed in Note 19 to the financial statements.

The Board also acknowledges that remuneration system form a key component of the governance and incentive structure through which the Board and Senior Management drive performance, convey acceptable risk taking behaviour and reinforce the Bank's corporate and risk culture. The Board will review the overall remuneration system of the Bank from time to time, as required, to ensure the same is prudent risk taking and is in line with its corporate culture.

ACCOUNTABILITY AND AUDIT

Financial Reporting

It is the Board's commitment to present a balanced and meaningful assessment of the Bank's financial performance and prospects at the end of the financial period, primarily through the annual financial statements to BNM. The Board is assisted by the Audit Committee to oversee the Bank's financial reporting process and the quality of its financial reporting.

Statement on Directors' Responsibility

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Bank as at the end of the accounting period and of its financial performance and cash flows for the period then ended. In preparing the financial statements, the Directors have ensured that the preparation and fair presentation of these financial statements are in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia in all material respects and other legal requirements.

The Statement on Directors' Responsibility in respect of the preparation of audited financial statements of the Bank is set out on page 76 of the Financial Statements.

Internal Controls

The Board has the overall responsibility for establishing and maintaining a sound risk management and internal control system to ensure compliance with the applicable laws and regulations, as well as with internal guidelines and policies. Reviews and updates are performed regularly on internal policies, guidelines and procedures. This is to ensure that they continue to operate as intended and are also operating adequately and effectively taking into consideration the changes in risks profile of the Bank, business conditions and regulatory requirements.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Whistleblowing Policy

The Bank has put in place a Whistleblowing Policy and Procedures which provides an avenue for employee and third parties to disclose any illegal, unethical, questionable practices or improper conduct committed or about to commit within the Bank. This policy encourages reporting of such matters in good faith, with the confidentiality of the person making such reports protected from reprisal in the best possible manner. The notification channel of CCBM is available on the Bank's corporate website.

Relationship with the Auditors

The Bank, through the Audit Committee, has established a formal and transparent relationship with the auditors. The external auditors are invited to discuss the annual financial statements, their audit plan, audit findings and other special matters that require the attention of the Board. The Audit Committee meets with the external auditors at least once a year without the presence of the Management.

The Audit Committee undertakes assessment of the performance, suitability and independence of the external auditors and recommends to the Board and shareholder for their re-appointment on annual basis.

The Audit Committee in its evaluation of the performance of the external auditors for any re-appointment had taken into consideration the following areas of assessment in ensuring the independency of the external auditors of the Bank:-

(a) Level of knowledge, capabilities, experience and quality of previous work;
(b) Level of engagement with AC;
(c) Ability to provide constructive observations, implications and recommendations in areas which require improvements;
(d) Adequacy in audit coverage, effectiveness in planning and conduct of audit;
(e) Ability to perform the audit work within the agreed timeframe;
(f) Non-audit services rendered by PwC does not impede independence;
(g) Ability to demonstrate unbiased stance when interpreting the standards/policies adopted by CCBM; and
(h) Risk of familiarity in respect of PwC's appointment as external auditors.

The Audit Committee yearly through the meeting with the external auditors, will receive confirmation from the external auditors on their independency in the performing of the statutory audits for the Bank as well as the measures used to control their work quality.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

OTHER STATUTORY INFORMATION

a) Before the financial statements of the Bank were prepared, the Directors took reasonable steps:

(i) 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 allowance had been made for doubtful debts; and

(ii) to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances:

(i) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts inadequate to any substantial extent; or

(ii) which would render the values attributed to current assets in the financial statements of the Bank

(iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

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

(i) any charge on the assets of the Bank which has arisen since the end of the financial period which secures the liabilities of any other person; or

(ii) any contingent liability of the Bank which has arisen since the end of the financial period.

(d) No contingent or other liability of the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may affect the ability of the Bank to meet its obligations when they fall due.

DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

(e) 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 Bank which would render any amount stated in the respective financial statements misleading.

(f) In the opinion of the Directors:

(i) the results of the operations of the Bank during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial period in which this report is made.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 18 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on . Signed on behalf of the Board in accordance with a resolution of the Board of Directors.

DATUK TAN LEH KIAH
DIRECTOR

LIM KHENG BOON
DIRECTOR

Kuala Lumpur

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	**2017 RM'000**
ASSETS		
Cash and short term funds	2	819,618
Deposits and placements with banks and other financial institutions	3	393,036
Financial investments available-for-sale ("AFS")	4	156,305
Loans and advances	5	1,291,227
Other assets	6	7,505
Derivative assets	7	14,209
Deferred tax assets	8	2,911
Property and equipment	9	10,482
Intangible assets	10	4,534
TOTAL ASSETS		2,699,827
LIABILITIES AND EQUITY		
Deposits from customers	11	455,207
Deposits and placements of banks and other financial institutions		1,379,665
Other liabilities	12	16,751
Derivative liabilities	7	24,944
Provision for taxation		4,355
TOTAL LIABILITIES		1,880,922
Share capital	13	822,600
Reserves	14	(3,695)
TOTAL EQUITY		818,905
TOTAL LIABILITIES AND EQUITY		2,699,827
COMMITMENTS AND CONTINGENCIES	23	2,142,522

The accompanying accounting policies and notes form an integral part of these financial statements.

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

	Note	**01/10/2016 to 31/12/2017 RM'000**
Interest income	15	52,225
Interest expense	16	(11,931)
Net interest income		40,294
Other operating income	17	8,598
Net income		48,892
Other operating expenses	18	(43,828)
Operating profit before allowances		5,064
Allowance for impairment on loans and other losses	20	(6,520)
Loss before taxation		(1,456)
Taxation	21	(3,079)
Net loss for the financial period		(4,535)
Other comprehensive income/(loss) in respect of:		
(i) Items that will be reclassified subsequently to profit or loss:		
(a) Unrealised net gain on revaluation of financial investments AFS		1,005
Income tax relating to components of other comprehensive loss		(165)
Other comprehensive income, net of tax, for the financial period		840
Total comprehensive loss for the financial period		(3,695)

The accompanying accounting policies and notes form an integral part of these financial statements.

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

		← Non-distributable		→	Distributable	
	Note	**Share capital RM'000**	**Regulatory reserve RM'000**	**AFS reserves RM'000**	**Accumulated losses RM'000**	**Total equity RM'000**
Bank						
Balance as at 1 October 2016						
Issue of shares	13	822,600	-	-	-	822,600
Net loss for the financial period		-	-	-	(4,535)	(4,535)
Other comprehensive loss, net of tax, for the financial period		-	-	840		840
Total comprehensive loss for the financial period		-	-	840	(4,535)	(3,695)
Balance as at 31 December 2017		**822,600**	**-**	**840**	**(4,535)**	**818,905**

The accompanying accounting policies and notes form an integral part of these financial statements.

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

	Note	01/10/2016 to 31/12/2017 RM'000
Cash flows from operating activities		
Loss before taxation		(1,456)
Adjustments for items not involving the movement of cash and cash equivalents		
Allowance for impairment on loans and other losses		6,520
Depreciation of property and equipment		2,919
Amortisation of intangible assests		479
Interest income from financial investments available-for-sale		(4,258)
Operating profit before working capital changes		4,204
(Increase) in operating assets:		
Deposits and placements with banks and other financial institutions		(393,036)
Derivatives Assets		(14,209)
Loans and advances		(1,297,747)
Other assets		(7,505)
		(1,712,497)
Increase in operating liabilities:		
Deposits from customers		455,207
Deposits and placements of banks and other financial institutions		1,379,665
Derivative liabilities		24,944
Other liabilities		16,751
		1,876,567
Cash generated from operations		168,274
Net tax paid		(1,800)
Net cash generated from operating activities		166,474
Cash flows from investing activities		
Purchase of financial investments available-for-sale		(153,199)
Interest received from financial investments available-for-sale		2,157
Purchase of property and equipment		(13,401)
Purchase of intangible assets		(5,013)
Net cash used in investing activities		(169,456)
Cash flows from financing activities		
Proceeds from issuance of share capital		822,600
Net cash generated from financing activities		822,600
Net increase in cash and cash equivalents		819,618
Cash and cash equivalents:		
- at the beginning of the financial period		-
- at the end of the financial period	2	819,618

The accompanying accounting policies and notes form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Bank had on 1 October 2016 received its company incorporation approval from Companies Commission of Malaysia, being the first subsidiary of China Construction Bank Corporation ("CCBC") in Malaysia.

This is the first financial statements prepared and issued by the Bank of which covering 15 months financial period from 1 October 2016 to 31 December 2017 and hence the comparative financial information is not presented for the Bank.

As of the end of the financial period 31 December 2017, the Bank recorded a loss before taxation of RM1.5 million, which is mainly due to the allowance for impairment on loans and advances of RM6.5 million with full recognition of impairment allowances in the first financial period in accordance with the relevant guidelines and reporting standards.

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments AFS, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective

The Bank has applied the following amendments for the first time for the financial period beginning on 1 January 2017:

- Amendments to MFRS 107 "Statement of Cash Flows – Disclosure Initiative"
- Amendments to MFRS 112 "Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses"

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

Classification and measurements

(i) MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income "OCI". The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

Classification and measurements (Continued)

(i) MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". (continued)

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.
- When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

The combined application of the entity's business model and the cash flow characteristics of the financial assets do not result in the significant change in the classification of financial asset when compared to the existing classification of financial assets in the statement of financial position as at 31 December 2017.

The Bank's debt instruments that are currently classified as available-for-sale comprise investment in Malaysian Government Securities will satisfy the conditions for classification as at fair value through other comprehensive income "FVOCI" and hence there will be no change to the accounting for these assets.

Hence, the Bank do not expect a significant impact arising from the changes in classification and measurement of the financial assets.

There will be no changes to the Bank's accounting for financial liabilities. All the financial liabilities, except for derivatives financial liabilities which is at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

Impairment of financial assets

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments, financial guarantee contracts and other loan commitments.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are under MFRS 9, impairment will be measured on each reporting date according to a three-stage expected credit loss impairment

- Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).
- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset (Lifetime ECL).
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

Impairment of financial assets (Continued)

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with MFRS 139, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139.

In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in profit or loss, allowance for credit losses will be more volatile under MFRS 9.

Disclosures

The new standard requires more extensive disclosures especially in the areas of ECL. The Bank expect the changes in the extent of disclosures in the financial statements for 31 December 2018.

The Bank will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Based on the preliminary assessments performed, the Bank expect an increase in the impairment on loans, financing and other losses arising from the new impairment requirements, which will result in an increase in the Bank’s opening accumulated losses and overall capital position as of 1 January 2018.

(ii) MFRS 15 “Revenue from Contracts with Customers” (effective from 1 January 2018) replaces MFRS 118 “Revenue” and MFRS 111 “Construction Contracts” and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

Based on the preliminary assessment performed, the Bank's deferred fee income mainly comprises of loan arrangement fees and commitment fees which will be scoped in under MFRS 9. Accordingly, the Bank did not expect to have material impact to the Bank's financial statements arising from the adoption of this new standard.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(iii) MFRS 16 “Leases” (effective from 1 January 2019) supersedes MFRS 117 “Leases” and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a “right-of-use” of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 “Property, Plant and Equipment” and the lease liability is accreted over time with interest expense recognised in profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Bank is in the process of finalising the financial implication arising from the adoption of this new standard, although it is not expected to have any material impact to the Bank.

(iv) IC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the ‘date of the transaction’ to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine the ‘date of transaction’ when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

The adoption of this interpretation do not have any material impact to the Bank's financial statements.

(v) IC Interpretation 23 “Uncertainty over Income Tax Treatments” (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

The adoption of this interpretation do not have any material impact to the Bank's financial statements.

(vi) Amendments to MFRS 9 “Prepayment features with negative compensation” (effective 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a “held to collect” business model.

The adoption of this interpretation do not have any material impact to the Bank's financial statements.

(2) FINANCIAL ASSETS

(a) Classification

The Bank classifies its financial assets in the following categories: loans and receivables and financial investments AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(ii) Financial investments AFS

Financial investments AFS are non-derivatives that are either designated in this category or not classified in any of the other categories.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date on which the Bank commit to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement.

(c) Subsequent measurement - gain and loss

Financial investments AFS are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of financial investments AFS are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 14 on impairment of financial assets) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income.

Interest and dividend income on financial investments AFS are recognised separately in income statement. Interest on financial investments AFS calculated using the effective interest method is recognised in income statement. Dividend income on financial investments AFS is recognised in non-interest income in income statement when the Bank’s right to receive payment is established.

(2) FINANCIAL ASSETS (CONTINUED)

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

When financial investments AFS are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to income statement.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount will be presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(3) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Cash collateral held in relation to derivative transactions are carried at amortised cost.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

As at reporting date, the Bank has not designated any derivative as hedging instrument. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(4) PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in income statement during the financial period in which they are incurred.

(4) PROPERTY AND EQUIPMENT AND DEPRECIATION (CONTINUED)

Property and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives, summarised as follows:

Renovations and improvements	Amortised over the period of the lease
Computer equipment	5 years
Furniture, fittings and equipment	5 years
Motor vehicles	8 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amounts and are included in non-interest income in income statement.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(5) INTANGIBLE ASSETS

Intangible assets comprise separately identifiable intangible items arising from computer software and membership. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life. At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exists, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

(a) Computer software licenses

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software are subsequently carried at cost less accumulated amortisation and impairment losses. Computer software licenses recognised as intangible assets with a definite useful life are amortised using the straight line method over their useful lives, not exceeding a period of 5 years.

(b) Other intangible asset
Other intangible asset consist of membership. Membership does not have a definite useful life and annual assessment of impairment is performed.

(6) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

(7) FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement. Financial liabilities are de-recognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or 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.

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are re-measured at amortised cost using the effective interest rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions and other financial liabilities.

(8) PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

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 expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment 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.

(9) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 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. However, contingent liabilities do not include financial guarantee contracts.

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 Bank. the Bank does not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

(10) SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are deducted against equity.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

(11) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash and bank balances and short term deposits with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(12) RECOGNITION OF INTEREST INCOME AND EXPENSES

Interest income and expense for all interest bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

When a loan receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest/profit income on impaired loan are recognised using the original effective interest rate.

(13) RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Guarantee fees which are material are recognised as income based on time apportionment. Services charges and other fee income are recognised as income when the services are rendered.

Commitment fees for loans and advances are likely to be drawn down and deferred (together with direct costs) and income which forms an integral part of the effective interest rate of a financial instrument is regarded as an adjustment to the effective interest rate of the financial instrument.

Net profit from financial investment available-for-sale are recognised upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.

(14) IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant.

If the Bank determines that no objective evidence of impairment exist for an individually assessed loans and advances, whether significant or not, it includes in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and advances' carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the original effective interest rate.

The carrying amount of the loans and advances is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. If the loans and advances have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account the borrower's sector. This characteristic is relevant for the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and advances are collectively evaluated for impairment and are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimated and actual loss experience.

(15) EMPLOYEE BENEFITS

(a) Short term employee benefits

The Bank recognises a liability and an expense for bonuses. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(15) EMPLOYEE BENEFITS (CONTINUED)

(b) Defined contribution plans

The defined contribution plan is a pension plan under which the Bank pays 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 employee benefits relating to employee service in the current and prior periods. The Bank's contributions to defined contribution plans are charged to income statement in the period to which they relate. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(16) OPERATING LEASE

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

(17) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operates and includes all taxes based upon the taxable profits.

Deferred income tax is provided 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 profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

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

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(18) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation 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 the income statements. Foreign exchange gains and losses are presented in income statements within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as AFS are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statements, and other changes in carrying amount are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017

1 GENERAL INFORMATION

China Construction Bank (Malaysia) Berhad "CCBM" has on 1 October 2016, received its company incorporation approval from Companies Commission of Malaysia and Ministry of Domestic Trade, Co-operatives and Consumerism, being the first subsidiary of China Construction Bank Corporation "CCBC" in Malaysia.

The holding and ultimate corporation of the Bank, China Construction Bank Corporation, headquatered in Beijing is a large-scale joint stock commercial bank lending in China.

The principal activities of the Bank are commercial banking and related financial services.

The address of the registered office of the Bank is Ground Floor, South Block, Wisma SDB, 142A Jalan Ampang, 50450 Kuala Lumpur, Malaysia

2 CASH AND SHORT TERM FUNDS

	2017
	RM'000
Cash and balances with banks and other financial institutions	20,125
Money at call and deposit placements maturing within one month	799,493
	819,618

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017
	RM'000
Licensed banks	393,036

4 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2017
	RM'000
At fair value	
<u>Money market instruments:</u>	
Malaysian Government Securities	156,305

5 LOANS AND ADVANCES

	2017 RM'000
(a) By type	
At amortised cost	
Term loans:	
- Syndicated term loans	657,982
- Other term loans	325,850
Trust receipts	68,903
Revolving credits	245,012
Gross loans and advances	1,297,747
Allowance for impaired loans and advances	
- Collective impairment allowance	(6,520)
Net loans and advances	1,291,227

	2017 RM'000
(b) By type of customer	
Business enterprises	1,233,499
Government and statutory bodies	64,248
	1,297,747

	2017 RM'000
(c) By geographical distribution	
Malaysia	629,558
Hong Kong	304,174
Philipines	162,155
United Arab Emirates	64,247
China	120,094
Indonesia	17,519
	1,297,747

	2017 RM'000
(d) By interest rate sensitivity	
Fixed rate:	
- Fixed rate loans/ financing	188,977
Variable rate:	
- Cost-plus	1,108,770
	1,297,747

	2017 RM'000
(e) By economic purpose	
Working capital	607,629
Merger and acquisition	81,026
Purchase of transport vehicle	154,048
Other purposes	455,044
	1,297,747

5 LOANS AND ADVANCES (CONTINUED)

	2017 RM'000
(f) By maturity structure	
Maturity within one year	557,401
One year to three years	231,076
Three years to five years	310,756
Over five years	198,514
	1,297,747

(g) Impaired loans and advances

(i) Movements in allowance for impaired loans and advances

Collective impairment allowance	
Balance as at 1 October 2016	-
Net allowance made	6,520
Balance as at the end of the financial period	6,520

6 OTHER ASSETS

		2017 RM'000
Other receivables	(i)	485
Deposits		824
Prepayments		196
Cash collateral pledged for derivative transactions		6,000
		7,505

(i) Other receivables of the Bank are mainly comprised of fees receivable, goods and service tax receivables and business related receivables.

7 DERIVATIVE ASSETS/ (LIABILITIES)

	2017		
	Contract or underlying principal amount	**Year-end positive fair value**	**Year-end negative fair value**
	RM'000	**RM'000**	**RM'000**
By type			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards/ spot	1,714,773	14,209	24,944
	1,714,773	14,209	24,944
By remaining period to maturity/ next repricing date			
Trading derivatives:			
Foreign exchange related contracts:			
- Less than 1 year	1,714,773	14,209	24,944
	1,714,773	14,209	24,944

8 DEFERRED TAX ASSETS/ (LIABILITIES)

	2017 RM'000
Deferred tax assets	2,911
Deferred tax assets	
- Settled more than twelve months	544
- Settled within twelve months	2,367
	2,911

The gross movements in deferred tax assets and liabilities during the financial period comprise the following:

2017	Property and equipment RM'000	Financial investments AFS RM'000	Provisions and deferred income RM'000	Total RM'000
Balance as at 1 October 2016	-	-	-	-
(Charged)/ credited to income statements	(463)	-	3,539	3,076
Charged to equity	-	(165)	-	(165)
Balance as at the end of the financial period	(463)	(165)	3,539	2,911

Deferred income 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 authority. The following amounts determined after appropriate set off, are shown in the statement of financial position:

	2017 RM'000
Deferred tax assets	3,539
Deferred tax liabilities	(628)
	2,911

9 PROPERTY AND EQUIPMENT

	Renovations and improvements	Computer equipment	Furniture, fittings and equipment	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
Cost					
Balance as at 1 October 2016	-	-	-	-	-
Additions	3,662	8,134	675	930	13,401
Balance as at the end of the financial period	3,662	8,134	675	930	13,401
Accumulated depreciation					
Charge for the financial period	(913)	(1,720)	(164)	(122)	(2,919)
Balance as at the end of the financial period	(913)	(1,720)	(164)	(122)	(2,919)
Net book value at the end of the financial period	**2,749**	**6,414**	**511**	**808**	**10,482**

10 INTANGIBLE ASSETS

	Computer software	Membership	Total
	RM'000	RM'000	RM'000
2017			
Cost			
Balance as at the 1 October 2016	-	-	-
Additions	2,413	2,600	5,013
Balance as at the end of the financial period	2,413	2,600	5,013
Accumulated depreciation			
Charge for the financial period	(479)	-	(479)
Balance as at the end of the financial period	(479)	-	(479)
Net book value at the end of the financial period	1,934	2,600	4,534

11 DEPOSITS FROM CUSTOMERS

	2017 RM'000
(a) By type of deposit	
Demand deposits	286,274
Fixed/investment deposits	168,933
	455,207
(b) By type of customer	
Business enterprises	455,207
(c) By maturity structure of fixed / investment deposits	
Due within six months	157,456
Six months to one year	3,068
One year to three years	8,409
	168,933

12 OTHER LIABILITIES

	2017 RM'000
Other creditors and accruals	4,841
Deferred income	10,402
Amount due to related company	218
Cash collateral pledged for derivative transactions	1,290
	16,751

13 SHARE CAPITAL

	2017	
	Number of shares '000	**Amount RM'000**
Issued and fully paid:		
- Ordinary shares with no par value *	822,600	822,600

* The new Companies Act 2016 which came into operation on 31 January 2017, abolished the concept of authorised share capital and per value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of the member as a results of this transition.

14 RESERVES

	2017 RM'000
AFS revaluation reserves (a)	840
Regulatory reserve (b)	-
Accumulated loss	(4,535)
	(3,695)

(a) AFS revaluation reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as financial investment AFS. The gain or losses are transferred to the income statement upon disposal or when the securities become impaired.

(b) The Bank is required to maintain in aggregate collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding loans and advances, net of individual impairment allowances.

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

15 INTEREST INCOME

	10/01/2016 to 12/31/2017 RM'000
Loans and advances	14,553
Deposits and placements with banks and other financial institutions	33,414
Financial investments AFS	4,258
	52,225

16 INTEREST EXPENSE

	10/01/2016 to 12/31/2017 RM'000
Deposits and placements of banks and other financial institutions	7,014
Deposits from customers	4,917
	11,931

17 OTHER OPERATING INCOME

	10/01/2016 to 12/31/2017 RM'000
Fee income	
Service charges and fees	84
Guarantee fees	424
Commitment fees	851
Other fee income	366
	1,725
Net gain/(loss) arising from derivatives	
- Realised	7,119
- Unrealised	(10,734)
	(3,615)
Other income	
Net foreign exchange gain/(loss):	
- Realised	10,450
Other non-operating income	38
	10,488
	8,598

18 OTHER OPERATING EXPENSES

	10/01/2016 to 12/31/2017 RM'000
Personnel costs	
Salaries, bonuses, wages and allowances	15,514
Defined contribution plan	1,236
Other staff related costs	3,878
	20,628
Establishment costs	
Depreciation of property and equipment	2,919
Amortisation of intangible assets	479
Rental	1,444
Insurance	25
Water and electricity	62
Repair and maintenance	3,165
Security and escorting expenses	80
	8,174
Marketing expenses	
Advertisement and publicity	298
Travelling expenses	257
Others	762
	1,317
Administration and general expenses	
Communication expenses	621
Auditors' remuneration	1,465
Legal and professional fees	209
Travelling and accomodation expenses	974
GST expenses	1,782
Employee recruitment costs	6,757
Others	1,901
	13,709
	43,828

The above expenditure includes the following statutory disclosure:

	10/01/2016 to 12/31/2017 RM'000
CEO and director's remuneration (Note 19)	1,267
Auditors' remuneration	
- Statutory audit fees	260
- Regulatory related fees	45
- Tax fees	250
- Non audit fees	910

19 CEO AND DIRECTORS' REMUNERATION

	Salaries	Bonuses	Director's fees	Other* emoluments	Benefits - in-kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Managing Director / Chief Executive Officer						
Feng Qi	841	-	-	-	-	841
Non-executive Directors						
Lim Kheng Boon	-	-	142	-	-	142
Datuk Tan Leh Kiah	-	-	142	-	-	142
Ng Soon Lai @ Ng Siek Chuan	-	-	142	-	-	142
	841	-	426	-	-	1,267

*Other emoluments include allowance and defined contribution retirement plan ("EPF")
During the financial period there was no indemnity given or insurance effected for any Director for the Bank.

20 ALLOWANCE FOR IMPAIRMENT ON LOANS AND OTHER LOSSES

	10/01/2016 to 12/31/2017 RM'000
Allowance for impaired loans and advances:	
- Collective impairment allowance made	6,520
	6,520

21 TAXATION

	10/01/2016 to 12/31/2017 RM'000
Taxation for the finanical period:	6,155
Deferred taxation	(3,076)
	3,079

The numerical reconciliation between the applicable statutory income tax rate and the effective income tax rate of the Bank are as below:

	10/01/2016 to 12/31/2017 RM'000
Statutory tax rate in Malaysia of 24%	(350)
Tax effects in respect of:	
Non-taxable income	-
Non-allowable expenses	3,429
	3,079

22 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

	Before tax RM'000	**Tax benefits RM'000**	**Net of tax RM'000**
2017			
Financial investments AFS			
- Net fair value loss and net amount transfer to income statements	1,005	(165)	840

23 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. Apart from the allowance for commitments and contingencies already made in the financial statements, no material losses are anticipated as a result of these transactions.

The commitments and contingencies comprise the following:

	2017
	RM'000
Short-term self-liquidating trade-related contingencies	69,666
Transaction-related contingent items	106,700
Irrevocable commitments to extend credit	
- Less than one year	27,000
- More than one year	224,383
Foreign exchange-related contracts: #	
- Less than one year	1,714,773
	2,142,522

The fair value of these derivatives have been recognised as "derivative assets" and "derivative liabilities" in the statement of financial position and disclosed in Note 7 to the financial statements.

24 CAPITAL COMMITMENTS

Capital expenditure for property and equipment approved by the Directors but not provided for in the financial statements amounted to approximately:

	2017
	RM'000
Capital expenditure for property and equipment:	
- Authorised and contracted for	4,912
- Authorised but not contracted for	652
	5,564

25 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises which are classifed as operating leases. A summary of future minimum lease payments under non-cancellable operating lease commitments are as follows:

	2017
	RM'000
Rental of premises:	
- Within one year	1,926
- Between one to five years	935
	2,861

26 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of, and their relationship with the Bank, are as follows:

Related parties	Relationship
China Construction Bank Corporation ("CCBC")	Holding and ultimate corporation
Subsidiaries, associates and joint ventures of CCBC	Subsidiaries, associates and joint ventures of the holding and ultimate corporation
Key management personnel	The key management personnel of the Bank consists of: - All Directors of the Bank; and - Three members of senior management of the Bank
Related parties of key management personnel # (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel; and (ii) Entities that are controlled, jointly controlled or significantly influenced, by or for which voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

\# Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. Key management personnel include all Directors of the Bank and three (3) members of senior management of the Bank in office during the financial period and his remuneration for the financial period are disclosed in Note 19.

(b) Significant related party balances and transactions

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

Set out below are significant related party transactions and balances:

	Key management personnel RM'000	Holding and ultimate corporation RM'000	Other related companies RM'000
Income			
Interest on interbank placements	-	807	-
Fee income	-	50	-
Net gain/(loss) arising from derivatives	-	31,939	-
	-	32,796	-
Expenses			
Deposits and placements of banks and other financial institutions	-	4,780	-
Net foreign exchange loss	-	1,819	-
	-	6,599	-
Amounts due from			
Loans and advances	-	7,600	1,836
Derivative assets	-	5,589	-
	-	13,189	1,836

26 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions (Continued)

Set out below are significant related party transactions and balances (Continued):

	Key management personnel RM'000	Holding and ultimate corporation RM'000	Other related companies RM'000
Amounts due to			
Deposits and placements of banks and other financial institutions	-	836,362	-
Derivative liabilities	-	1,593	-
Other liabilities	-	218	-
	-	838,173	-

(c) Key management personnel

	10/01/2016 to 12/31/2017 RM'000
The remuneration of Directors and other members of key management are as follows:	
Short term employee benefits:	
- Fees	426
- Salary and other remuneration	1,759
- Contribution to EPF and SOCSO	44
- Benefits-in-kind	-
	2,229

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised "Guidelines on Credit Transactions and Exposures with Connected Parties" which became effective on 1 January 2008 are as follows:

	2017 RM'000
Outstanding credit exposure with connected parties (RM'000)	112,157
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	4.66
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	-

27 CAPITAL MANAGEMENT

The total capital and capital adequacy ratios of the Bank is computed in accordance with BNM's Capital Adequacy Framework (Capital Components).

The Bank is currently adopting the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the BNM Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ("CET 1") and Tier 1 Capital Ratio are 5.750% and 7.250% respectively. The minimum regulatory capital adequacy requirement is 9.250% for total capital ratio.

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank maintain a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the management which takes into account the risk profile of the Bank.

Note 28 below summarises the composition of regulatory capital and the ratios of the Bank for the financial period ended 31 December 2017.

28 CAPITAL ADEQUACY RATIO

BNM Guidelines on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

	2017
	RM'000
Common Equity Tier I ("CET I")/Tier I Capital	
Paid-up ordinary share capital	822,600
Accumulated losses	(4,535)
AFS reserves	840
	818,905
Less:	
Intangible assets	(5,013)
Deferred tax assets	(2,911)
55% of cumulative gains of financial investments AFS	(462)
Total CET I Capital	810,519
Total Tier I Capital	810,519
Tier II Capital	
Collective impairment allowance and regulatory reserves	6,520
Total Tier II Capital	6,520
Total Capital	817,039
Capital ratios	
Before proposed dividends:	
CET I Capital Ratio	51.598%
Tier I Capital Ratio	51.598%
Total Capital Ratio	52.013%
Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:	
Credit risk	1,457,358
Market risk	21,816
Operational risk	91,672
Total risk-weighted assets	1,570,846

The total risk-weighted assets for the Bank are computed based on BNM's Capital Adequacy Framework: Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

29 FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, and the bank's objectives, policies and processes for measuring and managing risk.

(a) Risk Management Framework

The Bank's risk management framework sets the overarching principles to enable the identification, measurement, and continuous monitoring of all relevant and material risks on a bankwide basis, supported by robust management information systems that facilitate timely and reliable reporting of risks and the integration of information across the bank.

The Bank's risk management framework emphasizes on strong risk culture and a well developed risk appetite. Effective and efficient risk management safeguards the bank's continued existence and enables it to achieve its long term corporate

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Board Risk Management Committee which is responsible for developing risk management strategies and policies, monitoring the implementation and evaluating the bank's overall risk profile on a regular basis.

1. Credit Risk

Credit risk is the risk of loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Bank. The Bank's exposure to credit risk arises primarily from the Bank's lending, trade finance and its funding, investment and trading activities from both on- and off- balance sheet transactions.

The Bank has established the Management Risk Management Committee ("MRMC") to monitor on credit risk exposure trends, asset quality, portfolio concentration analysis and credit related limits controls. The MRMC ensures that the Bank practices prudent underwriting standards that are consistent with the Bank's risk appetite and lending

The Bank has also established the Credit Committee to review and evaluate the borrowers' credit ratings based on internal rating criteria and the suitability of credit risk mitigation such as specific types of collaterals. Pre-emptive risk management tool such as collateral management, watch list and management-action-triggers have been put in place to proactively monitor for signs of possible credit deterioration.

The Bank's credit risk management process is independent of the business so as to protect integrity of the risk assessment process and decision making. Credit risk in respect of exposures to corporate borrowers is measured and managed at both individual counterparty level as well as at a portfolio level.

The Bank controls its concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. The exposures to individual clients or group are based on the internal rating of the borrower as well as group-wide borrowing limits and capped by the regulatory ceiling.

In addition, the Bank has established limits to mitigate concentration risk within different industry sectors so that the Bank's exposures are evenly spread over various sectors with refrain to undesirable sectors.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk Management Framework (Continued)

2. Market Risk

Market risk is the risk of loss in respect of the Bank's on- and off- balance sheet activities arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both trading and non-trading business.

The MRMC is responsible for leading the establishment of market risk management policies and rules, developing market risk measurement tools, monitoring and reporting the market risk. In addition, the Assets and Liabilities Committee (ALCO) is responsible for managing interest rate risk, exchange rate risk and the size and structure of the Bank's assets and liabilities in response to structural market risk.

The Bank's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Bank uses multiple tools such as repricing gap analysis, sensitivity analysis, scenario analysis and stress testing, etc to monitor the interest rate risk on regular basis.

The Bank's foreign exchange exposure mainly comprises exposures from customers driven portfolios and manages this risk by entering into back-to-back transactions with other banks and non-bank financial institutions.

3. Liquidity Risk

Liquidity risk is the risk that occurs when the Bank cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfil other payment obligations, or meet the other funding needs in its regular business.

The Bank's objective for liquidity risk management is to ensure the Bank's payment and settlement security and maintain an optimal balance between liquidity position and profitability.

The Bank's ALCO takes the lead in managing the Bank's liquidity risks and works alongside primarily with Financial Market Department to ensure proper execution of liquidity risk management actions. ALCO is responsible to ensure the formulation of liquidity risk management guidelines including limit management and contingency planning. Stress testing are conducted periodically to gauge the Bank's risk tolerance in adverse situations including extreme scenarios. The Bank uses a variety of liquidity risk measurement tools including liquidity coverage ratio ("LCR"), cashflow analysis, remaining contractual maturities and deposits concentration analysis.

4. Operational Risk

Operational risk is the risk of loss due to inadequate or flawed internal processes, people, systems or external events. Operational risk is inherent in each of the bank's business and operational activities.

The MRMC is responsible to develop the operational risk management policies, framework and methodologies, and put in place operational risk management tools such as Key Risk Indicators, and incident and loss event management. The Bank adopts the 3-lines of defense model for holistic oversight operational risk oversight.

The Bank carries out periodical risk and business impact analysis through its material risk assessment and has established its Business Continuity and Disaster Recovery plans which are subject to regular testing.

The Bank has established risk appetite to monitor and control operational risk lapses including those related to system availability.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial Instruments by Category

	Assets at fair value through the profit or loss	Financial investments AFS	Loans and receivables	Total
		RM'000	RM'000	RM'000
2017				
ASSETS				
Cash and short term funds	-	-	819,618	819,618
Deposits and placements with banks and other financial institutions	-	-	393,036	393,036
Financial investments AFS	-	156,305	-	156,305
Loans and advances	-	-	1,291,227	1,291,227
Other financial assets	-	-	6,485	6,485
Derivative assets	14,209	-	-	14,209
	14,209	156,305	2,510,366	2,680,880

	Liabilities at fair value through the profit and loss	Other financial liabilities at amortised cost	Total
	RM'000	RM'000	RM'000
LIABILITIES			
Deposits from customers	-	455,207	455,207
Deposits and placements of banks and other financial institutions	-	1,379,665	1,379,665
Other financial liabilities	-	6,140	6,140
Derivative liabilities	24,944	-	24,944
	24,944	1,841,012	1,865,956

(c) Market Risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Bank seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (Continued)

(i) Interest rate sensitivity analysis

The interest rate sensitivity results below shows the impact on profit after tax and equity of financial assets and financial liabilities bearing floating interest rates and fixed rate financial assets and financial liabilities:

	Impact on profit after tax RM'000	Impact on equity RM'000
2017		
+100 bps	**7,852**	**(777)**
-100 bps	**(7,852)**	**777**

The results above represent financial assets and liabilities that have been prepared on the following basis:

(a) Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term interest rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term interest rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps interest rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these interest bearing assets and liabilities.

(b) Impact on equity represents the changes in fair values of fixed income instruments held in available-for-sale portfolio arising from the shift in the interest rate.

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

The Bank is mainly exposed to USD and CNY exchange rates. The sensitivity of profit after tax to changes in the exchange rates arises mainly from USD and CNY denominated financial instruments.

	Impact on profit after tax RM'000
2017	
+1%	49
-1%	(49)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (Continued)

(ii) Foreign currency sensitivity analysis (Continued)

Impact on the profit after tax is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

The sensitivity analysis with 1% impact on profit after year-on-year (y-o-y) tax is based on the weighted average of fluctuations of exchange rates throughout the financial period.

(iii) Foreign exchange risk

The following table summaries the Bank's exposure to foreign currency exchange rate risk at reporting date.

Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

2017

	United States Dollar	Chinese Yuan Renminbi	Others	Total
	RM'000	**RM'000**	**RM'000**	**RM'000**
ASSET				
Cash and short term funds	7,066	2,320	50	9,436
Deposit and placement with banks and other financial institutions	142,204	-	-	142,204
Loans and advances	963,816	79,353	-	1,043,169
Other financial assets	45	-	-	45
TOTAL FINANCIAL ASSETS	1,113,131	81,673	50	1,194,854
LIABILITIES				
Deposits from customers	48,159	158,742	11	206,912
Deposits and placements of banks and other financial institutions	985,762	3,021	582	989,365
Other financial liabilities	6,835	1,226	-	8,061
TOTAL FINANCIAL LIABILITIES	1,040,756	162,989	593	1,204,338
Net on-balance sheet financial position	72,375	(81,316)	(543)	(9,484)
Off balance sheet commitments	1,050,097	411,534	10,342	1,471,973

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (Continued)

Interest rate risk

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates as at reporting date:

	Non-trading book								
2017	**Up to 1 month**	**>1-3 months**	**>3-6 months**	**>6-12 months**	**>1-3 years**	**Over 3 years**	**Non-interest sensitive**	**Trading book**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
ASSETS									
Cash and short term funds	807,045	-	-	-	-	-	12,573	-	819,618
Deposits and placements with banks and other financial institutions	-	391,855	-	-	-	-	1,181	-	393,036
Financial investments AFS	72,828	-	81,376	-	-	-	2,101	-	156,305
Loans and advances	497,354	465,022	152,630	172,893	-	-	3,328	-	1,291,227
Other assets	6,000	-	-	-	-	-	1,505	-	7,505
Derivative assets	-	-	-	-	-	-	-	14,209	14,209
Deferred tax assets	-	-	-	-	-	-	2,911	-	2,911
Property and equipment	-	-	-	-	-	-	10,482	-	10,482
Intangible assets	-	-	-	-	-	-	4,534	-	4,534
TOTAL ASSETS	**1,383,227**	**856,877**	**234,006**	**172,893**	**-**	**-**	**38,615**	**14,209**	**2,699,827**

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2017 (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market Risk (Continued)

Interest rate risk (Continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates as at reporting date (Continued):

2017	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-3 years	Over 3 years	Non-interest sensitive	Trading book	Total
	Non-trading book								
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
LIABILITIES									
Deposits from customers	207,473	60,060	75,344	1,602	864	-	109,864	-	455,207
Deposits and placements of banks and other financial institutions	742,151	636,321	-	-	-	-	1,193	-	1,379,665
Other liabilities	1,290	-	-	-	-	-	15,461	-	16,751
Derivative liabilities	-	-	-	-	-	-	-	24,944	24,944
Provision for taxation	-	-	-	-	-	-	4,355		4,355
TOTAL LIABILITIES	**950,914**	**696,381**	**75,344**	**1,602**	**864**	**-**	**130,873**	**24,944**	**1,880,922**
Total equity	-	-	-	-	-	-	818,905	-	818,905
TOTAL LIABILITIES AND EQUITY	**950,914**	**696,381**	**75,344**	**1,602**	**864**	**-**	**949,778**	**24,944**	**2,699,827**
On-balance sheet interest sensitivity gap	432,313	160,496	158,662	171,291	(864)	-			
Off-balance sheet interest sensitivity gap	3,036,974	(3,894,335)	489,596	57,958	270,252	39,555			
TOTAL INTEREST SENSITIVITY GAP	**3,469,287**	**(3,733,839)**	**648,258**	**229,249**	**269,388**	**39,555**			

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continue to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturities as at reporting date:

2017	Up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	No specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short term funds	269,143	550,475	-	-	-	-	-	819,618
Deposits and placements with banks and other financial institutions	-	-	393,036	-	-	-	-	393,036
Financial investments AFS	-	-	-	-	2,101	154,204	-	156,305
Loans and advances	-	32,718	67,249	209,093	245,651	736,516	-	1,291,227
Other assets	6,241	188	-	-	242	33	801	7,505
Derivative assets	2,379	3,751	5,132	2,947	-	-	-	14,209
Deferred tax assets	-	-	-	-	-	-	2,911	2,911
Property and equipment	-	-	-	-	-	-	10,482	10,482
Intangible assets	-	-	-	-	-	-	4,534	4,534
TOTAL ASSETS	277,763	587,132	465,417	212,040	247,994	890,753	18,728	2,699,827

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (Continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturities as at reporting date (continued):

Bank 2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	298,956	15,904	54,166	73,108	4,664	8,409	-	455,207
Deposits and placements of banks and other financial institutions	742,539	-	101,364	-	-	535,762	-	1,379,665
Other liabilities	1,316	52	-	44	9,036	6,303	-	16,751
Derivative liabilities	1,943	7,342	11,096	3,942	621	-	-	24,944
Provision for taxation	-	-	-	-	-	-	4,355	4,355
TOTAL LIABILITIES	**1,044,754**	**23,298**	**166,626**	**77,094**	**14,321**	**550,474**	**4,355**	**1,880,922**
Total equity	-	-	-	-	-	-	818,905	818,905
TOTAL LIABILITIES AND EQUITY	**1,044,754**	**23,298**	**166,626**	**77,094**	**14,321**	**550,474**	**823,260**	**2,699,827**

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (Continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

2017	Up to 1 month	1 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	315,447	128,198	4,899	8,642	-	-	457,186
Deposits and placements of banks and other financial institutions	742,666	108,992	8,674	353,861	142,666	94,108	1,450,966
Other financial liabilities	1,376	-	4,764	-	-	-	6,140
Derivative liabilities	9,283	15,043	621	-	-	-	24,947
TOTAL FINANCIAL LIABILITIES	**1,068,772**	**252,233**	**18,958**	**362,503**	**142,666**	**94,108**	**1,939,239**

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (Continued)

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

2017	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Short term self-liquidating trade-related contingencies	68,199	1,467	69,666
Transaction-related contingent items	12,534	94,166	106,700
Irrevocable commitments to extend credit	27,000	224,383	251,383
TOTAL COMMITMENTS AND CONTINGENCIES	**107,733**	**320,016**	**427,749**

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For commitments and contingencies, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Bank:

	2017
	RM'000
Credit risk exposure relating to on-balance sheet assets:	
Short term funds	819,618
Deposits and placements with banks and other financial institutions	393,036
Financial assets and investments portfolio	
Financial investments AFS	156,305
Loans and advances	1,291,227
Other financial assets	6,485
Derivative assets	14,209
	2,680,880
Credit risk exposure relating to off-balance sheet items:	
- Commitments and contingencies	427,749
Total maximum credit risk exposure	3,108,629

(ii) Collaterals

The main types of collateral obtained by the Bank are as follows:

(a) Corporate guarantee
(b) Fixed deposit pledged
(c) Aircraft
(d) Standby letter of credit

The Bank also accept non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract proceeds, Endowment Life Policies with Cash Surrender Value, which are subject to internal guidelines on eligibility.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (Continued)

(iii) Credit quality

The Bank assesses credit quality of loans and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers' judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
- Pass	This indicates that timely repayment of the outstanding asset is not in doubt. Repayment is prompt and the asset does not exhibit potential weakness in repayment capability, business, cash flow or financial position of the borrower /issuer.
- Special mention	This indicates that the asset exhibits potential weaknesses that, if not corrected in a timely manner, may adversely affect repayment by the borrower/ issuer at a future date, and warrant close attention or special monitoring. The borrower/ issuer shall be classified as "SPECIAL MENTION" if the past due status (of interest/ coupon payment) or excess of overdraft facility has been over 30 days but not more than 90 days.
- Sub-Standard	This indicates that the asset exhibits definable weaknesses, either in respect of the business, cash flow or financial position of the borrower/ issuer that may jeopardize repayment on existing terms. The borrower, with obvious problems in solvency, is unable to pay principal and interest in full amount by totally relying on normal operating income. Certain loss may occur even if guarantee is executed. The borrower/ issuer is justified to be classified as "SUBSTANDARD" if the past due status (of interest/ coupon payment) or excess of overdraft facility has been over 90 days.
- Doubtful	This indicates that the outstanding asset exhibits more severe weaknesses than those in a "SUBSTANDARD" credit facility, such that the prospect of full recovery of the outstanding asset is questionable and the prospect of a loss is high, but the exact amount remains undeterminable as yet. The borrower/ issuer shall be classified as "DOUBTFUL" if the past due status (of interest/ coupon payment) or excess of overdraft facility has been over 180 days.
- Loss	The principal and interest of credit assets cannot be recovered or only a small part can be recovered after taking all possible measures or going through all necessary legal proceedings. This should be viewed as a transitional category for facilities which have been identified as requiring write-off during the current reporting period.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (Continued)

(iii) Credit quality (Continued)

The credit quality of financial assets other than loans and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

(a) Loans and advances

Loans and advances are summarised as follows:

	2017 **RM'000**
Neither past due nor impaired	1,297,747
Past due but not impaired	-
Individually impaired	-
Gross loans and advances and financing	1,297,747
Less: Individual impairment allowance	-
Collective impairment allowance	(6,520)
Net loans and advances	1,291,227

(i) Loans and advances neither past due nor impaired

Analysis of loans and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2017 **RM'000**
Pass	1,297,747
Neither past due nor impaired	1,297,747

Loans and advances classified as non-rated mainly comprise loans under the Standardised Approach for credit risk.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit Risk (Continued)

(iii) Credit quality (Continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other financial assets and derivative assets of the Bank are summarised as follows:

	Short term funds and deposits and placements with banks and other financial institutions	Financial investments AFS	Other financial assets	Derivative assets
	RM'000	RM'000	RM'000	RM'000
2017				
Neither past due nor impaired	1,212,654	156,305	6,485	14,209
	1,212,654	156,305	6,485	14,209

(c) Analysis of short term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows:

2017	Short term funds and deposits and placements with banks and other financial institutions	Financial investments AFS	Other financial assets	Derivative assets
	RM'000	RM'000	RM'000	RM'000
AAA to AA3	-	-	-	-
A1 to A3	610,789	-	6,000	11,079
BAA1 to BAA3	1	-	-	-
Non-rated including:				
- Bank Negara Malaysia	312,120	-	-	-
- Malaysian Government Securities	-	156,305	-	-
- Other foreign government securities	-	-	-	-
- Others	289,744	-	485	3,130
	1,212,654	156,305	6,485	14,209

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2017	Short term funds and deposits and placements with banks and other financial institutions	Financial investments AFS	Loans and advances	Other financial assets	Derivative assets	Commitments and contingencies	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting, forestry and fishing	-	-	56,887	-	-	43,908	100,795
Manufacturing	-	-	-	-	-	27,213	27,213
Electricity, gas and water	-	-	17,447	2	-	104,076	121,525
Construction	-	-	159,829	-	-	-	159,829
Real estate	-	-	117,120	23		27,000	144,143
Wholesale & retail trade and restaurant & hotel	-	-	359,142	18	3,130	76,648	438,938
Finance, insurance and business services	900,534	-	444,116	6,014	11,079	145,379	1,507,122
Government and government agencies	312,120	156,305	63,986	188	-	-	532,599
Others	-	-	72,700	240	-	3,525	76,465
	1,212,654	156,305	1,291,227	6,485	14,209	427,749	3,108,629

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Offsetting Financial Assets and Financial Liabilities

The Bank reports financial assets and financial liabilities on a net basis on the balance sheet only if there is legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settl the liability simultaneosly.

The following table shows the impact of netting arrangement on
(i) all financial assets and liabilities that are reported on the balance sheet; and
(ii) all derivative financial instruments (offsetting arrangement and financial collateral) but do not qualify for netting.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

2017	**Gross amount of recognised financial assets / financial liabilities RM'000**	**Related amount not set off in the**		**Net amount RM'000**
		Financial instruments RM'000	**Financial collateral received RM'000**	
Financial assets				
Derivative assets	14,209	(4,623)	(1,290)	8,296
Total	14,209	(4,623)	(1,290)	8,296
Financial liabilities				
Derivative liabilities	24,944	(4,623)	(6,000)	14,321
Total	24,944	(4,623)	(6,000)	14,321

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair Value of Financial Instruments

The Bank analyses its financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial investments AFS:	-	156,305	-	156,305
- Malaysian Government Securities	-	156,305	-	156,305
Derivative assets	-	14,209	-	14,209
	-	170,514	-	170,514
Financial liabilities				
Derivative liabilities	-	24,944	-	24,944

(i) Valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include quoted securities and unit trusts.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Fair values for shares held for socio-economic reasons are based on the net tangible assets of the affected companies. For unquoted corporate loan stocks, discounted cash flow analysis has been performed to determine the recoverability of the instruments.

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments not measured at fair value

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value at 31 December 2017 but for which fair value is disclosed:

	2017			
	Carrying amount RM '000	Fair value Level 1 RM '000	Level 2 RM '000	Level 3 RM '000
Financial assets				
Deposits and placements with banks and other financial institutions	393,036	-	393,036	-
Loans and advances	1,291,227	-	1,291,227	-
	1,684,263	-	1,684,263	-
Financial liabilities				
Deposits from customers	455,207	-	455,180	-
Deposits and placements of banks and other financial institutions	1,379,665	-	1,377,963	-
	1,834,872	-	1,833,143	-

The fair values are based on the following methodologies and assumptions:

(i) Cash and short term funds and deposits and placements with financial institutions

For cash and short term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Loans, advances and financing

For floating rate loans, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risk and maturities.

The fair values of impaired loans are represented by their carrying value, net of impairment allowance.

(iii) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(iv) 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 six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

30 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with resolution of the Board of Directors on 14 June 2018.

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

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

We, Datuk Tan Leh Kiah and Lim Kheng Boon, two of the Directors of China Construction Bank (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 23 to 75 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and financial performance of the Bank for the financial period from 1 October 2016 to 31 December 2017 then ended on that date, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

DATUK TAN LEH KIAH	**LIM KHENG BOON**
DIRECTOR	DIRECTOR

Kuala Lumpur

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

I, Feng Qi, the Officer primarily responsible for the financial management of China Construction Bank (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 23 to 75 are, in my opinion 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.

FENG QI

Subscribed and solemnly declared by the abovenamed Feng Qi at Kuala Lumpur in Malaysia on .

COMMISSIONER FOR OATHS
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of China Construction Bank (Malaysia) Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the period from 1 October 2016 to 31 December 2017 then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 1 October 2016 to 31 December 2017 then ended, and notes to the financial statements, including a summary of accounting policies, as set out on pages 27 to 75.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements of the Bank, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

(a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
Company No. 1203702-U

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER 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.

PRICEWATERHOUSECOOPERS PLT
(LLP0014401-LCA & AF 1146)
Chartered Accountants

NG YEE LING
(No. 03032/01/2019(J))
Chartered Accountant

Kuala Lumpur