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

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Lu Yang (apppointed w.e.f. 30 October 2018)
Qian Lihong
Datuk Tan Leh Kiah
Chong Kwai Ying (appointed w.e.f. 15 October 2018)
Ng Soon Lai @ Ng Siek Chuan
Lim Kheng Boon

COMPANY SECRETARY

Wong Bee Ping (MAICSA 7025334)

REGISTERED OFFICE

Ground Floor, South Block
Wisma Golden Eagle Realty
142A Jalan Ampang
50450 Kuala Lumpur
Malaysia

AUDITORS

PricewaterhouseCoopers PLT
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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STATUTORY FINANCIAL STATEMENTS
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CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Directors hereby submit their report and the audited financial statements of the Bank for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	14,896
Taxation	(3,440)
Net profit for the financial year	11,456

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

There were no new ordinary shares or debentures issued during the financial year.

DIVIDENDS

No dividends have been paid or declared by the Bank. The Directors do not recommend the payment of any dividends for the financial year ended 31 December 2018.

DIRECTORS

The Directors who have held in office during the financial year and during the period from the end of the financial year to the date of this report are:
Lu Yang (apppointed w.e.f. 30 October 2018)
Qian Lihong
Datuk Tan Leh Kiah
Chong Kwai Ying (appointed w.e.f. 15 October 2018)
Ng Soon Lai @ Ng Siek Chuan
Lim Kheng Boon
Jiang Jianhua (resigned w.e.f 30 October 2018)

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 year held any shares or debentures in the Bank or its holding company or subsidiaries of the holding company during the financial year.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

DIRECTORS' BENEFITS

Since the beginning of the financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 21 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 year 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 21 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 YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Profile of Directors

Mr Lu Yang
Non-Independent Non-Executive Director/Chairman

Mr Lu Yang, aged 43, holds a Bachelor Degree in Economics (International Credit and Investment) from China Institute of Finance and Banking (1996), MBA Degree from Renmin University of China (2002) and a Doctoral Degree in Corporate Management from Capital University of Economics and Business, China (2009). Mr Lu was appointed as a Non-Independent Non-Executive Director and Chairman of China Construction Bank (Malaysia) Berhad on 30 October 2018. He is also a member of the Audit Committee, Board Risk Management Committee and Board Remuneration Committee of the Bank.

Mr Lu carries with him more than 21 years of banking experience. He started his banking career with Industrial and Commercial Bank of China Limited in July 1996 until January 2005, where he had assumed several positions in various departments covering Asset Risk Management Department, Banking Department and Executive Office. He joined China Construction Bank Corporation ("CCB") in January 2005 as Senior Manager of Secretarial Division 1 of the Executive Office until October 2007 before being appointed as Deputy Director of Board of Supervisors Office from November 2007 until December 2010. Mr Lu was appointed as Deputy Chief Executive Officer ("CEO") of CCB International (Holdings) Limited ("CCBI") in January 2011 until September 2018. During his tenure of appointment as Deputy CEO of CCBI, he was in-charged of Mainland China business including subsidiaries of CCBI in Beijing, Tianjin and Shanghai covering businesses ranging from financial advisory, wealth management, asset management and fund investment etc. Mr Lu, who was a licensed holder under the Securities and Futures Commission of Hong Kong, also assumed the positions as Responsible Officer of CCB International Asset Management Limited ("CCBIAM") and Manager-in-charge of CCBIAM, CCB International Capital Limited and CCB International Securities Limited, being the subsidiaries of CCBI. Currently, Mr Lu also serves as a Non-Executive Director of China Construction Bank (London) Limited.

Mr Lu has attended an in-house training programme on Anti-Money Laundering/Counter Financing Terrorism during the year. He had attended one (1) of the Board meeting held in the financial year of 2018 since his appointment on 30 October 2018.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Profile of Directors (Continued)

Ms Qian Lihong
Non-Independent Executive Director

Ms Qian Lihong, aged 54, holds a Bachelor in Economics from Xinjiang University of Finance and Economics and a Master in Economics from Peking University, China. Ms Qian was appointed as a 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 34 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 (July 2000 – October 2001). She was appointed as Deputy General Manager of Assets Security and Management Department of CCB Beijing Branch in October 2001 before appointed as an Executive Assistant Director to Olympics Hosting Bank Application Leading Team Office in May 2003 till September 2004. Ms Qian was appointed as Deputy General Manager of CCB Beijing Branch Corporate Banking Department in September 2004 till February 2007 and was appointed as Deputy General Manager of Strategic Clients Department in February 2007 thereafter before being 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 Business Committee, General Manager of Stratigic Clients Business cum General Manager of Infrastructure Facility Sales Team. Ms Qian was subsequently appointed as Person-in-charge of International Business Department of CCB Beijing Branch in July 2011 prior to her appointment as General Manager of the same 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 as Deputy General Manager of CCB Head Office's Strategic Clients Department in February 2015 before assuming the position of General Manager of Investment Banking Department of CCB Head Office in July 2017. Ms Qian was appointed as Non-Executive Director of CCB Private Equity Investment Management Corporation effective from 6 December 2018.

Ms Qian has attended the in-house training covering Anti-Money Laundering/Counter Financing Terrorism and MFRS 9 briefing during the year. Ms Qian had attended five (5) out of the six (6) Board meetings held in the financial year of 2018.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Profile of Directors (Continued)

Datuk Tan Leh Kiah
Independent Non-Executive Director

Datuk Francis Tan Leh Kiah, aged 67, was appointed as an Independent Non-Executive Director of China Construction Bank (Malaysia) Berhad on 20 January 2017. He is the Chairman of the Board Nomination Committee and a member of the Audit Committee and Board Remuneration Committee of the Bank.

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.

He 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) years from June 2001. He also served the Securities Commission as a Commissioner for nineteen (19) years from 1999 to 2018. Currently, he also serves as an Independent Non-Executive Director of Boustead Holdings Berhad and MPI Generali Insurans Berhad as well as a trustee of Yayasan Chow Kit, a charity organisation.

He has attended various seminars/conference and in-house training programmes during the year, as follows:

▪ World Capital Markets Symposium KL – Renaissance of Capitalism: Markets for Growth by CM2 Capital Markets Malaysia
▪ FIDE – Understanding Fintech and Its Implications for Banks by ICLIF
▪ Business Foresight Forum 2018 by SIDC
▪ Review of Strategic Planning by Directors – Bursa Requirement by Smart Focus
▪ Seminar Percukaian Kebangsaan 2018 by Inland Revenue Board
▪ Anti-Money Laundering/Counter Financial Terrorism (in-house)
▪ MFRS 9 Briefing (in-house)

Datuk Tan has attended all the six (6) Board meetings held in the financial year of 2018.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Profile of Directors (Continued)

Ms Chong Kwai Ying
Independent Non-Executive Director

Ms Chong Kwai Ying, aged 58, was appointed as an Independent Non-Executive Director of China Construction Bank (Malaysia) Berhad on 15 October 2018. She is the Chairman of Audit Committee and a member of the Board Risk Management Committee of the Bank.

Ms Chong holds a Bachelor of Economics (Hons) majoring in Business Administration from University Malaya, Malaysia. She joined Bank Negara Malaysia ("BNM") in April 1982 as an Administrative Officer. During her 35 years' tenure in BNM, she has served in various positions before being promoted to Deputy Director of Banking Supervision Department in May 1998 until her retirement in April 2017. She was responsible for the supervision of domestic banking groups and locally incorporated foreign banks. She has vast knowledge in banking products and operations, financial analysis, risk management and governance as well as policies, legal and regulatory requirements imposed on the banking institutions by BNM.

After her retirement from BNM, she has a short engagement with Perbadanan Insurans Deposit Malaysia from June 2017 to January 2018 where she provided advisory and consultancy services on one of its resolution projects.

In addition, Ms Chong is an Independent Non-Executive Director of AXA Affin Life Insurance Berhad and serves as Chairman of Board Risk Management Committee and Board Audit and Compliance Committee as well as member of Board Nomination and Remuneration Committee and Board Investment Committee since January 2018. She was appointed as an Independent Non-Executive Director of Genting Malaysia Berhad effective from 3 December 2018.

Ms Chong has attended the FIDE Programme (Insurance) organised by the Iclif Leadership and Governance Centre and also in-house training programme on Anti-Money Laundering/Counter Financing Terrorism during the year. She had attended two (2) of the Board meetings held in the financial year 2018 since her appointment on 15 October 2018.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Profile of Directors (Continued)

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

Mr Ng Siek Chuan, aged 64, is a fellow member of the Institute of Chartered Accountants in England and Wales. He was appointed as an Independent Non-Executive Director of China Construction Bank (Malaysia) Berhad on 20 January 2017. Mr Ng Siek Chuan 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 was appointed as an Independent Non-Executive Director of Deutsche Bank (M) Berhad from February 2006 till December 2016. Currently, he also serves as an Independent Non-Executive Director and Chairman of Tune Protect Group Berhad as well as an Independent Non-Executive Director of ELK-Desa Resources Berhad and WCT Holding Berhad, respectively.

He has attended the following trainings held during the year:

- The Malaysian Anti-Corruption Commission (Amendment) Act 2018 – Corporate Liability Implications to the Company, Directors & Management
- Independent Directors Programme: The Essence of Independence by ICLIF jointly with Bursa Malaysia Berhad
- Emerging Risks, the Future Board, and Return on Compliance by ICLIF
- Understanding Fintech and Its Implications for Banks by ICLIF
- Anti-Money Laundering/Counter Financial Terrorism (in-house)
- MFRS 9 Briefing (in-house)

Mr Ng has attended all the six (6) Board meetings held in the financial year of 2018.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Profile of Directors (Continued)

Mr Lim Kheng Boon
Independent Non-Executive Director

Mr Lim Kheng Boon, aged 67, is a fellow member of The Chartered Institute of Bankers London and The Institute of Chartered Secretaries Australia. He also graduated from The Chartered Institute of Marketing London. Mr Lim was appointed as an 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 in-house training covering Anti-Money Laundering/Counter Financing Terrorism and MFRS 9 briefing during the year. Mr Lim had attended all the six (6) of the Board meetings held in the financial year of 2018.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Financial Performance and Business Outlook

China Construction Bank (Malaysia) Berhad's total assets stood at RM4.4 billion (2017: RM2.7 billion) with stable execution progress. The main assets components are loans and advances RM2.3 billion (2017: RM1.3 billion), cash and short term fund RM758.5 million (2017: RM819.6 million), deposits and placements with banks and other financial institutions RM461.9 million (2017: RM393.0 million) and financial investments at fair value through other comprehensive income RM801.5 million (2017: financial investments available-for-sale RM156.3 million). Whilst total liabilities of the Bank are RM3.6 billion (2017: RM1.9 billion) and mainly consists of deposits and placements of banks and other financial institutions RM2.1 billion (2017: RM1.4 billion) and deposits from customers RM1.4 billion (2017: RM455.2 million).

As of the end of the financial year 31 December 2018, the Bank recorded a profit before taxation of RM14.9 million (2017: 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 "Belt & Road" Initiative, in supporting the development of related infrastructure projects, trade financing business, and strengthen product innovation mainly in Malaysia.

(b) Cooperation with local banks to expand cross-border CNY settlements business and strengthen CNY capital market in the local financial market, actively promote RQFII investment, China Interbank Bond Market ("CIBM"), increase the volume of foreign CNY funds, enrich Rennimbi's investment channels.

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

(d) Strive to develop overseas markets, cooperate with CCBC foreign branches and subsidiaries, provide global solutions 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.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 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, 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 in the Bank'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 including but not limited to medium and long term strategic plan.

- Ensuring 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.

- Determining 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 organisation structure.

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

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Terms of Reference (Continued)

Apart from the Board Charter, the Board has set out a TORs which acts as guidance to the Board in discharging its duties effectively. Key duties and responsibilities are as follows (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 Constitution of the Bank and shareholder's mandate.

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.

During the financial year ended 31 December 2018 ("FYE2018"), the Board had approved various policies and guidelines as a continuous measure to strengthen the internal control, compliance and risk management of the Bank, encompassing aspects such as credit risk strategy, lending, country risk limit, regulatory compliance framework, anti-money laundering and counter financing of terrorism, data protection and secrecy, IT security, etc. The Board also placed great emphasis on setting a clear business direction through the comprehensive business plan, risk appetite setting and the supervision of the implementation of the pre-determined value propositions for the next few years, among others.

The Board reckoned the importance of maintaining a sound governance structure to support the long term business growth of the Bank. During the financial year, the Board had approved the formulation of the recruitment guidelines, total rewards policy, policy governing non-audit services provided by the external auditors, performance assessment mechanism of the Senior Management, formalisation of the Directors' appointment/removal process, conflict of interest policy, etc. The Board also ensured the gaps as identified in BNM's CG Policy against the existing practices of the Bank being addressed during the financial year.

Board Composition and Balance

During the financial year, the Board has welcomed two (2) new Directors on board the Bank. Currently, the Board is represented by six (6) Members, comprising one (1) Non-Independent Non-Executive Director, one (1) Non-Independent Executive Director and four (4) Independent Non-Executive Directors. A brief profile of each member of the Board is presented on pages 3 to 8 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 accounts for 67% 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.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

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 FYE2018, 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 judgement 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.

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 Constitution 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.

Board and Individual Director's Effectiveness

The Bank has put in place a Guideline on Board Performance Evaluation and developed a transparent process to assess the effectiveness of the Board and its committee as well as the individual directors. This exercise is to be undertaken upon the completion of every financial year. The assessment is primarily based on a set of questionnaire designed to incorporate local applicable best practices covering various aspects, such as board responsibilities, composition, board conduct, chairman, board interaction and communication with Management and stakeholder. 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 assessment exercise for FYE2018 has been performed by the Bank and the results thereof has also been tabled to the Board Nomination Committee for deliberation.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Meetings and Information Access by the Board

The Board met six (6) times in FYE2018 to deliberate and consider matters/proposals that required its decision-making. All the directors have attended more than 75% of the total Board meetings held during the financial year. Details of attendance of each Director at the Board meetings held during FYE2018 are set out below:

	Board Members	Attendance
1	Lu Yang (Chairman) [#1] - Non-Independent Non-Executive Director/Chairman	1/1
2	Qian Lihong - Non-Independent Executive Director	5/6
3	Datuk Tan Leh Kiah - Independent Non-Executive Director	6/6
4	Chong Kwai Ying [#2] - Independent Non-Executive Director	2/2
5	Ng Soon Lai @ Ng Siek Chuan - Independent Non-Executive Director	6/6
6	Lim Kheng Boon - Independent Non-Executive Director	6/6
7	Jiang Jianhua [#3] - Non-Independent Non-Executive Director/Chairman	5/5

Note: [#1] Appointed w.e.f 30 October 2018
[#2] Appointed w.e.f 15 October 2018
[#3] Resigned w.e.f 30 October 2018

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. Directors have 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 Constitution of the Bank 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. An annual meeting calendar will be circulated to the Directors before the end of a financial year to faciliate their schedule planning for next year.

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. The Board is satisfied with the performance and support rendered by the Company Secretary for the financial year.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Directors' Training

The Board emphasises on the importance of continuous 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 needs and identified key areas of focus for the training programme.

During FYE2018, the Directors had attended various trainings held either in-house or external as reflected in their respective profile as presented on pages 3 to 8 of the financial statements.

Fit & Proper Policy

The Bank takes the fitness and propriety of the Board and key senior management seriously and the policy aims at ensuring that these personnels are qualified to act and hold offices for the respective roles and are responsible and accountable for the oversight and management of the Bank.

Code of Ethics

The Board is committed to inculcating a corporate culture which promotes ethical conduct of Directors within the Bank. The Bank has adopted a Code of Ethics for its Directors with the objective to enhance the standard of corporate governance, establish ethical standards and promote ethical conduct for the Directors in line with the governing laws, regulations and guidelines. The code adopts five (5) ethical principles to 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.

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 consideration and approval by the Board. 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.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Audit Committee (Continued)

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 six (6) meetings were held during FYE2018. All members had attended all the meetings held during the financial year as listed below:

	Committee Members	Attendance
1	Chong Kwai Ying (Chairman) #1 - Independent Non-Executive Director	2/2
2	Lu Yang #2 - Non-Independent Non-Executive Director	1/1
3	Datuk Tan Leh Kiah #3 - Independent Non-Executive Director	6/6
4	Lim Kheng Boon - Independent Non-Executive Director	6/6
5	Jiang Jianhua #4 - Non-Independent Non-Executive Director	5/5

Note:
#1 Appointed w.e.f 15 October 2018
#2 Appointed w.e.f 30 October 2018
#3 Redesignated as member w.e.f 15 October 2018
#4 Resigned w.e.f 30 October 2018

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 Audit Committee had met twice with the external auditors during the FYE2018 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.

- Ensuring 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.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Audit Committee (Continued)

Among the duties and responsibilities of the Audit Committee are as follows (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 will be prepared and submitted to the Audit Committee for review and approval.

In FYE2018, 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 process is 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) ensuring the integrated risk management functions within CCBM are in place and effectively discharged.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 six (6) meetings were held during FYE2018. All members had attended all the meetings held during the financial year as listed below:

	Committee Members	Attendance
1	Ng Soon Lai @ Ng Siek Chuan (Chairman) - Independent Non-Executive Director	6/6
2	Lu Yang [#1] - Non-Independent Non-Executive Director	1/1
3	Chong Kwai Ying [#2] - Independent Non-Executive Director	2/2
4	Lim Kheng Boon - Independent Non-Executive Director	6/6
5	Jiang Jianhua [#3] - Non-Independent Non-Executive Director	5/5

Note: [#1] Appointed w.e.f 30 October 2018
[#2] Appointed w.e.f 15 October 2018
[#3] Resigned w.e.f 30 October 2018

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 ensuring 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 70 to 72 of these financial statements.

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

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 or removal and performance evaluation of the Directors, CEO, other Senior Management, control function heads and the Company Secretary to promote the Bank's governance practices.

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 five (5) meetings were held during FYE2018. The members' attendance at the meetings as held in the financial year as listed below:

	Committee Members	Attendance
1	Datuk Tan Leh Kiah (Chairman) - Independent Non-Executive Director	5/5
2	Qian Lihong - Non-Independent Executive Director	4/5
3	Ng Soon Lai @ Ng Siek Chuan - Independent Non-Executive Director	5/5

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 recommending 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.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

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.

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 four (4) meetings were held during FYE2018. All members had attended all the meetings held in the financial year as listed below:

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

Note: #1 Appointed w.e.f 30 October 2018
#2 Resigned w.e.f 30 October 2018

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

▪ Ensuring the establishment of 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.

▪ Ensuring 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 directors' fee and other emolument, salaries, allowances, bonuses and benefit-in-kind.

▪ Ensuring 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

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

Board Remuneration Committee (Continued)

Among the duties and responsibilities of Board Remuneration Committee are as follows (Continued):

▪ Ensuring the remuneration outcome for individuals within the Bank are symmetric with risk outcomes which includes (Continued):

 (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.

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 FYE2018 as laid out below:

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 FYE2018. The details of the above remuneration are disclosed in Note 21 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.

Total Rewards Policy

During the financial year, the Bank has adopted a Total Rewards Model which demonstrates the dynamic relationship between employers and employees. It depicts the strategic elements of the employer-emplyee exchange as well as to reflect how external influences and an increasingly global business environment affect attraction, motivation, retention and engagement. The policy has also incorporated the "deferment of payment of a portion of variable remuneration and the clawbacks" to reflect the time horizon of risks and take account of the potential for financial risks to crystalise over a longer period of time.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE STATEMENTS (CONTINUED)

ACCOUNTABILITY AND AUDIT (CONTINUED)

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 100 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 policy and guidelines. Regular reviews and updates are performed 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.

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 in the Bank's corporate website.

No Gift Policy

The Bank maintains a high standard of integrity and requires its employees and directors to abide by this "No Gift Policy" to avoid conflict of interest or the appearance of conflict of interest for either party in the on-going or potential business dealings between the Bank and external parties. It is the responsibility of all employees and directors to inform external parties involved in any business dealing with the Bank that the Bank practises a "No Gift Policy" and to request the external party's understanding and adherence of the "No Gift Policy".

Relationship with External Auditors

The Bank, through the Audit Committee, has established a formal and transparent relationship with the external auditors. The Audit Committee is fundamentally overseeing the integrity of financial reporting. External auditors play a key role in helping the Audit Committee to discharge this responsibility. The external auditors are invited to discuss the annual financial statements, their audit plan, audit findings and any other matter that requires 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 the 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. On the other hand, the Bank governs its engagement of external auditors to perform non-audit services through a Policy on Non-Audit Services Provided by External Auditors. The policy stipulates the permissible non-audit services, approving matrix, etc for adherence of the Management of the Bank, as part of the governance process to preserve the independency of the external auditors.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (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 misleading; or

- (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 year.

(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 YEAR ENDED 31 DECEMBER 2018 (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 year 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 year 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 year in which this report is made.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 20 to the financial statements.

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 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Cash and short term funds	2	758,544	819,618
Deposits and placements with banks and other financial institutions	3	461,943	393,036
Financial investments at fair value through other comprehensive income ("FVOCI")	4	801,465	-
Financial investments available-for-sale ("AFS")	5	-	156,305
Loans and advances	6	2,310,287	1,291,227
Other assets	7	7,305	7,505
Derivative assets	8	27,682	14,209
Deferred tax assets	9	5,293	2,911
Tax recoverable		778	-
Statutory deposits with Bank Negara Malaysia	10	300	-
Property and equipment	11	11,651	10,482
Intangible assets	12	4,930	4,534
TOTAL ASSETS		4,390,178	2,699,827
LIABILITIES AND EQUITY			
Deposits from customers	13	1,445,126	455,207
Deposits and placements of banks and other financial institutions		2,053,433	1,379,665
Other liabilities	14	45,039	16,751
Derivative liabilities	8	18,591	24,944
Provision for taxation		-	4,355
TOTAL LIABILITIES		3,562,189	1,880,922
Share capital	15	822,600	822,600
Reserves	16	5,389	(3,695)
TOTAL EQUITY		827,989	818,905
TOTAL LIABILITIES AND EQUITY		4,390,178	2,699,827
COMMITMENTS AND CONTINGENCIES	25	6,609,280	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 YEAR ENDED 31 DECEMBER 2018

	Note	**2018** **RM'000**	**01/10/2016 to 31/12/2017** **RM'000**
Interest income	17	140,494	52,225
Interest expense	18	(82,713)	(11,931)
Net interest income		57,781	40,294
Other operating income	19	12,705	8,598
Net income		70,486	48,892
Other operating expenses	20	(49,501)	(43,828)
Operating profit before allowances		20,985	5,064
Allowance for credit impairment losses	22	(6,089)	(6,520)
Profit/(Loss) before taxation		14,896	(1,456)
Taxation	23	(3,440)	(3,079)
Net profit/(Loss) for the financial year/period		11,456	(4,535)
Other comprehensive income/(loss) in respect of:			
Items that may be reclassified subsequently to profit or loss:			
Unrealised net loss on revaluation of financial investments at FVOCI		(179)	-
Unrealised net gain on revaluation of financial investments AFS		-	1,005
Income tax relating to components of other comprehensive income/(loss)	24	27	(165)
Other comprehensive (loss)/income, net of tax, for the financial year/period		(152)	840
Total comprehensive income/(loss) for the financial year/period		11,304	(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 YEAR ENDED 31 DECEMBER 2018

	Note	← Non-distributable			→	Distributable	
		Share capital	Regulatory reserve	AFS reserves	FVOCI reserves	Retained profits/ (Accumulated losses)	Total equity
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2018							
As previously reported		822,600	-	840	-	(4,535)	818,905
Effect of adoption of MFRS 9		-	-	(840)	840	(2,220)	(2,220)
Restated balance as at 1 January 2018		**822,600**	**-**	**-**	**840**	**(6,755)**	**816,685**
Net profit for the financial year		-	-	-	-	11,456	11,456
Other comprehensive loss, net of tax, for the financial year		-	-	-	(152)	-	(152)
Total comprehensive (loss)/income for the financial year		**-**	**-**	**-**	**(152)**	**11,456**	**11,304**
Balance as at 31 December 2018		**822,600**	**-**	**-**	**688**	**4,701**	**827,989**

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 YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note		← Non-distributable →		Distributable	
		Share capital	**Regulatory reserve**	**AFS reserves**	**Accumulated losses**	**Total equity**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance as at 1 October 2016						
Issue of shares	15	822,600	-	-	-	822,600
Net loss for the financial period		-	-	-	(4,535)	(4,535)
Other comprehensive income, 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 YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	01/10/2016 to 31/12/2017 RM'000
Cash flows from operating activities			
Profit/(Loss) before taxation		14,896	(1,456)
Adjustments for non cash items:			
Allowance for credit impairment losses	22	6,089	6,520
Net fair value (gain)/loss on derivative financial asset	19	(19,826)	10,734
Depreciation of property and equipment	20	3,147	2,919
Amortisation of intangible assests	20	549	479
Interest income from financial investments at FVOCI	17	(14,617)	-
Interest income from financial investments AFS	17	-	(4,258)
Operating profit before working capital changes		(9,762)	14,938
Increase/(Decrease) in operating assets:			
Deposits and placements with banks and other financial institutions		(331,683)	-
Statutory deposits with Bank Negara Malaysia		(300)	-
Derivatives assets		6,353	(14,209)
Loans and advances		(1,025,978)	(1,297,747)
Other assets		200	(7,505)
		(1,351,408)	(1,319,461)
Increase/(Decrease) in operating liabilities:			
Deposits from customers		989,919	455,207
Deposits and placements of banks and other financial institutions		673,768	1,379,665
Derivative liabilities		(6,353)	14,210
Other liabilities		27,399	16,751
		1,684,733	1,865,833
Cash generated from operations		323,563	561,310
Net tax paid		(10,927)	(1,800)
Net cash generated from operating activities		312,636	559,510
Cash flows from investing activities			
Purchase of financial investments AFS		-	(153,199)
Interest received from financial investments AFS		-	2,157
Purchase of financial investments at FVOCI		(795,432)	-
Proceeds from redemption of financial investments at FVOCI		150,000	-
Interest received from financial investments at FVOCI		14,458	-
Purchase of property and equipment	11	(4,316)	(13,401)
Purchase of intangible assets	12	(945)	(5,013)
Net cash used in investing activities		(636,235)	(169,456)
Cash flows from financing activities			
Proceeds from issuance of share capital		-	822,600
Net cash generated from financing activities		-	822,600
Net (decrease)/increase in cash and cash equivalents		(323,599)	1,212,654
Cash and cash equivalents, at gross:			
- at the beginning of the financial year/period		1,212,654	-
- at the end of the financial year/period		889,055	1,212,654

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 YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note	2018 RM'000	01/10/2016 to 31/12/2017 RM'000
Cash and cash equivalents comprise the following:			
Cash and short term funds, at gross	2	758,795	819,618
Deposits and placements with banks and other financial institutions	3	461,943	393,036
		1,220,738	1,212,654
Less:			
Cash and short term funds and deposits and placements with banks and other financial institutions with original maturity of more than 3 months		(331,683)	-
		889,055	1,212,654

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared in accordance with the 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 fair value through other comprehensive income financial assets, and financial assets and financial liabilities (including derivative financial instruments).

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 year beginning on 1 January 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

The Bank has adopted MFRS 9 and MFRS 15 for the first time in the 2018 financial statements, which resulted in changes in accounting policies. The detailed impact of change in accounting policies are set out in Note (a)(i).

<u>MFRS 15: Modified retrospective transition method</u>
The Bank has applied MFRS 15 with the date of initial application of 1 January 2018 by using the modified retrospective transition method. Under the modified retrospective transition method, the Bank applies the new policy retrospectively only to contracts that are not completed contracts at the date of initial application. Accordingly, the 2017 comparative information was not restated and the cumulative effects of initial application of MFRS 15 were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118 and MFRS 111.

Other than that, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

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

(i) Changes in accounting policies - Adoption of MFRS 9 'Financial Instruments'

The Bank had adopted MFRS 9 as issued by MASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of MFRS 9 in previous periods.

The Bank has elected to apply MFRS 9 retrospectively with the date of initial application of 1 January 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The cumulative effects of initially applying MFRS 9 were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018.

Consequently, for notes disclosures, the consequential amendments to MFRS 7 disclosures have also only been applied to current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of MFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 'Financial Instruments: Recognition and Measurement') accounting policies applied in the comparative period) are described in more detail in below.

Classification and measurement of financial instruments

There is no changes to classification and measurements of financial instruments.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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

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

(i) Changes in accounting policies - Adoption of MFRS 9 'Financial Instruments' (Continued)

Impact of statement of financial position balances from MFRS 139 to MFRS 9

The following table analyses the carrying amounts of financial assets, from their previous measurement category in accordance with MFRS 139 to their new measurement categories upon transition to MFRS 9 on 1 January 2018, after net of expected credit losses ("ECL") allowance:

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 Carrying amount as at 31.12.2017	Classification and remeasurement	Carrying amount after reclassification and remeasurement	ECL allowance	MFRS 9 carrying amount as at 1.1.2018
FINANCIAL ASSETS							
Cash and short term funds	Loans and receivables	Amortised costs	819,618	-	819,618	(174)	819,444
Deposits and placements with banks and other financial institutions	Loans and receivables	Amortised costs	393,036	-	393,036	-	393,036
Financial investments at FVOCI	Financial investments at AFS	FVOCI	156,305	-	156,305	-	156,305
Loans and advances	Loans and receivables	Amortised costs	1,291,227	-	1,291,227	(809)	1,290,418
Derivative assets	Fair Value	FVTPL	14,209	-	14,209	-	14,209
			2,674,395	**-**	**2,674,395**	**(983)**	**2,673,412**
FINANCIAL LIABILITIES							
Derivative liabilities	Fair Value	FVTPL	24,944	-	24,944	-	24,944
Other liabilities	Amortised costs	Amortised costs	16,751	-	16,751	1,237	17,988
			41,695	**-**	**41,695**	**1,237**	**42,932**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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

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

(i) Changes in accounting policies - Adoption of MFRS 9 'Financial Instruments' (Continued)

Reconciliation of impairment allowance balance from MFRS 139 to MFRS 9

The following table reconciles the prior financial year's closing impairment allowance measured in accordance with the MFRS 139 incurred loss model to the new impairment allowance measured in accordance with the MFRS 9 expected loss model at 1 January 2018:

	Loan loss allowance under MFRS 139 as at 31.12.2017	Effect of adoption of MFRS 9	ECL allowance under MFRS 9 as at 1.1.2018
Cash and short term funds	-	174	174
Loans and advances	6,520	809	7,329
Other liabilities	-	1,237	1,237
	6,520	2,220	8,740

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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

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

(ii) Changes in accounting policies - Adoption of MFRS 15 'Revenue from Contracts with Customers'

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.

<u>A new five-step process is applied before revenue can be recognised:</u>
- 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.

<u>Key provisions of the new standard are as follows:</u>
- 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;
- There are new specific rules on licenses, warranties, non-refundable upfront fees and consignment arrangements, to name a few;
- 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; and
- As with any new Standard, there are also increased disclosures.

The Bank has applied MFRS 15 with the date of initial application of 1 January 2018 by using the modified retrospective transition method. Under the modified retrospective transition method, the Bank applies the new policy retrospectively only to contracts that are not completed contracts at the date of initial application. Accordingly, the 2017 comparative information was not restated and the cumulative effects of initial application of MFRS 15 were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118 and MFRS 111.

There is no material impact on the financial position, comprehensive income, cash flows and earning per share of the Bank on the adoption of MFRS 15 for the financial year ended 31 December 2018.

(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)

(i) 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 has reviewed all of the leasing arrangements up to 31 December 2018. MFRS 16 will affect primarily the accounting for the Bank's operating leases.

The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at the reporting date, the Bank has non-cancellable operating lease commitments of RM6.8 million, see Note 27. Of these commitments, there is no short-term leases and low value leases for the Bank.

The Bank expects to recognise right-of-use of assets of approximately RM9.2 million on 1 January 2019, lease liabilities of RM8.5 million. Overall, the Bank net assets will be approximately higher by RM0.7 million.

Besides, additional disclosures are required for the financial statements of 31 December 2019.

(ii) 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.

(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) 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 amendments will be applied retrospectively.

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

(iv) Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

(2) FINANCIAL ASSETS

Accounting policies applied from 1 January 2018

(a) Classification

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss), and
- those to be measured at amortised cost

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest (“SPPI”).

(2) FINANCIAL ASSETS (CONTINUED)

Accounting policies applied from 1 January 2018 (Continued)

(c) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

There are three measurement categories into which the Bank classify its debt instruments.

(i) Amortised cost
Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in realised gain on sale of financial assets measured at amortised cost together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

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

(ii) Fair value through through profit or loss
Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Bank may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different basis. Fair value changes is recognised in profit or loss and presented net within "net gains and losses on financial instruments" in the period which it arises.

(d) Subsequent measurement – Impairment

Impairment for debt instruments and financial guarantee contracts

The Bank assesses on a forward looking basis the expected credit loss associated with its debt instruments carried at amortised cost and at FVOCI and financial guarantee contracts issued. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Bank has four types of financial instruments that are subject to the ECL model:

- Loans and advances
- Deposits and placements with banks and other financial institutions
- Financial investments at FVOCI
- Financial guarantee contracts

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

(2) FINANCIAL ASSETS (CONTINUED)

Accounting policies applied from 1 January 2018 (Continued)

(d) Subsequent measurement – Impairment (Continued)

Impairment for debt instruments and financial guarantee contracts (Continued)

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Bank expects to receive, over the remaining life of the financial instrument. For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(i) General 3-stage approach for other receivables and financial guarantee contracts issued
At each reporting date, the Bank measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. Note 22 sets out the measurement details of ECL.

Significant increase in credit risk

The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the group and changes in the operating results of the debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

Accounting policies applied from 1 January 2018 (Continued)

(d) Subsequent measurement – Impairment (Continued)

Definition of default and credit-impaired financial assets

The Bank defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:
The Bank defines a financial instrument as default, when the counterparty fails to make contractual payment within 90 days of when they fall due.

Qualitative criteria:
The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial difficulty. The Bank considers the following instances:

- the debtor is in breach of financial covenants
- concessions have been made by the lender relating to the debtor's financial difficulty
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganization
- the debtor is insolvent

Financial instruments that are credit-impaired are assessed on individual basis.

(i) Collective assessment
Trade receivables and contracts assets are subject to collective impairment when there is significant increase in credit risk.

(ii) Individual assessment
Trade receivables and contract assets which are in default or credit-impaired are assessed individually.

Write-off

(i) Trade receivables and contract assets
Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Bank, and a failure to make contractual payments for a period of greater than 90 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(ii) Other receivables
The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Bank may write-off financial assets that are still subject to enforcement activity. There is no written off of financial assets during the financial year. Subsequent recoveries of amounts previously written off will result in impairment gains.

(2) FINANCIAL ASSETS (CONTINUED)

Accounting policies until 31 December 2017

(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 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.

(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.

(2) FINANCIAL ASSETS (CONTINUED)

Accounting policies until 31 December 2017 (Continued)

(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. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for at fair value through profit or loss. Changes in the fair value are recognised immediately in profit or loss and are included in other income.

(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.

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.

(4) PROPERTY AND EQUIPMENT AND DEPRECIATION (CONTINUED)

At the end of the reporting year, 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 or intangible assets not ready to use, 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

Accounting policies applied from 1 January 2018

Financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and

- Financial guarantee contracts and loan commitments (see Note 25).

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Accounting policies applied until 31 December 2017

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 the Bank expects a provision to be reimbursed by another party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the 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 and non-redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the substance of the contractual arrangement 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

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Bank, on or before the end of the reporting year but not distributed at the end of the reporting year.

Distributions to holders of an equity instrument is recognised directly in equity.

(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 on hand, deposits held at call with financial institutions, other short term, highly liquid investments 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

Accounting policies applied from 1 January 2018

Interest income is calculated by applying effective interest rate to the gross carrying amount of a financial assets except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

Accounting policies applied untill 31 December 2017

Interest income is recognised using the effective interest method. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of comprehensive income as part of interest income.

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 investments at fair value through other comprehensive income are recognised upon disposal of the securities which consist of the cumulative gain or loss previously recognised in other comprehensive income and the difference between net disposal proceeds and the carrying amount of the securities.

(14) 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.

(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 recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(15) 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.

(16) CURRENT AND DEFERRED INCOME TAXES

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank operates and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also 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.

(16) CURRENT AND DEFERRED INCOME TAXES (CONTINUED)

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.

(17) 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 on a net basis within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as debt instruments classified as at fair value through other comprehensive income (2017: available for sale) 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 profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

(18) OFFSETTING FINANCIAL INSTRUMETS

Financial assets and liabilities are offset and the net amount 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.

(19) FINANCIAL GUARANTEE CONTRACTS AND LOAN/FINANCING COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount of the loss allowance
- The premium received on initial recognition less income recognised in accordance with the principles of MFRS 15

Loan/financing commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans/financing at a below market interest/profit rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

(19) FINANCIAL GUARANTEE CONTRACTS AND LOAN/FINANCING COMMITMENTS (CONTINUED)

For loan/financing commitments and financial guarantee contracts, the loss allowance is recognised as provision. However, for contracts that include both a loan/financing and undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan/financing component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan/financing. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan/financing, the expected credit losses are recognised as a provision.

Accounting policies applied from 1 January 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 where appropriate.

Accounting policies until 31 December 2017

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with MFRS 137 'Provisions, contingent liabilities and contingent assets' and the amount initially recognised less cumulative amortisation, where appropriate.

1 GENERAL INFORMATION

China Construction Bank (Malaysia) Berhad 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 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 Golden Eagle Realty, 142A Jalan Ampang, 50450 Kuala Lumpur, Malaysia.

2 CASH AND SHORT TERM FUNDS

	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	18,763	20,125
Money at call and deposit placements maturing within one month	740,032	799,493
Cash and short term funds, at gross	758,795	819,618
Less: ECL allowance	(251)	-
Cash and short term funds, net of ECL	758,544	819,618

Movement in ECL allowance for cash and short term funds is as follows:

	12-month ECL Stage 1 RM'000	Lifetime ECL Stage 2 RM'000	Lifetime ECL Stage 3 RM'000	Total RM'000
Balace as at 1 January 2018	-	-	-	-
Effect of adoption of MFRS 9	174	-	-	174
Restated balance as at 1 January 2018	174	-	-	174
Financial assets derecognised during the financial year	(628)	-	-	(628)
New financial assets purchased	705	-	-	705
Balance as at the end of the financial year	251	-	-	251

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 RM'000	2017 RM'000
Licensed banks	461,943	393,036
Less: ECL allowance	-	-
	461,943	393,036

There is no movement in ECL allowance for deposits and placements with banks and other financial institutions during the financial year.

4 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	2018 RM'000	2017 RM'000
At fair value		
Money market instruments		
Malaysian Government Securities	153,386	-
Malaysian Government Investment Issues	305,624	-
Negotiable Instruments of Deposits	301,276	-
	760,286	-
Quoted securities		
Corporate bonds within Malaysia	41,179	-
	801,465	-

The following ECL allowance for financial investments at FVOCI is not recognised in the statement of financial positions as the carrying amount of financial investments at FVOCI is equivalent to their fair value. Movement in ECL allowance for financial investments at FVOCI is as follows:

	12-month ECL Stage 1 RM'000	Lifetime ECL Stage 2 RM'000	Lifetime ECL Stage 3 RM'000	Total RM'000
Financial assets derecognised during the financial year	(6)	-	-	(6)
New financial assets purchased	257	-	-	257
Balance as at the end of the financial year	251	-	-	251

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2018 RM'000	2017 RM'000
At fair value		
Money market instruments		
Malaysian Government Securities	-	156,305

6 LOANS AND ADVANCES

	2018 RM'000	2017 RM'000
(a) By type		
At amortised cost		
Overdrafts	5,137	-
Term loans:		
- Syndicated term loans	980,928	657,982
- Other term loans	430,317	325,850
Trust receipts	427,753	68,903
Revolving credits	479,590	245,012
Gross loans and advances	2,323,725	1,297,747
Allowance for impaired loans and advances		
- Collective impairment allowance	-	(6,520)
- ECL allowance	(13,438)	-
Net loans and advances	2,310,287	1,291,227
(b) By type of customer		
Business enterprises	2,264,021	1,233,499
Government and statutory bodies	59,704	64,248
	2,323,725	1,297,747
(c) By geographical distribution		
Malaysia	1,295,023	629,558
Hong Kong	271,855	304,174
Philipines	157,229	162,155
United Arab Emirates	59,704	64,247
China	293,813	120,094
Indonesia	163,318	17,519
Singapore	82,783	-
	2,323,725	1,297,747
(d) By interest rate sensitivity		
Fixed rate:		
- Fixed rate loans	783,728	188,977
Variable rate:		
- Cost-plus	1,539,997	1,108,770
	2,323,725	1,297,747

6 LOANS AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(e) By economic purpose		
Working capital	974,070	607,629
Merger and acquisition	81,526	81,026
Purchase of transport vehicle	286,075	154,048
Other purposes	982,054	455,044
	2,323,725	1,297,747
(f) By maturity structure		
Maturity within one year	1,103,261	557,401
One year to three years	393,628	231,076
Three years to five years	522,881	310,756
Over five years	303,955	198,514
	2,323,725	1,297,747

(g) Movement in the gross carrying amount of financial assets that contributed to changes in the ECL allowance

The following table further explains changes in the gross carrying amount of the loans and advances to help explain their significance to the changes in ECL allowance:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Balance as at 1 January 2018	1,297,747	-	-	1,297,747
Financial assets derecognised during the financial year	(1,114,260)	-	-	(1,114,260)
New financial assets originated	2,140,238	-	-	2,140,238
Balance as at the end of the financial year	2,323,725	-	-	2,323,725

6 LOANS AND ADVANCES (CONTINUED)

(h) Movement in ECL allowance for loans and advances

The following table explain the changes in the ECL allowance for loans and advances between the beginning and the end of the financial year:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Balance as at 1 January 2018	6,520	-	-	6,520
Effect of adoption of MFRS 9	809	-	-	809
Restated balance as at 1 January 2018	7,329	-	-	7,329
Financial assets derecognised during the financial year	(8,997)	-	-	(8,997)
New financial assets originated	15,106	-	-	15,106
Balance as at the end of the financial year	13,438	-	-	13,438

(i) Movement in collective impairment allowance for loans and advances

	2018 RM'000	2017 RM'000
Collective impairment allowance		
Balance as at 1 January 2018	6,520	-
Effect of adoption of MFRS 9	(6,520)	-
Restated balance as at 1 January 2018	-	-
Net allowance made	-	6,520
Balance as at the end of the financial year/period	-	6,520

7 OTHER ASSETS

		2018 RM'000	2017 RM'000
Deposits		782	824
Prepayments		1,230	196
Cash collateral pledged for derivative transactions		1,220	6,000
Amount due from Head Office		1,121	-
Other receivables	(i)	2,952	485
		7,305	7,505

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

8 DERIVATIVE ASSETS/(LIABILITIES)

	2018		
	Contract/ Notional Amount	Fair Value Assets	Fair Value Liabilities
	RM'000	RM'000	RM'000
By type			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards/spot	6,097,757	27,682	18,591
	6,097,757	27,682	18,591
By remaining period to maturity/next repricing date			
Trading derivatives:			
Foreign exchange related contracts:			
- Less than 1 year	6,097,757	27,682	18,591
	6,097,757	27,682	18,591

	2017		
	Contract/ Notional Amount	Fair Value Assets	Fair Value Liabilities
	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

9 DEFERRED TAXATION

	2018 RM'000	2017 RM'000
Deferred tax assets	5,293	2,911
Deferred tax assets		
- Settled more than twelve months	536	544
- Settled within twelve months	4,757	2,367
	5,293	2,911

9 DEFERRED TAXATION (CONTINUED)

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

2018	Property and equipment and intangible assets RM'000	Financial investments at FVOCI RM'000	Provisions and deferred income RM'000	ECL allowance RM'000	Total RM'000
Balance as at 1 January 2018	(463)	(165)	3,539	-	2,911
(Charged)/credited to income statements	(153)	-	(1,051)	3,559	2,355
Credited to equity	-	27	-	-	27
Balance as at the end of the financial year	(616)	(138)	2,488	3,559	5,293

2017	Property and equipment and intangible assets 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:

	2018 RM'000	2017 RM'000
Deferred tax assets	6,056	3,539
Deferred tax liabilities	(763)	(628)
	5,293	2,911

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

A non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with requirements of Section 26(2)(c) of the Central Bank of Malaysia Act 2009, the amount of which is determined at a set percentage of total eligible liabilities.

11 PROPERTY AND EQUIPMENT

2018	Renovations and Improvements RM'000	Computer equipment RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost					
Balance as at 1 January 2018	3,662	8,134	675	930	13,401
Additions	2,210	1,632	474	-	4,316
Balance as at the end of the financial year	5,872	9,766	1,149	930	17,717
Accumulated depreciation					
Balance as at 1 January 2018	(913)	(1,720)	(164)	(122)	(2,919)
Charge for the financial year	(1,049)	(1,789)	(196)	(113)	(3,147)
Balance as at the end of the financial year	(1,962)	(3,509)	(360)	(235)	(6,066)
Net book value at the end of the financial year	**3,910**	**6,257**	**789**	**695**	**11,651**

2017	Renovations and Improvements RM'000	Computer equipment RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
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**

12 INTANGIBLE ASSETS

2018	**Computer software RM'000**	**Membership RM'000**	**Total RM'000**
Cost			
Balance as at 1 January 2018	2,413	2,600	5,013
Additions	945	-	945
Balance as at the end of the financial year	3,358	2,600	5,958
Accumulated amortisation			
Balance as at 1 January 2018	(479)	-	(479)
Charge for the financial year	(549)	-	(549)
Balance as at the end of the financial year	(1,028)	-	(1,028)
Net book value at the end of the financial year	**2,330**	**2,600**	**4,930**

2017	**Computer software RM'000**	**Membership RM'000**	**Total RM'000**
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 amortisation			
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**

13 DEPOSITS FROM CUSTOMERS

	2018 RM'000	2017 RM'000
(a) By type of deposit		
Demand deposits	279,684	286,274
Fixed/investment deposits	1,165,442	168,933
	1,445,126	455,207
(b) By type of customer		
Business enterprises	1,445,126	455,207
(c) By maturity structure of fixed/investment deposits		
Due within six months	1,157,654	157,456
Six months to one year	7,788	3,068
One year to three years	-	8,409
	1,165,442	168,933

14 OTHER LIABILITIES

	2018 RM'000	2017 RM'000
Other creditors and accruals	5,826	4,841
Deferred income	7,185	10,402
Amount due to related company	599	218
Cash collateral pledged for derivative transactions	30,540	1,290
ECL allowance for loan commitments and financial guarantees	889	-
	45,039	16,751

Movement in ECL allowance for loan comitments and financial guarantees is as follows:

	12-month ECL Stage 1 RM'000	Lifetime ECL Stage 2 RM'000	Lifetime ECL Stage 3 RM'000	Total RM'000
Balance as at 1 January 2018	-	-	-	-
Effect of adoption of MFRS 9	1,237	-	-	1,237
Restated balance as at 1 January 2018	1,237	-	-	1,237
Financial assets derecognised during the financial year	(952)	-	-	(952)
New financial assets originated	604	-	-	604
Balance as at the end of the financial year	889	-	-	889

15 SHARE CAPITAL

	2018 Number of shares '000	2018 Amount RM'000	2017 Number of shares '000	2017 Amount RM'000
Issued and fully paid:				
- Ordinary shares with no par value *	822,600	822,600	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.

16 RESERVES

	2018 RM'000	2017 RM'000
FVOCI/AFS reserves (a)	688	840
Regulatory reserve (b)	-	-
Retained profits/(Accumulated losses)	4,701	(4,535)
	5,389	(3,695)

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

(b) Pursuant to BNM letter dated 1 November 2017, effective 1 January 2018, the banking subsidiaries shall maintain, in aggregrate, Stage 1 and 2 provisions regulatory reserve of no less than 1% of all credit exposures (on and off-balance sheet that are subject to MFRS 9 impairment requirement, excluding exposures to and with an explicit guarantee from Malaysian Government), net of Stage 3 provision.

Prior to MFRS 9 implementation, the banking institutions are required to maintain in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of the total outstanding loans and advances, net of individual impairment allowance.

CCBM has obtained an approval on the exemption from Regulatory Reserve Requirement up to financial year ended 2019 to comply with requirement under paragraph 10.5 of Bank Negara Malaysia's policy document on Financial Reporting, issued on 2 February 2018.

17 INTEREST INCOME

	2018 RM'000	10/01/2016 to 12/31/2017 RM'000
Loans and advances	78,902	14,553
Deposits and placements with banks and other financial institutions	46,975	33,414
Financial investments at FVOCI	14,617	-
Financial investments AFS	-	4,258
	140,494	52,225

18 INTEREST EXPENSE

	2018 RM'000	10/01/2016 to 12/31/2017 RM'000
Deposits and placements of banks and other financial institutions	48,016	7,014
Deposits from customers	34,697	4,917
	82,713	11,931

19 OTHER OPERATING INCOME

	2018 RM'000	10/01/2016 to 12/31/2017 RM'000
Fee income		
Service charges and fees	304	84
Guarantee fees	31	424
Commitment fees	2,053	851
Other fee income	1,316	366
	3,704	1,725
Net gain/(loss) arising from financial assets at FVTPL		
- Net realised (loss)/gain on derivative financial assets	(15,008)	7,119
- Net fair value gain/(loss) on derivative financial assets	19,826	(10,734)
	4,818	(3,615)
Other income		
Net foreign exchange gain	4,089	10,450
Other non-operating income	94	38
	4,183	10,488
	12,705	8,598

20 OTHER OPERATING EXPENSES

	2018 RM'000	10/01/2016 to 12/31/2017 RM'000
Personnel costs		
Salaries, bonuses, wages and allowances	26,332	15,514
Defined contribution plan	2,261	1,236
Other staff related costs	1,901	3,878
	30,494	20,628
Establishment costs		
Depreciation of property and equipment	3,147	2,919
Amortisation of intangible assets	549	479
Rental	2,667	1,444
Insurance	35	25
Water and electricity	72	62
Repair and maintenance	4,269	3,165
Security and escorting expenses	101	80
	10,840	8,174
Marketing expenses		
Advertisement and publicity	296	298
Others	1,085	762
	1,381	1,060
Administration and general expenses		
Communication expenses	866	621
Auditors' remuneration	857	1,465
Legal and professional fees	602	209
Travelling and accomodation expenses	1,452	1,231
GST expenses	240	1,782
Employee recruitment costs	302	6,757
Others	2,467	1,901
	6,786	13,966
	49,501	43,828

The above expenditure includes the following statutory disclosure:

	2018 RM'000	10/01/2016 to 12/31/2017 RM'000
CEO and Director's remuneration (Note 21)	2,277	1,267
Auditors' remuneration		
- Audit related fees	365	260
- Regulatory related fees	118	45
- Tax fees	188	250
- Non-audit fees	186	910

21 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION

	Salaries	Bonuses	Director's fees	Other* emoluments	Benefits - in-kind	Total
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Managing Director / CEO						
Feng Qi	1,570	225	-	-	-	1,795
Non-executive Directors						
Lim Kheng Boon	-	-	150	-	-	150
Datuk Tan Leh Kiah	-	-	150	-	-	150
Ng Soon Lai @ Ng Siek Chuan	-	-	150	-	-	150
Chong Kwai Ying	-	-	32	-	-	32
	1,570	225	482	-	-	2,277
2017						
Managing Director / CEO						
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 EPF

During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts commited in their capacity as, inter alia, Directors and officers of the Bank subject to the terms of the policy. The total amount of premium paid for the insurance by the Bank was RM20,000.

22 ALLOWANCE FOR CREDIT IMPAIRMENT LOSSES

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
ECL allowance made/(written-back) on:				
Cash and short term funds	77	-	-	77
Financial investments at FVOCI	251	-	-	251
Loans and advances	6,109	-	-	6,109
Loans commitments and financial guarantees	(348)	-	-	(348)
	6,089	-	-	6,089

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

23 TAXATION

	2018	**10/01/2016 to 12/31/2017**
	RM'000	**RM'000**
Taxation for the finanical year/period	5,795	6,155
Deferred taxation	(2,355)	(3,076)
	3,440	3,079

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

	2018	**10/01/2016 to 12/31/2017**
	RM'000	**RM'000**
Statutory tax rate in Malaysia of 24%	3,575	(350)
Tax effects in respect of:		
Non-taxable income	(559)	-
Non-allowable expenses	1,077	3,429
Overprovision of income tax in prior year	(653)	-
	3,440	3,079

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

2018	**Before tax RM'000**	**Tax benefits RM'000**	**Net of tax RM'000**
Financial investments at FVOCI			
- Net fair value loss and net amount transfer to income statements	(179)	27	(152)

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

25 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:

	2018 RM'000	**2017 RM'000**
Short-term self-liquidating trade-related contingencies	343	69,666
Transaction-related contingent items	124,945	106,700
Irrevocable commitments to extend credit		
- Less than one year	9,942	27,000
- More than one year	376,293	224,383
Foreign exchange-related contracts: #		
- Less than one year	6,097,757	1,714,773
	6,609,280	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 8 to the financial statements.

26 CAPITAL COMMITMENTS

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

	2018 RM'000	**2017 RM'000**
Capital expenditure for property and equipment:		
- Authorised and contracted for	401	4,912
- Authorised but not contracted for	652	652
	1,053	5,564

27 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:

	2018 RM'000	**2017 RM'000**
Rental of premises:		
- Within one year	2,711	1,926
- Between one to five years	4,039	935
	6,750	2,861

28 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	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 - Five 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 five (5) members of senior management of the Bank in office during the financial year and his remuneration for the financial year are disclosed in Note 21.

(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:

2018	Key management personnel RM'000	Holding and ultimate corporation RM'000	Other related companies RM'000
Income			
Interest on interbank placements	-	71	-
Interest on loans and advances	-	221	-
Fee income	-	156	-
Net gain arising from derivatives	-	18,816	-
Net foreign exchange gain	-	105	-
	-	19,369	-
Expenses			
Deposits and placements of banks and other financial institutions	-	36,582	-
	-	36,582	-
Amounts due from			
Cash and short term fund	-	7,727	46
Loans and advances	-	82,767	-
Derivative assets	-	8,219	-
Amount due from Head Office	-	1,121	
	-	99,834	46

28 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

2018	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	-	1,334,422	-
Derivative liabilities	-	168	-
Other liabilities	-	388	-
	-	1,334,978	-
2017			
Income			
Interest on interbank placements	-	807	-
Fee income	-	50	-
Net gain 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
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

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

	2018 RM'000	10/01/2016 to 12/31/2017 RM'000
Short term employee benefits		
- Fees	482	426
- Salary and other remuneration	4,924	1,759
- Contribution to EPF and SOCSO	119	44
- Benefits-in-kind	42	-
	5,567	2,229

28 RELATED PARTY TRANSACTIONS (CONTINUED)

(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:

	2018 RM'000	2017 RM'000
Outstanding credit exposure with connected parties (RM'000)	293,739	112,157
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	6.29	4.66
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	-	-

29 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 6.375% and 7.875% respectively. The minimum regulatory capital adequacy requirement is 9.875% 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 30 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2018.

30 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.

	2018 RM'000	2017 RM'000
Common Equity Tier I ("CET I")/Tier I Capital		
Paid-up ordinary share capital	822,600	822,600
Retained profits/(Accumulated losses)	4,701	(4,535)
FVOCI/AFS reserves	688	840
	827,989	818,905
Less:		
Intangible assets	(5,957)	(5,013)
Deferred tax assets	(5,293)	(2,911)
55% of cumulative gains of financial investments at FVOCI/AFS	(378)	(462)
Total CET I Capital	816,361	810,519
Total Tier I Capital	816,361	810,519
Tier II Capital		
Collective impairment allowance and regulatory reserves	14,829	6,520
Total Tier II Capital	14,829	6,520
Total Capital	831,190	817,039
Capital ratios		
Before proposed dividends:		
CET I Capital Ratio	34.397%	51.598%
Tier I Capital Ratio	34.397%	51.598%
Total Capital Ratio	35.022%	52.013%
Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
Credit risk	2,225,234	1,457,358
Market risk	36,197	21,816
Operational risk	111,916	91,672
Total risk-weighted assets	2,373,347	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).

31 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 emphasises 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 goals.

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 strategies.

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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk Management Framework (Continued)

1. Credit Risk (Continued)

The Bank classified its credit exposures (on and off balance sheet) according the significance of the credit risk since initial recognition. Credit risk is classified into 3 stages as follows:

Stage 1 Credit risk did not increase significantly as compared with initial recognition. Under this stage the borrower is deemed to be able to meet contractual obligation and this ability is not impaired even though economic situation and business environment suffers long run adverse changes. In other words, credit exposures classified under this stage is of low credit risk.

Stage 2 Credit risk has increased significantly as compared with initial recognition. However, under this stage, there is no evidence of impairment yet. The following factors may be taken as reference when determining the increase of credit risk.
- The probability of default increase substantially
- The credit exposure is classified as special-mention
- Other credit risk increased significantly

Stage 3 The borrower has defaulted on its obligations. The following factors may be considered when determining the occurrence of default.
- The borrower exhibits significant financial difficulty
- A breach of contract, such as unable to pay interest or principal
- CCBM granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not
- It is possible that the borrower will enter into bankruptcy or other financial reorganisation

Credit impairment provision
CCBM adopts the ECL model in measuring the impairment provision. The ECL model takes into account the probability of default ("PD"), exposures at default ("EAD"), loss given default ("LGD") and forward looking adjustment factor. In addition, the Bank recognises credit mitigation provided by the borrower, such as guarantor and collateral. The credit loss is not recognised after the credit event has occurred. Instead, CCBM record the expected credit loss and related changes. The amount of expected credit loss should be updated on each reporting date, to reflect the changes in credit risk since initial recognition, thus providing more timely information on expected credit loss.

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.

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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk Management Framework (Continued)

2. Market Risk (Continued)

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.

(b) 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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (Continued)

(i) Interest rate sensitivity analysis (Continued)

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:

2018	**Impact on profit after tax RM'000**	**Impact on equity RM'000**
+100 bps	5,191	(4,667)
-100 bps	(5,191)	4,667

2017	**Impact on profit after tax RM'000**	**Impact on equity RM'000**
+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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (Continued)

(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.

2018	Impact on profit after tax RM'000
+5%	55
-5%	(55)

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

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 5% (2017: 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 year.

(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.

2018	United States Dollar RM'000	Chinese Yuan Renminbi RM'000	Others RM'000	Total RM'000
ASSET				
Cash and short term funds	129,163	93,244	701	223,108
Loans and advances	1,827,178	22,854	-	1,850,032
Other financial assets	41	-	-	41
TOTAL FINANCIAL ASSETS	1,956,382	116,098	701	2,073,181

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (Continued)

(iii) Foreign exchange risk (Continued)

2018	United States Dollar RM'000	Chinese Yuan Renminbi RM'000	Others RM'000	Total RM'000
LIABILITIES				
Deposits from customers	134,888	7,479	21	142,388
Deposits and placements of banks and other financial institutions	1,879,201	14,163	-	1,893,364
Other financial liabilities	6,360	229	-	6,589
TOTAL FINANCIAL LIABILITIES	2,020,449	21,871	21	2,042,341
Net on-balance sheet financial position	(64,067)	94,227	680	30,840
Off-balance sheet commitments	371,269	(40,239)	343	331,373

2017	United States Dollar RM'000	Chinese Yuan Renminbi RM'000	Others RM'000	Total 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	216,545	185,251	10,342	412,138

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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								
2018	**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	747,533	-	-	-	-	-	11,011	-	758,544
Deposits and placements with banks and other financial institutions	-	180,000	280,000	-	-	-	1,943	-	461,943
Financial investments at FVOCI	99,973	-	199,987	151,286	240,962	100,885	8,372	-	801,465
Loans and advances	687,678	998,868	560,824	-	22,084	45,603	(4,770)	-	2,310,287
Other assets	1,220	-	-	-	-	-	6,085	-	7,305
Derivative assets	-	-	-	-	-	-	-	27,682	27,682
Deferred tax assets	-	-	-	-	-	-	5,293	-	5,293
Tax Recoverable	-	-	-	-	-	-	778	-	778
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	300	-	300
Property and equipment	-	-	-	-	-	-	11,651	-	11,651
Intangible assets	-	-	-	-	-	-	4,930	-	4,930
TOTAL ASSETS	**1,536,404**	**1,178,868**	**1,040,811**	**151,286**	**263,046**	**146,488**	**45,593**	**27,682**	**4,390,178**

* The negative balances represents ECL allowance for loans and advances in accordance with the Bank's accounting policies on allowance for credit impairment losses.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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):

	←			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**

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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):

2018	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	809,856	75,398	430,827	7,681	-	-	121,364	-	1,445,126
Deposits and placements of banks and other financial institutions	718,135	245,440	-	-	868,560	215,072	6,226	-	2,053,433
Other liabilities	19,974	231	-	-	-	-	24,834	-	45,039
Derivative liabilities	-	-	-	-	-	-	-	18,591	18,591
TOTAL LIABILITIES	**1,547,965**	**321,069**	**430,827**	**7,681**	**868,560**	**215,072**	**152,424**	**18,591**	**3,562,189**
Total equity	-	-	-	-	-	-	827,989	-	827,989
TOTAL LIABILITIES AND EQUITY	**1,547,965**	**321,069**	**430,827**	**7,681**	**868,560**	**215,072**	**980,413**	**18,591**	**4,390,178**
On-balance sheet interest sensitivity gap	(11,561)	857,799	609,984	143,605	(605,514)	(68,584)			
TOTAL INTEREST SENSITIVITY GAP	**(11,561)**	**857,799**	**609,984**	**143,605**	**(605,514)**	**(68,584)**			

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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):

	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**
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)	-			
TOTAL INTEREST SENSITIVITY GAP	**432,313**	**160,496**	**158,662**	**171,291**	**(864)**	**-**			

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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:

2018	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	425,338	333,206	-	-	-	-	-	758,544
Deposits and placements with banks and other financial institutions	-	-	180,517	281,426	-	-	-	461,943
Financial investments FVOCI	-	100,336	-	200,940	153,376	346,813	-	801,465
Loans and advances	22,933	306,874	201,182	562,733	-	1,212,638	3,927	2,310,287
Other assets	3,474	-	-	-	1,122	2,178	531	7,305
Derivative assets	7,912	3,298	5,827	6,314	4,331	-	-	27,682
Deferred tax assets	-	-	-	-	-	-	5,293	5,293
Tax Recoverable	-	-	-	-	-	-	778	778
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	300	300
Property and equipment	-	-	-	-	-	-	11,651	11,651
Intangible assets	-	-	-	-	-	-	4,930	4,930
TOTAL ASSETS	**459,657**	**743,714**	**387,526**	**1,051,413**	**158,829**	**1,561,629**	**27,410**	**4,390,178**

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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):

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**

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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):

2018	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
LIABILITIES								
Deposits from customers	316,051	613,664	74,975	432,648	7,788	-	-	1,445,126
Deposits and placements of banks and other financial institutions	511,801	289,440	166,005	-	-	1,086,187	-	2,053,433
Other liabilities	10,636	52	281	17	6,011	27,948	94	45,039
Derivative liabilities	2,414	3,560	2,186	4,351	6,080	-	-	18,591
Provision for taxation	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	**840,902**	**906,716**	**243,447**	**437,016**	**19,879**	**1,114,135**	**94**	**3,562,189**
Total equity	-	-	-	-	-	250	827,739	827,989
TOTAL LIABILITIES AND EQUITY	**840,902**	**906,716**	**243,447**	**437,016**	**19,879**	**1,114,385**	**827,833**	**4,390,178**

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
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**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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:

2018	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	930,659	514,365	7,854	-	-	-	1,452,878
Deposits and placements of banks and other financial institutions	802,022	185,607	19,660	905,846	140,230	92,581	2,145,946
Other financial liabilities	10,637	47	25,779	375	57	277	37,172
Derivative liabilities	5,973	6,538	6,080	-	-	-	18,591
TOTAL FINANCIAL LIABILITIES	**1,749,291**	**706,557**	**59,373**	**906,221**	**140,287**	**92,858**	**3,654,587**

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	1,450,967
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**	**1,939,240**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

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

2018	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Short term self-liquidating trade-related contingencies	-	343	343
Transaction-related contingent items	13,210	111,735	124,945
Irrevocable commitments to extend credit	9,942	376,293	386,235
TOTAL COMMITMENTS AND CONTINGENCIES	**23,152**	**488,371**	**511,523**

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**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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:

	2018	2017
	RM'000	RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short term funds	758,544	819,618
Deposits and placements with banks and other financial institutions	461,943	393,036
Financial assets and investments portfolio		
- Financial assets at FVOCI	801,465	-
- Financial investments AFS	-	156,305
Loans and advances	2,310,287	1,291,227
Other financial assets	5,293	6,485
Derivative assets	27,682	14,209
	4,365,214	2,680,880
Credit risk exposure relating to off-balance sheet items:		
- Commitments and contingencies	511,523	427,749
Total maximum credit risk exposure	4,876,737	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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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	Basis for recognising ECL
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.	12-month ECL (Stage 1)
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.	Lifetime ECL - not credit impaired (Stage 2)
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 jeopardise 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.	Lifetime ECL - credit impaired (Stage 3)
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.	Lifetime ECL - credit impaired (Stage 3)
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.	Lifetime ECL - credit impaired (Stage 3)

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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 local or 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:

	2018				2017
	12-month ECL Stage 1	**Lifetime ECL Stage 2**	**Lifetime ECL Stage 3**	**Total**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Neither past due nor impaired (i)	2,323,725	-	-	2,323,725	1,297,747
Gross loans and advances	2,323,725	-	-	2,323,725	1,297,747
Less: Allowance for impairment					
Collective impairment allowance	-	-	-	-	(6,520)
ECL allowance	(13,438)	-	-	(13,438)	-
Net loans and advances	2,310,287	-	-	2,310,287	1,291,227

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit Risk (Continued)

(iii) Credit quality (Continued)

(a) Loans and advances (Continued)

(i) Loans and advances neither past due nor impaired

The table below presents the loans and advances of the Bank that are neither past due nor impaired, analysed based on the Bank's internal credit grading system:

	2018				2017
	12-month ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Neither past due nor impaired	2,323,725	-	-	2,323,725	1,297,747
	2,323,725	-	-	2,323,725	1,297,747

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

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit Risk (Continued)

(iii) Credit quality (Continued)

(b) The following table shows an analysis of financial assets (other than loans and advances) by stages and credit quality, together with the ECL allowance:

	Gross carrying amount							
2018	**AAA to AA3**	**A1 to A3**	**Baa1 to Baa3**	**P1 to P3**	**Non-rated**	**Total**	**ECL allowance**	**Net carrying amount**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Short term funds and deposits and placements with banks and other financial institutions	**798,133**	**132,853**	**90,255**	**-**	**199,497**	**1,220,738**	**(251)**	**1,220,487**
- Stage 1	798,133	132,853	90,255	-	199,497	1,220,738	(251)	1,220,487
Financial investments at FVOCI	**342,454**	**-**	**-**	**-**	**459,011**	**801,465**	**-**	**801,465**
- Stage 1	342,454	-	-	-	459,011	801,465	-	801,465
Other financial assets	**1,220**	**1,121**	**-**	**-**	**2,952**	**5,293**	**-**	**5,293**
- Stage 1	1,220	1,121	-	-	2,952	5,293	-	5,293
Derivative assets	**14,292**	**8,219**	**-**	**-**	**5,171**	**27,682**	**-**	**27,682**
- Stage 1	14,292	8,219	-	-	5,171	27,682	-	27,682
TOTAL	1,156,099	142,193	90,255	-	666,631	2,055,178	(251)	2,054,927

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit Risk (Continued)

(iii) Credit quality (Continued)

(c) The following table contains an analysis of the credit risk exposure of financial guarantee contracts of which an ECL allowance is recognised. The total amount guaranteed below also represents the maximum amount that the Bank have to pay if the guarantee is called on:

	Total amount guaranteed						
2018	**AAA to AA3**	**A1 to A3**	**Baa1 to Baa3**	**P1 to P3**	**Non-rated**	**Total**	**ECL allowance**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Commitments and contingencies	-	**102,123**	-	-	**409,400**	**511,523**	**889**
- Stage 1	-	102,123	-	-	409,400	511,523	889
TOTAL	-	102,123	-	-	409,400	511,523	889

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit Risk (Continued)

(iii) Credit quality (Continued)

(d) 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:

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
Neither past due nor impaired	1,212,654	156,305	6,485	14,209
	1,212,654	156,305	6,485	14,209

(e) Analysis of 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 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

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit Risk (Continued)

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

2018	Short term funds and deposits and placements with banks and other financial institutions	Financial investments at FVOCI	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	-	-	102,329	-	-	-	102,329
Manufacturing	-	-	297,648	2	79	103,522	401,251
Electricity, gas and water	-	41,179	17,797	122	-	106,208	165,306
Construction	-	-	158,266	1	-	99,363	257,630
Real estate	-	-	243,882	-	-	3,000	246,882
Wholesale and retail trade and restaurant & hotel	-	-	614,177	22	5,093	24,196	643,488
Finance, insurance and business services	1,020,991	301,276	742,499	2,359	22,510	171,635	2,261,270
Government and government agencies	199,496	459,010	59,427	532	-	-	718,465
Others			74,262	2,255	-	3,599	80,116
	1,220,487	801,465	2,310,287	5,293	27,682	511,523	4,876,737

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Credit Risk (Continued)

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

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 and 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

CHINA CONSTRUCTION BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

31 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 settle 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:

		Related amount not set off in the balance sheet		
2018	**Gross amount of recognised financial assets / financial liabilities**	**Financial instruments**	**Financial collateral received**	**Net amount**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets				
Derivative assets	27,682	(6,358)	(10,627)	10,697
Total	27,682	(6,358)	(10,627)	10,697
Financial liabilities				
Derivative liabilities	18,591	(6,358)	(1,220)	11,013
Total	18,591	(6,358)	(1,220)	11,013

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Offsetting Financial Assets and Financial Liabilities (Continued)

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

		Related amount not set off in the balance sheet		
2017	**Gross amount of recognised financial assets / financial liabilities**	**Financial instruments**	**Financial collateral received**	**Net amount**
	RM'000	**RM'000**	**RM'000**	**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

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) 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:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets				
Financial investments at FVOCI:	-	801,465	-	801,465
- Malaysian Government Securities	-	153,386	-	153,386
- Malaysian Government Investment Issues	-	305,624	-	305,624
- Negotiable Islamic Certificates of Deposits	-	301,276	-	301,276
- Corporate bonds within Malaysia	-	41,179	-	41,179
Derivative assets	-	27,682	-	27,682
	-	829,147	-	829,147
Financial liabilities				
Derivative liabilities	-	18,591	-	18,591

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
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

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair Value of Financial Instruments (Continued)

(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.

(a) 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 2018 but for which fair value is disclosed:

	2018			
	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
	RM '000	RM’000	RM’000	RM’000
Financial assets				
Deposits and placements with banks and other financial institutions	461,943	-	461,943	-
Loans and advances	2,310,287	-	2,308,495	-
	2,772,230	-	2,770,438	-
Financial liabilities				
Deposits from customers	1,445,126	-	1,445,124	-
Deposits and placements of banks and other financial institutions	2,053,433	-	2,054,241	-
	3,498,559	-	3,499,365	-

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair Value of Financial Instruments (Continued)

(i) Valuation techniques (Continued)

(a) Financial instruments not measured at fair value (Continued)

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			
		Fair value		
	Carrying amount	Level 1	Level 2	Level 3
	RM '000	RM'000	RM'000	RM'000
Financial assets				
Deposits and placements with banks and other financial institutions	393,036	-	393,036	-
Loans and advances	1,291,227	-	1,290,865	-
	1,684,263	-	1,683,901	-
Financial liabilities				
Deposits from customers	455,207	-	455,277	-
Deposits and placements of banks and other financial institutions	1,379,665	-	1,379,665	-
	1,834,872	-	1,834,942	-

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 with maturities of six months or more, 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 from customers 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.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair Value of Financial Instruments (Continued)

(i) Valuation techniques (Continued)

(a) Financial instruments not measured at fair value (Continued)

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

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

For floating rate deposits and placements of banks and other financial institutions, the carrying value is generally a reasonable estimate of fair value.

For fixed rate deposits and placements of banks and other financial institutions with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

32 APPROVAL OF FINANCIAL STATEMENTS

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

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 24 to 99 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and financial performance of the Bank for the financial year 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 24 to 99 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank which comprise the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of accounting policies, as set out on pages 24 to 99.

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.

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)

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	**NG YEE LING**
(LLP0014401-LCA & AF 1146)	(No. 03032/01/2021(J))
Chartered Accountants	Chartered Accountant

Kuala Lumpur