

**SUMITOMO MITSUI BANKING CORPORATION
MALAYSIA BERHAD**

[Company No. 201001042446 (926374-U)]
(Incorporated in Malaysia)

**FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 MARCH 2021**

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

The Directors have pleasure in submitting their report and the audited financial statements of Sumitomo Mitsui Banking Corporation Malaysia Berhad ("the Bank") for the financial year ended 31 March 2021.

Principal activities

The Bank is principally engaged in the provision of banking and related financial services. There has been no significant change in the nature of these activities during the financial year.

Ultimate holding corporation

The Directors regard Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group, Inc. as immediate and ultimate holding corporations respectively, during the financial year and until date of this report. Both companies are incorporated in Japan.

Results

RM'000

Profit before taxation	235,083
Tax expense	(44,499)
Profit for the year	<u>190,584</u>

Dividends

Since the end of the previous financial year, no dividend was paid and the Directors do not recommend any dividend to be paid for the financial year.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Bad and doubtful debts and financing

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that all known bad debts have been written off and adequate provision made for impaired loans, advances and financing.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad debts or the amount of the provision for impaired loans, advances and financing in the Bank inadequate to any substantial extent.

Current assets

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

Valuation methods

At the date of this report, the Directors are not aware of any circumstances, which have arisen that would render adherence to the existing method of valuation of assets or liabilities of the Bank's financial statements misleading or inappropriate.

Contingent and other liabilities

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 year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year, other than those that may arise in the ordinary course of the banking business.

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

Change of circumstances

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

Items of an unusual nature

In the opinion of the Directors, other than as disclosed in the financial statements, the financial performance of the Bank for the financial year ended 31 March 2021 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Directors

Directors who served during the financial year until the date of this report are as follows:

Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah

Tan Kim Seng

Kazuya Ikeda

Tetsuya Kainaka (Resigned on 19 July 2021)

Woo Chew Hong (Appointed on 15 May 2021)

Chin Kok Sang (Retired on 14 May 2021)

Directors' interests in shares

The interests and deemed interests in the shares of the Bank and of its related corporations of those who were Directors at financial year end as recorded in the Register of Directors' shareholdings are as follows:

	Number of ordinary shares *			
	Date of appointment/ 1 April 2020	Bought	Sold	At 31 March 2021
<u>Ultimate holding corporation</u> Sumitomo Mitsui Financial Group, Inc.				
- Tetsuya Kainaka	2,172	478	-	2,650
- Kazuya Ikeda	173	69	-	242

* The ordinary shares of the ultimate holding corporation do not have any par value by virtue of the Japanese Companies Act.

None of the other Directors holding office at the end of the financial year had any interest in the shares of the Bank and of its related corporations during the financial year.

Directors' benefits

Since the end of previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank) 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 at the end of the financial year, nor at any time during the year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Compliance with Bank Negara Malaysia's expectations on financial reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with including those as set out in the Guidelines on Financial Reporting.

Bank ratings

On 17 December 2020, RAM Rating Services Berhad had reaffirmed the Bank's long and short-term financial institution ratings of AA1 Stable and P1 respectively.

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Indemnity and insurance costs

The Bank has put in place a Directors and Officers Insurance scheme with a maximum sum insured amount and premium paid of RM4.14 million and RM38,413 respectively effective for the financial year.

During the financial year, there were no indemnity given or insurance effected for auditors of the Bank.

Business results for the financial year ended 31 March 2021

For the financial year ended 31 March 2021, the Bank recorded an operating profit of RM234.2 million, a decrease of 16.4% (31 March 2020: RM280.3 million). Writeback for impairment of RM0.9 million was made during the current financial year compared to an allowance for impairment of RM46.3 million made in the prior year. Consequentially, the Bank recorded profit before taxation of RM235.1 million, an increase of RM1.1 million (31 March 2020: RM234.0 million). The Bank recorded profit after taxation of RM190.6 million, a decrease of RM6.2 million (31 March 2020: RM196.8 million) arising from tax expense of RM44.5 million (31 March 2020: RM37.2 million).

Total assets decreased 2.0% to RM21,392 million as at 31 March 2021 (31 March 2020: RM21,838 million). This was mainly attributed to the 2.2% decrease in loans, advances and financing amounting to RM14,977 million (31 March 2020: RM15,311 million) and the decrease in derivative financial assets of 36.3% amounting to RM395.7 million (31 March 2020: RM620.8 million). The decrease was partially offset by the increase in deposits and placements with banks and other financial institutions of 12.2% amounting to RM975.7 million (31 March 2020: RM869.5 million).

The total liabilities recorded a decrease of 3.4% to RM17,885 million as at 31 March 2021 (31 March 2020: RM18,519 million). This was largely due to the lower deposits and placements of banks and other financial institutions of 53.0% amounting to RM1,068 million as at 31 March 2021 (31 March 2020: RM2,272 million). The decrease was partially offset by the increase in deposits from customers of 5.6% to RM16,301 million as at 31 March 2021 (31 March 2020: RM15,437 million).

Outlook for the financial year ending 31 March 2022

The Malaysian economy recorded a negative Gross Domestic Product ("GDP") growth of 3.4% in the fourth quarter of 2020, bringing the full year 2020 GDP growth contracted by 5.6%, the lowest since the 1998 financial crisis (-7.4%). The negative growth was largely attributable to the imposition of the Conditional Movement Control Order ("CMCO") on a number of states in Malaysia since mid-October 2020 following the increase in COVID-19 cases which impacted mobility especially on inter-district and inter-state level and weighed on economic activity during the fourth quarter of 2020. All economic sectors except manufacturing sector registered a negative growth in the fourth quarter of 2020.

For 2021, the global economy is projected by the International Monetary Fund ("IMF") to record a positive growth of 5.5%. The outlook is heavily contingent on how both the advanced and emerging economies across the world will be able to successfully contain the pandemic and also subject to global oil and commodity price developments.

Against the backdrop of a highly challenging global environment, Bank Negara Malaysia ("BNM") had initially projected the Malaysian economy to return positively to between 6.0% and 7.5% in 2021. The growth is projected to improve from the second quarter of 2021, mainly driven by the recovery of the global demand and the gradual improvement in the domestic demand, riding on the expected higher production from existing and new facilities in the manufacturing and mining sectors. However, with tighter Standard Operating Procedures ("SOPs") being enforced under the Movement Control Order ("MCO") 3.0 beginning from 12 May 2021, it is estimated to have up to 1% negative impact to the GDP growth rate. As at 22 May 2021, The Ministry of Finance of Malaysia forecasted the GDP growth rate to be about 5.0% to 6.5% for 2021.

The Bank will strive harder, albeit cautiously in managing the businesses into the next financial year. The Bank will maintain its focus in offering basic commercial banking services such as loans, deposits, foreign exchange, derivatives, cash management services and trade finance in both conventional and Islamic financing to both Japanese and Non-Japanese clients while acknowledging the challenges ahead.

Corporate Governance Disclosures

Board of Directors

The members of the Board brings to the Bank a wealth of knowledge, experience and skills in a wide range of areas, inter alia, business strategy, finance, risk management and technology, which are key for the delivery of the necessary corporate governance oversight required by Bank Negara Malaysia ("BNM"). In addition, the composition by the members of the Board is designed to uphold the highest standards of independence and compliance to corporate governance and by setting in place, the strategy and direction of the Bank through the formulation of policies and establishment of the respective Board Committees. These policies will be subjected to regular reviews and enhancements as and when the need arises. All policies are formulated to take into consideration the principles and standards as set by BNM in its Guidelines on Corporate Governance (BNM/RH/PD 029-9) and the Shariah Governance Policy Document.

Board composition

The Board currently has four (4) members, comprising one (1) Independent Non-Executive Chairman, two (2) Independent Non-Executive Directors and one (1) Executive Director. The Board has a majority of Independent Directors which complies with the BNM's Policy Document on Corporate Governance. A brief profile of each member of the Board is presented on pages 8 to 11 of the financial statements.

As stipulated in the Board Charter of the Bank, the tenure of Independent Non-Executive Directors of the Bank shall not exceed an aggregate of six (6) years, save and except for exceptional circumstances that the tenure could be further extended up to a maximum term of nine (9) years.

Corporate Governance Disclosures (continued)**Board composition (continued)**

Profile of each Director is as follows:

1. Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah ("Dato' Wan Fadzmi")
(Age 56, Malaysian)
(Independent Non-Executive Chairman)

Dato' Wan Fadzmi was appointed as an Independent Non-Executive Director on 1 April 2018 and subsequently redesignated as Chairman on 15 May 2021. He is a member of the Board Risk Management Committee, Board Audit Committee and Board Nominations and Remuneration Committee.

He has over 25 years of experience in domestic and international banking particularly in leading business units at global financial centres namely in London, New York and Hong Kong. He was the President / Chief Executive Officer of Bank Pertanian Malaysia Berhad ("Agrobank") from July 2011 until August 2017. During his tenure, he successfully transformed the bank from a conventional leverage model to a full-fledged Islamic Bank, making it one of the few banks in the world to have undergone such a transformation.

He holds a Bachelor of Construction Economics from RMIT University in Australia. He is a Chartered Banker, Asian Institute of Chartered Bankers (AICB) and a Chartered Professional in Islamic Finance (CPIF). He has attended the Advanced Management Program at Wharton Business School and the Senior Executive Finance Program at the Templeton College, University of Oxford.

He is also the Independent Non-Executive Director of Hap Seng Consolidated Berhad and Zurich General Takaful Malaysia Berhad.

Dato' Wan Fadzmi has attended the following trainings held during the year:-

- Risks : A Fresh Look from the Board's Perspective
- Macro Updates "Green Shoots"
- Competititon Law

Dato' Wan Fadzmi does not have any shareholding in the Bank.

Corporate Governance Disclosures (continued)

Board composition (continued)

2. Tan Kim Seng

(Age 68, Malaysian)

(Independent Non-Executive Director)

Mr. Tan was appointed as an Independent Non-Executive Director on 1 February 2017. He is the Chairman of both the Board Risk Management Committee and Board Audit Committee and a member of the Board Nominations and Remuneration Committee.

Mr. Tan has served in key senior management positions in several local banking institutions during his long professional career in the banking industry.

He holds professional accountancy and chartered secretary qualifications from the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Secretaries & Administrators (ICSA).

Mr. Tan has attended the following trainings held during the year:-

- Covid-19 and Current Economic Reality : Implications for Financial Stability
- Outhink the Competition : Excelling in a Post Covid-19 World
- Risks : A Fresh Look from the Board's Perspective
- Digital Financial Institutions Series : Managing Virtual Banking and Insurance Businesses
- BNM FIDE Forum Annual Dialogue with Governor of BNM
- FIDE Forum's Board Effectiveness Evaluation Project
- Ping An's Use of Technology to Support Green Finance Objectives

Mr. Tan does not have any shareholding in the Bank.

Corporate Governance Disclosures (continued)

Board composition (continued)

3. Woo Chew Hong

(Age 64, Malaysian)

(Independent Non-Executive Director)

Mr. Woo was appointed as an Independent Non-Executive Director of the Bank on 15 May 2021. He is the Chairman of the Board Nominations and Remuneration Committee and a member of the Board Risk Management Committee and Board Audit Committee.

He has over 35 years of experience in the Technology field, across various industries including the Financial Industry. Most of these were engagements in large corporations and leaders in their respective fields.

He holds a Bachelor of Science from La Trobe University Australia. He has attended the Senior Management Program at INSEAD.

Currently, he is also an Independent Non-Executive Director of Lonpac Insurance Bhd.

Mr. Woo has attended the following trainings held during the year:-

- Rethinking Our Approach to Cyber Defence in Financial Institutions
- Annual Dialogue with Governor of Bank Negara Malaysia
- Managing Virtual Banking and Insurance Businesses
- What Role Must the Board Play?

Mr. Woo does not have any shareholding in the Bank.

Corporate Governance Disclosures (continued)

Board composition (continued)

4. Kazuya Ikeda (Age 50, Japanese) (Executive Director)

Mr. Ikeda was appointed as an Executive Director of the Bank on 29 May 2019.

He is the General Manager, Planning Department of Asia Pacific Division ("PDAPD"), SMBC Singapore Branch, heading the Planning Group of Asia Pacific Division. Prior to his appointment to PDAPD as General Manager, he was the Joint General Manager, Planning Department, International Banking Unit, Head Office, Tokyo, responsible for the strategic planning for the entire business of SMBC Group outside of Japan.

He joined Sakura Bank Limited (then known as Sumitomo Bank Limited) in 1993 in the Mikage Branch, Kobe. He has spent over 20 years in:

- Formulating and implementing short to mid-term strategies, performance control and business promotions and related middle-back management for SMBC entire business outside of Japan with several initiatives, i.e. Asia Centric Strategy, Bank-Securities Integration Strategy, Competitive Credit Business Strategy and Upgrade of Risk Appetite Framework;
- Creating new global organization such as Global Financial Institution Group Department and Asia Pacific Transaction Business Department;
- Creating the concept of Global Credit Control System; and
- Developing Management Information System for Asia region as well as risk management of derivatives products and developing risk management system.

He was also involved in the establishment of a framework of correspondent banks' KYC processes on the global data base and managed compliance framework of sanctions regulations and established database for cross-border activities regulations.

He holds a Master of Business Administration from University of Chicago and a Bachelor of Science from Kyoto University.

Mr. Ikeda has attended the following trainings held during the year:-

- Compliance Training - Insider Dealing and Conflicts of Interest
- Anti Bribery Compliance and Ethics and Due Diligence for Third Party Intermediaries FY2020
- Training and Quiz on Anti-Money Laundering and Countering the Financing Terrorism FY2020
- FY2020 Respectful Workplace eLearning
- APAC Employee Information Security Awareness Training 2020
- Crisis and Business Continuity Management Training

As at 31 July 2021, he held 7,172.25 shares in Sumitomo Mitsui Financial Group, Inc., a related corporation of the Bank.

Mr. Ikeda does not have any shareholding in the Bank.

Corporate Governance Disclosures (continued)

Board composition (continued)

Members of the Board are professionals in their own rights and they possess the pre-requisite skills, knowledge, experiences and expertise from the private sector and the banking industry. They contribute immensely by adding value to the strategy and direction of the Bank. They are persons of high caliber and integrity and they duly fulfilled the "Fit and Proper" standards for appointment of Directors as established by the Board in accordance with the Financial Services Act 2013, the Guidelines on Corporate Governance and Fit and Proper Standards, other relevant regulations and industry best-practices.

Board roles and responsibilities

The Board shall review and approve strategies, business plans and significant policies and monitors the Management's implementation of the approved strategies, plans and policies. The Board ensures that there are adequate controls and systems in place to facilitate the implementation of the Bank's policies. Consequentially, the Bank establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks. The Board accordingly monitors and assesses current developments in the country and globally which may affect the Bank's existing strategic plans.

The Board regularly reviews the adequacy and the integrity of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The respective roles of the Chairman and President / CEO are clearly separated from each other with clearly defined responsibilities, authority and accountability. This distinction allows an appropriate balance of roles between the Board and Management. The Independent Directors are independent of management and are free from any business or other relationships that may interfere with the exercise of their independent judgement. A Director who has any interest, either directly or indirectly in any material transactions or arrangements shall at all times declare his / her interest and shall abstain from deliberation and voting when such matters are being tabled to the Board for deliberation and decision.

Performance criteria used to assess the Board as a whole

The effectiveness of the Board is measured against the Bank's performance in terms of profitability, internal controls, risk management and cost effectiveness.

Frequency and conduct of Board meetings

Regular meetings are scheduled to discuss key issues of the Bank including review of the governance and compliance, financial performance, operations and risk management and to deliberate on matters which require the Board's decision and approval. In addition to scheduled Board and Board Committees' meetings, ad-hoc or special Board and Board Committee meetings may be convened from time to time when required.

Corporate Governance Disclosures (continued)

Board meetings

A total of 13 Board meetings were held during the financial year in review. All Directors have complied with BNM requirements that Directors must attend at least 75% of Board meetings held in the financial year. The details of the meeting attendance are as follows:

Name of Directors	Attendance	%
Chin Kok Sang - Chairman	13/13	100
Dato' Wan Fadzmi	13/13	100
Tan Kim Seng	13/13	100
Kazuya Ikeda	13/13	100
Tetsuya Kainaka	13/13	100

Board Committees

The Board is supported by specific Board Committees to oversee critical and major functional areas of the Bank.

The functions and terms of reference of each Board Committee have been approved by the Board and are revised from time to time to ensure that they are relevant, effective and up-to-date.

The Board Committees established are as follows:

1. Board Nominations and Remuneration Committee;
2. Board Audit Committee;
3. Board Risk Management Committee; and
4. Shariah Committee.

Corporate Governance Disclosures (continued)**Board Committees (continued)****Board Nominations and Remuneration Committee ("BNRC")**

The BNRC consists of three (3) Independent Non-Executive Directors.

The details of attendance of each member at BNRC meetings held during the financial year in review are as follows:

Name of Directors	Attendance	%
Tan Kim Seng - Chairman	11/11	100
Chin Kok Sang	11/11	100
Dato' Wan Fadzmi	11/11	100

The objective of the BNRC includes:

1. To provide formal and transparent procedures for the appointment of Directors, members of the Shariah Committee ("ShC"), President/CEO, key senior management officers , senior officers and the Company Secretary;
2. Assessment of effectiveness of individual Directors, the Board as a whole and members of the Shariah Committee;
3. To support the Board in carrying out the performance evaluation of President/CEO, key senior management officers, senior officers and Company Secretary; and
4. Recommending remuneration for Directors, members of the ShC, President/CEO, key senior management officers, senior officers and other material risk takers in ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The BNRC with regard to its nomination roles is responsible for amongst others:

1. Establishing minimum requirements for the Board, i.e. required mix of skills, experience, qualification and other core competencies required of a Director. The Committee is also responsible for establishing minimum requirements for the members of the ShC and President/CEO;
2. Recommending to the Board the approval, the appointment and removal of directors, members of the ShC, President /CEO, key senior management officers, senior officers and Company Secretary;
3. Reviewing the overall composition of the Board, in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review;
4. Supporting the Board in conducting the performance evaluation and development of the Board members, Committee members, Shariah Committee members, President/CEO, key senior management officers, senior officers and Company Secretary for competency assessment purposes;
5. Assessing the independence of Independent Directors annually and that the Independent Directors meet the identified independence criteria and are not disqualified under relevant qualification;

Corporate Governance Disclosures (continued)

Board Committees (continued)

BNRC (continued)

The BNRC with regard to its nomination roles is responsible for amongst others (continued):

6. Supporting the Board in carrying out assessment on an annual basis, to ensure that the Directors, members of the ShC, key responsible persons and Company Secretary are not disqualified under Financial Services Act 2013 and Companies Act 2016 and they must have been assessed to have complied with the fit and proper requirements; and
7. Supporting the Board in carrying out the review of the Board succession plan, ShC succession plan and succession plan for President/CEO, key senior management officers, senior officers and Heads of Department.

The BNRC with regard to its remuneration roles is responsible for:

1. Recommending to the Board the remuneration framework for Directors, members of the ShC, President/CEO, key senior management officers and senior officers;
2. Reviewing and recommending to the Board the remuneration for each Director, members of the ShC, President/CEO, key senior management officers, senior officers and other material risk takers;
3. Supporting the Board in actively overseeing the design and operation of the Bank's remuneration system; and
4. Reviewing the annual variable bonus pool proposals for the Bank, ensuring that they are appropriately performance and risks adjusted.

Board Audit Committee ("BAC")

The BAC consists of three (3) Independent Non-Executive Directors.

The details of attendance of each member at BAC meetings held during the financial year in review are as follows:

Name of Directors	Attendance	%
Tan Kim Seng - Chairman	11/11	100
Chin Kok Sang	11/11	100
Dato' Wan Fadzmi	11/11	100

The objective of the BAC is to support the Board in ensuring that there is a reliable and transparent financial reporting process within the Bank and to review the effectiveness of the internal control functions therein.

Corporate Governance Disclosures (continued)

Board Committees (continued)

BAC (continued)

The key responsibilities of the BAC are:

1. Fair and transparent financial reporting

- i. Support the Board in ensuring a reliable and transparent financial reporting process within the Bank.

2. Internal Audit

- i. Oversee the functions of the Internal Audit Department ("IAD") and ensuring compliance with BNM Guidelines on internal audit functions of licensed institutions and head office policy and procedure;
- ii. Review and approve the audit plan, procedures and frequency;
- iii. Review audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner;
- iv. Noting significant disagreements between the Head of IAD / Chief Internal Auditor ("CIA") and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings;
- v. Establish a mechanism to assess the performance and effectiveness of the internal audit function; and
- vi. Appoint, set compensation, evaluate performance, decide on the transfer and dismissal and also review the reasons and circumstances leading to the resignation of the Head of IAD / CIA.

3. Internal controls

- i. Review the appropriateness and effectiveness of internal controls and risk management processes.

4. External auditors

- i. Make recommendations to the Board on the appointment, removal and remuneration of the external auditor;
- ii. Monitor and assess the independence of the external auditor, including approval of the provision of non-audit services by the external auditor;
- iii. Monitor and assess the effectiveness of the external audit and meeting with the external auditor without the presence of senior management at least annually;
- iv. Maintain regular, timely, open and honest communication with the external auditor and requiring the external auditor to report to the BAC on significant matters; and
- v. Ensure that senior management is taking necessary corrective actions in a timely and effective manner to address external audit findings and recommendations.

5. Related party transactions

- i. Review all related party transactions and keep the Board informed of such transactions.

6. External experts

- i. Engage external experts in circumstances where the internal audit function lacks the expertise needed to perform the audit of specialised areas; and
- ii. To ensure that the independence of the external auditor in its role as statutory auditor of the Bank is not compromised if the external auditor is engaged as external experts.

Corporate Governance Disclosures (continued)

Board Committees (continued)

BAC (continued)

Internal audit and control activities

Internal audit is independent and staffed with qualified internal audit personnel to perform the internal audit functions, covering the financial, operations and management audit. The BAC oversees the functions of the IAD and ensures compliance with BNM Guidelines on internal audit functions of licensed institutions (BNM/RH/GL 013-4).

The responsibilities of the Head of IAD / CIA and audit personnel are:

1. Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by Management and submit that plan to the BAC for review and approval;
2. Implement the approved annual audit plan, including any special appropriate tasks or projects requested by BNM, the Management and directed by the BAC;
3. Maintain clearly documented audit programs to provide guidance to auditors in gathering information, documenting procedures performed and making assessment;
4. Maintain a team of professional audit staff with sufficient knowledge, skills and experience to fulfil the responsibilities;
5. Checking and testing the compliance with, and effectiveness of policies, procedures and controls and assessing whether current measures are in line with the latest developments and changes to the relevant BNM requirements;
6. Issue written audit reports to the BAC and Management, detailing the audit findings and recommendations as well as the client's responses and action plans in a timely manner after the completion of the audit;
7. Monitor progress of rectification actions on findings raised, taking into consideration the timeline committed by Management. This includes rectification actions taken in regard to findings raised by regulatory authorities or external auditors; and
8. Conduct investigation on suspected fraudulent activities when required and notify Management and the BAC of the results.

Corporate Governance Disclosures (continued)**Board Committees (continued)****Board Risk Management Committee ("BRMC")**

The BRMC consists of three (3) Independent Non-Executive Directors.

The details of attendance of each member at BRMC meetings held during the financial year in review are as follows:

Name of Directors	Attendance	%
Dato' Wan Fadzmi - Chairman	11/11	100
Tan Kim Seng	11/11	100
Chin Kok Sang	11/11	100

The objective of the BRMC is to oversee the Bank's activities in managing credit, market, operational, liquidity, legal, compliance, information technology, outsourcing, products and other risks in supporting the Board in meeting the expectations on the risk management as set out in BNM Policy Documents on Risk Governance, Compliance, Risk Management in Technology, Outsourcing, Introduction of New Products and other BNM Policy Documents (where other risk matters related are applicable) while ensuring proper risk management process is properly in place and functioning well.

The BRMC is responsible for amongst others:

1. Reviewing and recommending to the Board on the Bank's risk management strategies, policies and risks tolerance;
2. Reviewing and assessing the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;
3. Ensuring adequate infrastructure, resources and systems are in place to support effective risk management and to ensure that the staff responsible for implementing these risk management systems perform those duties independently of the Bank's risk taking activities;
4. Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities; and
5. Appoint, set remuneration, evaluate performance and decide on the dismissal of the Head of Risk Management / Chief Risk Officer ("CRO"), Head of Compliance Department / Chief Compliance Officer ("CCO") and Head of Credit Review Department ("HCRVD"). The CRO, CCO and HCRVD report directly to the BRMC.

Corporate Governance Disclosures (continued)

Shariah Committee ("ShC")

The ShC consist of a 3-member composition and headed by a designated Chairman, consistent with the requirements under BNM's Shariah Governance Policy Document. Each of these members are Shariah qualified persons and possesses the pre-requisite knowledge, expertise and experience in Islamic banking. The appointments of the ShC members are subjected to a rigorous selections process, duly endorsed by Board and approved by BNM. The current members of ShC have been appointed since the inception of the ShC on 1 December 2014.

It was previously agreed by members of ShC that the position of Chairman of ShC be rotated every 2 years. However, following the issuance of the Shariah Governance Policy by Bank Negara Malaysia, Board of Directors of the Bank with the approval by Bank Negara Malaysia has appointed Dr. Mushaddad bin Hasbullah as permanent Chairman of ShC upon Mr. Mohamed Khairul Anuar bin Mohd Basri completing his 2 years service as Chairman of ShC. The other member of ShC is Dr. Muhammad Pisol bin Mohd @ Mat Isa.

For financial year ended 31 March 2021, the ShC held 7 meetings.

The details of attendance of each member at the ShC meetings held during the financial year ended 31 March 2021 are as follows:

Name of ShC members	Attendance	%
Dr. Mushaddad bin Hasbullah - Chairman	7 / 7	100
Dr. Muhammad Pisol bin Mohd @ Mat Isa	7 / 7	100
Encik Mohamed Khairul Anuar bin Mohd Basri	7 / 7	100

ShC is responsible for:

1. Advising the Board and provide objective and sound input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times;
2. Endorsing Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah;
3. Ensuring that the products of the Bank comply with Shariah principles, the ShC must approve:
 - i. The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - ii. The product manual, marketing advertisements, sales illustrations and brochures used to describe the product;
4. Assessing the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters;
5. Advising the Bank to consult BNM's Shariah Advisory Council ("SAC") on Shariah matters that could not be resolved; and
6. Providing written Shariah opinions, decision or advise in circumstances where the Bank makes reference to the BNM's SAC for further deliberation, or where the Bank submits applications to the BNM for new products.

Corporate Governance Disclosures (continued)

Internal Control Framework

Board Responsibility

The Board is responsible for and has oversight of the Bank's system of internal control and risk management, which includes the design, establishment and implementation of an appropriate risk management framework and internal control system with mechanisms to facilitate periodic reviews on the adequacy and effectiveness of the internal control framework taking into consideration material changes to the size, nature and complexity of the Bank's operations.

To achieve the aforesaid objectives, the Board is assisted by Board Committees, namely the BAC, BRMC, BNRC and Shariah Committee ("ShC"). Notwithstanding the delegation of authority to these Board Committees, the Board remains responsible for the governance of risk and internal control, and the actions of these Board Committees.

In discharging its responsibilities, the Board is continuously involved in approving risk appetites, business plans and any other initiatives that may have a material impact on the risk profile of the Bank, whilst at all times keeping close scrutiny on both the current and emerging risks posed to the Bank from both external or internal factors.

An effective and robust internal control eco-system, namely through the implementation of the Three Lines of Defence, Conduct Risk Management Framework, the Operational Risk Management Framework, Compliance Coordinator Framework, regular testing and reporting, enables the Board to maintain line of sight on the state of affairs in the Bank and to take such necessary steps deemed appropriate to manage risk exposure within the approved risk appetites.

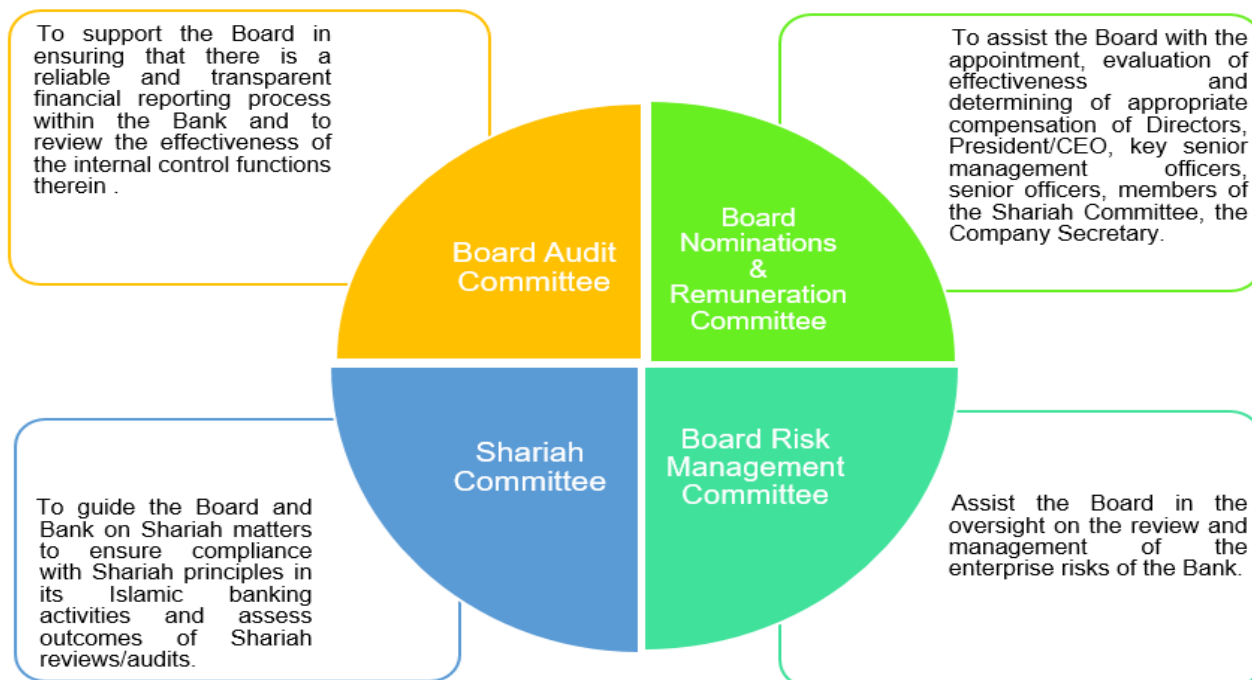
The Board has also set the "tone from the top", together with the Management, to promote a sound corporate culture within the Bank which reinforces legal and regulatory compliancy, ethical, prudent and professional behaviour. For the financial year of 2021, the Board provided greater emphasis on maintaining zero tolerance towards bribery and corruption.

The Board is committed to maintaining a robust risk management and internal control framework to safeguard, not only its reputation, assets and stakeholders' interests, but also the interests of the Bank's customers and the public in general.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Board Responsibility (continued)



Management Responsibility

The Management is responsible for the day-to-day operations of the Bank and accountable to the Board and for the implementation of all policies approved by the Board. In the context of risk management and internal control measures, to facilitate the establishment of a robust and effective risk management and internal control system.

The role of the Management in maintaining a robust and efficient risk management and internal control system encompasses the following stages:

- i. Identifying and evaluating both the current and emerging risk faced by the Bank in achieving its business strategies and objectives;
- ii. Establishing relevant policies, procedures and processes, with the appropriate internal control measurements embedded therein, to manage and mitigate the identified risk;
- iii. Designing, implementing and monitoring the robustness and effectiveness of the risk management framework and internal control system;

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Management Responsibility (continued)

- iv. Reporting in a timely manner to the Board any change in the prevailing legal and regulatory framework affecting the Bank and/or any gaps and lapses identified within the risk management framework and internal control system, resulting in the need to reassess the adequacy of the Bank's current risk management framework and internal control systems; and
- v. Designing and implementing the remedial actions required to adhere to the new legal and regulatory requirements and/or to address the identified gaps and lapses, with continual obligation to monitor and report to the Board accordingly on the adequacy and effectiveness of the implemented remedial actions.



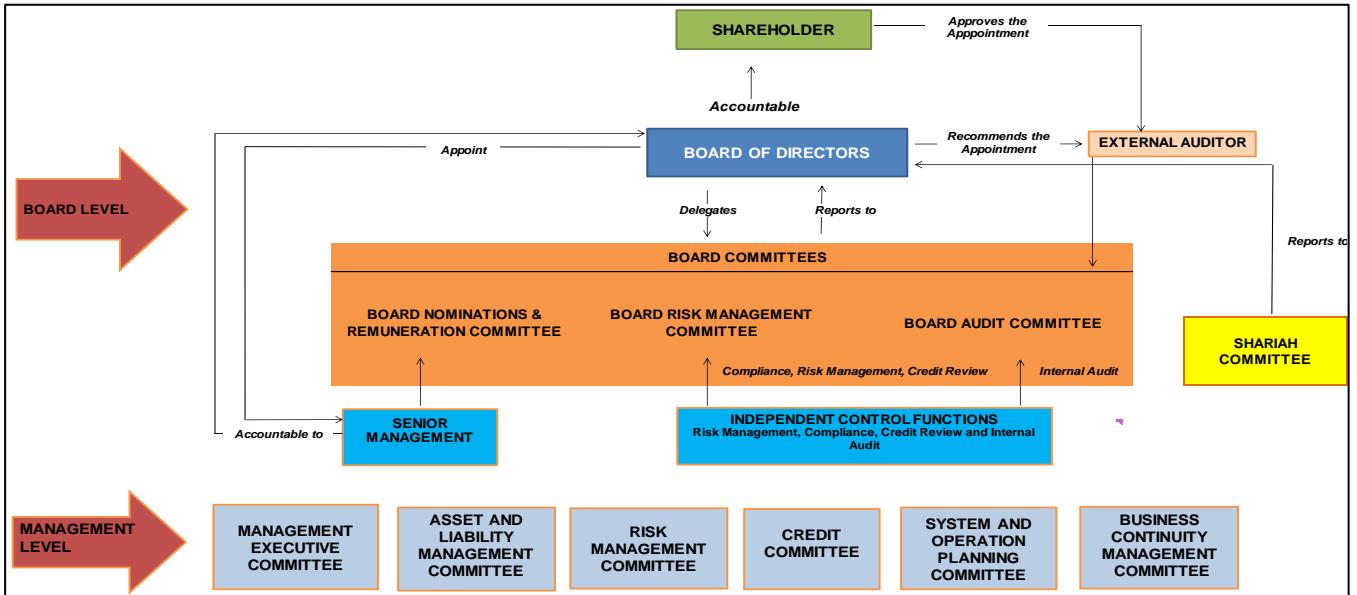
The Management is also assisted by various Management Committees to carry out their duties in fulfilment of the requirements stated above, namely the Risk Management Committee ("RMC"), Credit Committee ("CC"), Asset and Liability Management Committee ("ALCO"), Business Continuity Management Committee ("BCMC") and System and Operation Planning Committee ("SOPC"), and also independent risk functions, namely Risk Management, Compliance and Internal Audit.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Risk Governance Structure

Premised on the roles and responsibilities of the Board and Management, and the various committees that have been established to support them in discharging the roles, an overview of the risk governance structure of the Bank is illustrated below.



Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Three Lines of Defence

The internal control framework lies in the foundation of the Bank's three lines of defence and in its key internal control processes.

I. First Line of Defence

The first line of defence refers to the line departments which are responsible for identifying, assessing, mitigating and reporting risks within their own areas of business. This essentially means the line departments need to have the strategic understanding and are fully conversant with the risks undertaken and are accountable for ensuring that the appropriate mitigating controls are in place.

Within the Bank, the business operations and their support functions, which perform the day-to-day activities in realising business strategies and also undertaking the risk and control management activities are associated to be the first line of defence.

The staff of the business and support functions must understand their roles and responsibilities with regard to processing transactions and who must follow systematic procedures and processes to ensure the established internal controls are complied with.

The Heads of Department are responsible to identify and assess risks and to ensure that the control activities and other responses that address the risks are monitored and enforced.

II. Second Line of Defence

The second line of defence is the risk management related functions which have both the oversight and advisory roles to the line departments. This second line actively challenges the assessments and initiatives done by line departments by engaging with risk owners and consolidating Bank-wide risks into various risk types.

The risk management related functions also includes "Risk Policy Owners", who manage specific transversal risks shared across the Bank, for example credit, market and operation risks, compliance risk, people risk and legal risk.

i. Risk management functions

These functions, comprising the managements of credit, market and operational risks, are headed by the Chief Risk Officer ("CRO"), who reports directly to the BRMC. These functions provide independent challenge to the business and support functions and ensure that Management is duly informed of any lapses or breaches.

The major responsibilities of these functions, among others, are participating in the RMC, reviewing risk reports and validating compliance to the risk management framework requirements, with the objective of ensuring that credit, market and operational risks are actively and appropriately managed. The risk management functions shall be guided by the risk management process.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Three Lines of Defence (continued)

II. Second Line of Defence (continued)

ii. Shariah risk function

The shariah risk function comes under the purview of Operational Risk Management Department ("ORM"). Shariah non-compliance risk exposures in the business operations and activities identified during the implementation of ORM tools are being reported to Senior Management, Shariah Committee and BRMC.

iii. Compliance risk function

This function is responsible for the following:

- a. Identification, assessment and monitoring of compliance risks;
- b. Reporting of compliance risk; and
- c. Providing advisory, guidance and training with regards to compliance with rules and regulations.

This function reports to BRMC.

III. Third Line of Defence

The third line of defence is provided by the Internal Audit Department ("IAD") who reports directly to the BAC, as well as indirectly to Shariah Committee with regards to Shariah matters. It entails independent challenge, audit of key controls, formal reporting on assurance, and audit of assurance providers.

The function provides independent, objective assurance and consulting activities to add value and improve operations to the business and support functions, including risk management and compliance functions.

The internal audits are conducted in accordance with the annual audit plan as approved by the BAC. Ad-hoc audits are also conducted on a need basis as or when it is required by BNM.

The internal audit function adopts a risk-based approach in its audit planning. Audit reports are tabled to the BAC reporting on the state of the Bank's internal control and the extent of compliance with the established policies and procedures as well as regulatory requirements. In addition, the function duly monitors the implementation of the Management action plans which seek to address the weaknesses identified by the internal auditors.

In addition, independent challenge and audit of key controls may also be performed by the Head Office internal auditor and the external auditor.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Key Internal Control Processes

The key processes that the Board has established in reviewing the adequacy and integrity of the system of internal control, including compliance with applicable laws, regulations, rules and guidelines, are as follows:

BRMC

BRMC is a Board Committee chaired by an Independent and Non-Executive Board member. The Committee is delegated with oversight authority by the Board of Directors, in discharging its overall duties and responsibilities. The Committee monitors and evaluates the effectiveness of the risk management system, compliance function and operations on an on-going basis. This Committee also decides and approves matters related to establishment, amendment and abolition of important rules and policies.

BAC

BAC is a Board Committee supported by IAD to provide an independent assessment of the adequacy and reliability of the Bank's internal controls, risk management processes, compliances with control and risk policies and regulatory requirements.

The BAC deliberates on findings and recommendations proposed by the internal and external auditors. The BAC also evaluates the adequacy and effectiveness of the Bank's risk management and system of internal control. Apart from reviewing the annual audit plan, the BAC assesses the scope and quality of audits performed.

BNRC

The BNRC is a Board Committee tasked with providing formal and transparent procedures for the appointment of Directors, President/CEO, key senior management officers, senior officers, members of the Shariah Committee and the Company Secretary and to support the Board in carrying out the performance evaluation of President/CEO, key senior management, senior officers and Company Secretary as well as recommending remuneration for Directors, President/CEO, key senior management, senior officers and other material risk takers in ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The BNRC also conducts assessment on the effectiveness of individual Directors, the Board as a whole, and members of the Shariah Committee.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Key Internal Control Processes (continued)

Shariah Committee

Shariah Committee is responsible to advise the Board and to provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles in its Islamic banking activities at all times. It is also responsible to assess the work carried out by Shariah review and Shariah audit in order to ensure the Bank is Shariah compliant.

Senior Management and other Management Committees

The President / CEO, assisted by the Deputy President and Deputy CEO, manages the strategic direction and provides strategic guidance to the business of the Bank.

The President / CEO provides direction and awareness of internal control and compliance via the RMC, ALCO, BCMC and SOPC.

i. RMC

The objective of RMC is to support BRMC and the Board with regards to meeting the risk management and compliance requirements as set out in BNM's policy documentations on Risk Governance and Compliance in particular, and other regulatory policy documents. RMC is also responsible to decide on important risk management and compliance matters, including matters related to various principal policies on risk management, that are within the scope as delegated by the Board. Existence or occurrence of matters or issues deemed material will be escalated to the Board or any of its Committees for further deliberation and decision.

ii. ALCO

The main objective of ALCO is to ensure that the Bank's asset and liability exposures to interest rate risk and liquidity risk are within the risk appetites and policies defined by the Board. It includes analysis of risk appetites, revenue targets and rates of return where areas of coverage include capital ratios, liquidity position and asset mix, rate-setting policy for loans and deposits, and investment guidelines for banking portfolio.

iii. BCMC

The purpose of BCMC is to provide leadership, direction and oversight in ensuring that effective business continuity management ("BCM") practices, recovery and resumption procedures are in place for continuation of critical business functions shall a major disruption occur. BCMC provides for a forum to deliberate the effectiveness of the Bank's BCM programs and to timely escalate issues/concerns to the Board for deliberation and oversight.

Corporate Governance Disclosures (continued)**Internal Control Framework (continued)****Key Internal Control Processes (continued)****Senior Management and other Management Committees (continued)**iv. SOPC

The System and Operation Planning Committee formulates and reviews the IT strategic plan of the Bank which supports the overall organisational strategic business plan. In carrying out its function, the Committee reviews, monitors and provides recommendations on the IT expenditure of the Bank to optimise on the IT investments and to achieve overall efficiency and performance of the IT services and utilization. The Committee also reviews and monitors the operational control to minimize operational and processing risks, covering all banking operations that have been outsourced to SMBC SSC Sdn. Bhd.

Internal Policies and Procedures

Clearly documented internal policies and procedures of all departments have been approved by the Board. These policies and procedures which are easily accessible through the Bank's intranet serves as a day-to-day operational guide to ensure compliance with internal controls and the applicable laws and regulations. Annual reviews are conducted to ensure that the policies and procedures are up-to-date with the practices as embraced; in ensuring operational efficiency and effectiveness; and to take into account the changing regulatory requirements, risks and external environment to continuously strengthen internal control.

New Product Policies and Procedures

All new products undergo the requirements as per the Bank's new product policy and procedures. All risks associated with the new products are identified and managed using the appropriate assessment and mitigation practices with assessments from the Risk Departments, Planning Department and the Islamic Banking Department in regards to Islamic products. Legal Department and Compliance Department provides legal advisory and regulatory compliance review respectively.

In the process, all new products are subject to adequate assessment with respect to their suitability from the business perspective, compliance with laws and regulatory guidelines and that the operations and processes contain sufficient controls to ensure that there are no unlawful activity involving money laundering or financing of terrorism.

The new products are tabled at the RMC for deliberation prior to the approval of the President / CEO followed by the approval of the Board for conventional banking products and to the Shariah Committee and Board for approval in regards to Islamic products.

Annual review of all products is performed to review and assess the products' business performance and management of risks.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Key Internal Control Processes (continued)

Compliance

The compliance culture of the Bank is driven with a strong tone from the top to ingrain the expected values and principles of conduct that shape the behaviour and attitude of employees at all level of business and activities across the Bank.

The Bank takes a firm stand in advocating a compliance culture as compliance is the responsibility of all employees. All business lines and functions within the Bank are to carry out their responsibilities to ensure effective management of compliance risk.

The Compliance function is to promote the culture of compliance with legal and regulatory requirements, compliance related policies and procedures and ethical standards in the conduct of business.

The Compliance Department of the Bank is responsible for ensuring that controls to manage compliance risk are adequate and operating as intended. Upon issuance of new regulatory guidelines, the Compliance Department will facilitate gap analysis and the establishment of relevant control processes with the relevant stakeholders.

A Compliance Risk Assessment is also undertaken by the department to assess the areas of higher compliance risk / weaker controls on annual basis and an action plan is then prepared to outline control activities on areas of risks / weaknesses. The department performs Compliance self-reviews to ensure that the regulatory requirements and policies of the Bank are complied with. The department also conducts appropriate validation to test and evaluate the adequacy of internal control put in place to manage compliance risks and promptly follow-up on any identified deficiencies and plans to address such deficiencies. Compliance risks findings and recommendations are reported to the Board/RMC, RMC and the Regional In-Office Compliance Committee on a regular basis.

The department carries out compliance awareness and training via face-to-face training and e-learning on a continuous basis.

The Bank has in place a Compliance Manual which serves as a reference to all employees of the legal and regulatory requirements of which the Bank has to comply when conducting business, and the internal rules and procedures for conduct of its employees. The Compliance Manual is subjected to annual review.

Corporate Governance Disclosures (continued)

Internal Control Framework (continued)

Key Internal Control Processes (continued)

Whistle Blowing Policy

The Bank has put in place a Whistle Blowing policy and procedure manual. The BRMC Chairman, who is an Independent Non-Executive Director, has been appointed to be responsible person for the effective implementation of the policy. The policy and procedure defines the means and methods for reporting of the allegations, the protection accorded to whistle-blowers and the duties and responsibilities of Directors, officers and employees. The outcomes of all investigations are to be reported to the Board or its appointed Committee.

Anti-Money Laundering / Counter Financing of Terrorism ("AML / CFT")

Policies and procedures on the Prevention of Money Laundering & Terrorist Financing are established to prevent money laundering and terrorist financing, and operate and manage businesses in accordance with the law and regulations.

It is the general principle of the Bank that no banking business will be carried out for a customer unless the Bank knows the customer. The "Know Your Customer" policy helps build the Bank's relationship with customers and in ensuring that the Bank is in compliance with all applicable laws and regulations and adhere to sound banking practices. A system is in place to profile, monitor and review of information in support of the Bank's AML / CFT activities.

The Compliance Department of the Bank provides training to facilitate all staff's understanding of the laws and regulations in relation to money laundering, terrorist financing and sanction laws.

All new staff are required to read and understand the policies and procedures on the Prevention of Money Laundering & Terrorist Financing and complete the requisite AML / CFT training upon joining the Bank. All staff undergo AML / CFT training annually.

Anti-Corruption and Bribery Policy Statement

This policy statement was developed and approved by the Board to set the "tone from the top" with regards to the Bank's zero tolerance towards bribery and corruption. Further, it establishes the internal framework required to maintain "adequate procedures" to robustly manage and mitigate potential risk arising from practices within the Bank that may be considered as promoting the culture of bribery and corruption.

Human Resources Policies and Procedures

The Human Resources ("HR") policies and procedures are established in covering the full process of human resource management such as the recruitment, learning and development, performance management, compensation and benefits, termination of employment which includes resignation and dismissal of staff due to disciplinary action. The policies and procedures which are subjected to annual review are readily available for staff through the Bank's intranet.

Corporate Governance Disclosures (continued)**Internal Control Framework (continued)****Key Internal Control Processes (continued)****Human Resources Policies and Procedures (continued)****i. Code of Ethics and Conduct, Employee Handbook and Office Rules**

The HR policies and procedures also include the Bank's Code of Ethics and Conduct which set forth the standard of behaviors, ethics and conduct expected of its employees. All new staff are required to acknowledge their understanding and acceptance to abide by the Bank's Code of Ethics and Conduct on hardcopy upon joining the Bank. Subsequently, all existing staff are to declare the observance to the Code of Ethics and Conduct annually. In addition, all new staff are to abide by the employee handbook and office rules of the Bank.

ii. Employee Assessment Framework

The evaluation of a prospective employee's personal information, including criminal records, employment and financial background is part of the HR recruitment process as documented in the Bank's HR policies and procedures. Employment reference checks and screening procedures are carried out prior to hiring the employee. The screening procedures also apply throughout the course of employment where existing employees are screened annually.

Business Continuity Management

The Planning Department of the Bank ensures that there is a Business Continuity Plan ("BCP") in place to facilitate continuity of critical business operations and systems in the event of prolonged disruption to the business. The department spear-heads the Business Impact Assessment of the Bank's operations to identify the activities and operations that are critical to the continuity of the Bank's operations. The department manages the Business Continuity Management activities for the Bank's operations and ensures that all mandatory BCP and Disaster Recovery Plan drills are successfully carried out. The Bank has subscribed to a Disaster Recovery site which serves as the back-up site, with an independent service provider.

Corporate Governance Disclosures (continued)**Internal Control Framework (continued)****Key Internal Control Processes (continued)****Risk Control Self-Assessment**

A Risk Control Self-Assessment ("RCSA") tool is used to assist the Bank's departments to identify and assess their operational risk which are inherent in their work processes, activities, services, products and systems in a documented and systematic manner. The RCSA also enables the departments to assess the effectiveness of their controls to mitigate the operational risks. The implementation of RCSA is facilitated by the Operational Risk Management Department ("ORMD") where it provides operational support on risk and control assessments, which will lead to formulation of action plans by the relevant departments to mitigate and manage the identified operational risks.

As the risk awareness levels improve amongst the risk owners, ORMD will progress to conduct "deep dive" reviews of specific high risk areas, with the objectives to improve control effectiveness and reduce risk levels.

Another assessment tool which has been implemented is Key Control Testing, where risk owners self assess their controls to ensure they are in place and are effective. As an added measure, ORMD will conduct independent assessment on a sampling basis.

Loss Database and Key Risk Indicator ("KRI")

The Bank has in place a Loss Database i.e. a loss incident reporting database, which captures and tracks the actual and potential operational risk-related losses, including near miss incidents. Major or high frequency loss events are investigated and analyzed against past records and trends to identify high risk areas and to take action to mitigate the risk. Preventive measures and additional controls, if any, are tracked for completion and effectiveness.

In addition, the Bank also monitors operational risk trends via its KRI reporting, which involves collecting transactional data at prescribed frequencies over a period of time to observe the trending of business or transaction activities. Management limits and thresholds are determined to pre-empt and / or alert the departments on additional controls to be implemented to mitigate operational risks.

Loss incidents and KRI are duly reported to the senior management and the Board.

Corporate Governance Disclosures (continued)

Remuneration

The Remuneration policy of the Bank outlines the mandatory requirements that must be reflected in the design and management of performance and remuneration arrangement in the Bank. Our remuneration strategy is designed to enable the Bank to attract and retain talents, motivate them to achieve the Bank's long terms goals, support compliance and good corporate governance and promotes effective risk management. The Policy supports a high performance culture based on merit which takes into account employee conduct/behavior, adherence to SMBC's Core Values, differentiates and rewards excellent performance.

Components of remuneration

Employee remuneration is composed of two main components - fixed and variable:

Fixed	Consist of monthly base salary and fixed allowances	Determined by individual's roles and responsibilities, experience and skills, competency and market competitiveness. It should also reflect core performance requirements and expectations.
Variable	Annual performance bonus in cash	Performance-based and not guaranteed, reflecting overall bank's performance and individual performance. Purpose of the performance bonus is to reward good performance; drive the right values and behaviours.

Measurement of performance

With oversight and review by the Board, the Bank's overall performance is determined in accordance with three core evaluation factors which include Sustainable Growth Initiatives, Financial Performance, Bank Management and Compliance, including Risk Management Control.

The Bank's key indicators are cascaded down to the business and support departments and eventually to each individual employee in the Bank via the Individual Performance Appraisal process. The individual performance goals or key performance indicators ("KPIs") include Business Function Initiatives, Risk and Compliance and Behavioral Competencies that reflect Sumitomo Mitsui Banking Corporation's ("SMBC") five core values of Integrity, Customer First, Proactive & Innovative, Speed & Quality and Team "SMBC Group".

The risk and control functions of Internal Audit, Compliance and Risk Management operate independently from the business departments. Their performance assessment is based principally on the achievement of the objectives of their job functions and reviewed independently by the BAC and the BRMC.

Corporate Governance Disclosures (continued)

Remuneration (continued)

Linkage between performance and remuneration

To inculcate a high performance driven culture, the performance bonus payment is closely linked to overall performance of the Bank and performance of the individual based on achievement of KPIs set for the financial year which takes into account employee conduct/behaviour and adherence to SMBC's Core Values. An individual's performance bonus may be further adjusted based on non-compliance findings or due to disciplinary action.

Remuneration of senior management and local employees are reviewed by the BNRC and approved by the Board of Directors while remuneration of the Heads of the risk and control functions are reviewed by their respective Board committees i.e. BAC and BRMC.

Summary of remuneration outcomes for the financial year ended 31 March 2021

For the purpose of disclosure on remuneration as per BNM's Policy on Corporate Governance, the following are the payments for the financial year ended 31 March 2021:

Table 1: Guaranteed bonuses, sign-on bonuses and severance payments

Category	Senior Officers *	Other Material Risk Takers **
Number of guaranteed bonuses	Nil	Nil
Number of sign-on bonuses	Nil	Nil
Number of severance payments	Nil	Nil

* Senior Officers of the Bank are defined as Deputy Chief Executive Officer, Deputy President, Head of Corporate Banking, Head of Treasury, Head of Internal Control, Chief Risk Officer, Chief Compliance Officer, Chief Internal Auditor and Chief Information Security Officer.

** Other Material Risk Takers ("OMRTs") are defined as employees whose responsibilities have material impact on the Bank and risk profile, and employees whose responsibilities require them to take on material risk exposure on behalf of the Bank.

Corporate Governance Disclosures (continued)**Remuneration (continued)****Summary of remuneration outcomes for the financial year ended 31 March 2021 (continued)****Table 2: Remuneration for Senior Officers**

The remuneration package for Senior Officers and OMRTs are reviewed on an annual basis and submitted to the BNRC for recommendation to the Board for approval.

Summary of compensation outcome for those identified as Senior Officers of the Bank for the financial year ended 31 March 2021:

Category	Senior Officers		OMRTs	
	Unrestricted RM	Deferred RM	Unrestricted RM	Deferred RM
Fixed remuneration:				
- Cash based	5,303,325	-	1,500,020	-
- Shares and share-linked instruments	-	-	-	-
- Other	-	-	-	-
Variable remuneration:				
- Cash based	1,539,217	71,701	741,187	18,864
- Shares and share-linked instruments	-	-	-	-
- Other	-	-	-	-

Table 3: Breakdown of CEO's remuneration

Category	Cash RM
Fixed remuneration	655,086
Variable remuneration:	
- Non-deferred	214,843
- Deferred	-
Total remuneration award for financial year ended 31 March 2021	869,929

Auditors

The auditors, KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 21 to the financial statements.

Signed on behalf of the Board of Directors in accordance with the resolution of the Directors:

[Signed]

Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah
Director

[Signed]

Tan Kim Seng
Director

Kuala Lumpur

Date: 6 September 2021

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Beneficent, the Merciful

In complying with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Sumitomo Mitsui Banking Corporation Malaysia Berhad during the financial year ended 31 March 2021. We have also conducted our review to form an opinion as to whether Sumitomo Mitsui Banking Corporation Malaysia Berhad has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of Sumitomo Mitsui Banking Corporation Malaysia Berhad is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion based on our review of the operations of Sumitomo Mitsui Banking Corporation Malaysia Berhad and to report to you.

We have assessed the work carried out by Shariah review which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by Sumitomo Mitsui Banking Corporation Malaysia Berhad.

We have obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Sumitomo Mitsui Banking Corporation Malaysia Berhad have not violated the Shariah principles.

In our opinion, the contracts, transactions and dealings entered into by Sumitomo Mitsui Banking Corporation Malaysia Berhad during the financial year ended 31 March 2021 that we have reviewed are in compliance with the Shariah principles.

We, the members of the Shariah Committee of Sumitomo Mitsui Banking Corporation Malaysia Berhad, do hereby confirm that the operations of Sumitomo Mitsui Banking Corporation Malaysia Berhad during the period we acted as Shariah Committee Members, for the financial year ended 31 March 2021 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee : [Signed]
Dr. Mushaddad bin Hasbullah

Shariah Committee member : [Signed]
Dr. Muhammad Pisol bin Mohd @ Mat Isa

Shariah Committee member : [Signed]
Mohamed Khairul Anuar bin Mohd Basri

Kuala Lumpur
Date: 6 September 2021

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Note	As at 31 March 2021 RM'000	As at 31 March 2020 RM'000 Restated	As at 1 April 2019 RM'000 Restated
Assets				
Cash and short-term funds	3	4,339,905	4,239,396	4,377,758
Deposits and placements with banks and other financial institutions	4	975,724	869,486	762,624
Debt instruments at fair value through other comprehensive income ("FVOCI")	5	392,745	596,080	733,457
Loans, advances and financing	6	14,976,985	15,311,113	13,020,394
Derivative financial assets	32	395,700	620,808	355,051
Other assets	7	190,963	61,468	72,479
Statutory deposits with Bank Negara Malaysia	8	-	51,463	50,680
Plant and equipment	9	12,594	12,961	15,822
Right-of-use assets	10.1	14,704	5,404	-
Tax recoverable		78,045	53,446	37,919
Deferred tax assets	15	15,062	16,516	7,218
Total assets		<u>21,392,427</u>	<u>21,838,141</u>	<u>19,433,402</u>
Liabilities				
Deposits from customers	11	16,301,368	15,436,734	13,752,568
Deposits and placements of banks and other financial institutions	12	1,067,903	2,271,747	1,982,471
Bills and acceptances payable		775	2,150	1,305
Derivative financial liabilities	32	359,158	560,269	309,102
Other liabilities	13	132,832	236,817	250,692
Lease liabilities	10.2	15,051	5,487	-
Provision for credit commitments and contingencies	14	7,627	5,399	16,016
Total liabilities		<u>17,884,714</u>	<u>18,518,603</u>	<u>16,312,154</u>
Equity				
Share capital	16	2,452,605	2,452,605	2,452,605
Reserves	17	1,055,108	866,933	668,643
Total equity attributable to owners of the Bank		<u>3,507,713</u>	<u>3,319,538</u>	<u>3,121,248</u>
Total liabilities and equity		<u>21,392,427</u>	<u>21,838,141</u>	<u>19,433,402</u>
Commitments and contingencies	29	<u>28,973,196</u>	<u>33,701,525</u>	<u>30,342,234</u>

The notes on pages 43 to 149 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

	Note	2021 RM'000	2020 RM'000 Restated
Interest income	18	362,785	631,977
Interest expense	19	<u>(158,836)</u>	<u>(399,625)</u>
Net interest income		203,949	232,352
Other operating income	20	<u>145,368</u>	<u>154,650</u>
Net operating income		349,317	387,002
Other operating expenses	21	<u>(115,150)</u>	<u>(106,686)</u>
Operating profit		234,167	280,316
Writeback/(Allowance) for impairment on loans, advances and financing	23	22	(38,842)
Writeback/(Allowance) for impairment on other financial assets	24	<u>894</u>	<u>(7,495)</u>
Profit before taxation		235,083	233,979
Tax expense	25	<u>(44,499)</u>	<u>(37,170)</u>
Profit for the year		190,584	196,809
Other comprehensive income for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments):			
- Debt instruments measured at FVOCI - net change in fair value		(1,827)	409
- Debt instruments measured at FVOCI - (decrease)/increase in allowance for impairment	24	<u>(582)</u>	<u>1,072</u>
Total comprehensive income for the year		<u><u>188,175</u></u>	<u><u>198,290</u></u>
Basic earnings per ordinary share (sen)	26	<u><u>7.77</u></u>	<u><u>8.02</u></u>

The notes on pages 43 to 149 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]

(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

	<i>Non-distributable reserves</i>			<i>Distributable reserves</i>	Total RM'000
	Share capital RM'000	Regulatory reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	
At 1 April 2019 (as previously reported)	2,452,605	111,598	2,872	514,958	3,082,033
Prior year adjustments (Note 36)	-	-	-	39,215	39,215
At 1 April 2019 (as restated)	2,452,605	111,598	2,872	554,173	3,121,248
Profit for the year:					
As previously stated	-	-	-	186,550	186,550
Prior year adjustments (Note 36)	-	-	-	10,259	10,259
As restated	-	-	-	196,809	196,809
Fair value change and increase in allowance for impairment of debt instruments measured at FVOCI	-	-	1,481	-	1,481
Total comprehensive income for the year	-	-	1,481	196,809	198,290
Transfer from regulatory reserve	-	(31,118)	-	31,118	-
At 31 March 2020 (as restated)	2,452,605	80,480	4,353	782,100	3,319,538
At 1 April 2020 (as restated)	2,452,605	80,480	4,353	782,100	3,319,538
Profit for the year	-	-	-	190,584	190,584
Fair value change and decrease in allowance for impairment of debt instruments measured at FVOCI	-	-	(2,409)	-	(2,409)
Total comprehensive (loss) / income for the year	-	-	(2,409)	190,584	188,175
Transfer to regulatory reserve	-	12,740	-	(12,740)	-
At 31 March 2021	2,452,605	93,220	1,944	959,944	3,507,713
	(Note 16)	(Note 17)	(Note 17)	(Note 17)	

The notes on pages 43 to 149 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

	2021 RM'000	2020 RM'000 Restated
Cash flows from operating activities		
Profit from ordinary activities before taxation	235,083	233,979
Adjustments for:		
Depreciation of plant and equipment	4,575	4,169
Depreciation of right-of-use assets	5,754	5,632
(Writeback)/Allowance for impairment on loans, advances and financing (Note 23)	(22)	38,842
(Writeback)/Allowance for impairment on other financial assets (Note 24)	(894)	7,495
Unrealised net gain on revaluation of derivatives	(17,539)	(32,243)
Amortisation of premium on debt securities	1,171	940
Interest expense on lease liabilities (Note 10.4 and Note 19)	218	267
Operating profit before working capital changes	<u>228,346</u>	<u>259,081</u>
Decrease / (Increase) in operating assets:		
Deposits and placements with banks and other financial institutions	(108,366)	(106,821)
Statutory deposits with Bank Negara Malaysia	51,463	(783)
Loans, advances and financing	336,378	(2,340,178)
Derivative financial instruments	41,536	17,653
Other assets	(129,780)	10,915
(Decrease) / Increase in operating liabilities:		
Deposits from customers	864,634	1,684,166
Deposits and placements of banks and other financial institutions	(1,203,844)	289,276
Bills and acceptances payable	(1,375)	845
Other liabilities	(103,977)	(13,795)
Cash used in operating activities	<u>(24,985)</u>	<u>(199,641)</u>
Taxation paid	<u>(67,070)</u>	<u>(62,121)</u>
Net cash used in operating activities	<u>(92,055)</u>	<u>(261,762)</u>
Cash flows from investing activities		
Purchase of plant and equipment	(4,208)	(1,308)
Acquisition of investment securities measured at FVOCI	(396,318)	(596,482)
Disposal of investment securities measured at FVOCI	596,079	733,457
Net cash generated from investing activities	<u>195,553</u>	<u>135,667</u>
Cash flows from financing activity		
Payment of lease liabilities (Note 10.4)	<u>(5,715)</u>	<u>(5,899)</u>
Net cash used in financing activity	<u>(5,715)</u>	<u>(5,899)</u>

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

	2021	2020
	RM'000	RM'000
		Restated
Net increase / (decrease) in cash and cash equivalents during the financial year	97,783	(131,994)
Cash and cash equivalents at beginning of the financial year	<u>4,246,465</u>	<u>4,378,459</u>
Cash and cash equivalents at end of the financial year	<u><u>4,344,248</u></u>	<u><u>4,246,465</u></u>
Cash and cash equivalents comprise:		
Cash and balances with banks and other financial institutions	91,167	52,275
Money at call and deposit placements maturing within one month	<u>4,253,081</u>	<u>4,194,190</u>
	<u><u>4,344,248</u></u>	<u><u>4,246,465</u></u>

The notes on pages 43 to 149 are an integral part of these financial statements.

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

Sumitomo Mitsui Banking Corporation Malaysia Berhad ("the Bank") is a public limited company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is Suite 22-03, Level 22, Integra Tower, The Intermark, 348, Jalan Tun Razak, 50400 Kuala Lumpur.

The Bank is principally engaged in the provision of banking and related financial services.

The immediate and ultimate holding corporations during the financial year are Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group, Inc. respectively. Both corporations are incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 6 September 2021.

1. Basis of preparation

(a) Statement of compliance

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

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank.

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 June 2020

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases – Interest Rate Benchmark Reform – Phase 2*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 April 2021

- Amendment to MFRS 16, *Leases – Covid-19 - Related Rent Concessions beyond 30 June 2021*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018-2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018-2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Lease (Annual Improvements to MFRS Standards 2018-2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018-2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current and Disclosures of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
- Amendments to MFRS 112, *Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Bank plans to apply the abovementioned accounting standards, interpretations and amendments, where applicable:

- from the annual period beginning on 1 April 2021 for those amendments that are effective for annual periods beginning on or after 1 June 2020, 1 January 2021 and 1 April 2021 .
- from the annual period beginning on 1 April 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022.
- from the annual period beginning on 1 April 2023 for the accounting standard and amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17 which is not applicable to the Bank.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Bank except as mentioned below:

Interest Rate Benchmark Reform—Phase 2 (Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16)

The Phase 2 amendments for interest rate benchmark reform are effective for annual periods beginning on or after 1 January 2021. The Bank plans to apply the abovementioned amendments from the annual period beginning on 1 April 2021 for those amendments that are effective for annual periods beginning on or after 1 January 2021.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

As at 31 March 2021, the Bank's exposure on references to IBORs which remain available after respective cessation date is RM19,455 million.

1. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

- Note 3 - Allowance for expected credit losses on cash and short-term funds
- Note 4 - Allowance for expected credit losses on deposits and placements with banks and other financial institutions
- Note 6(m) - Allowance for expected credit losses on loans, advances and financing
- Note 14 - Provision for credit commitments and contingencies
- Note 32 - Fair value of financial assets and financial liabilities

(e) Revised Policy Document on Capital Adequacy Framework

On 9 December 2020, Bank Negara Malaysia ("BNM") issued the revised Policy Document on Capital Adequacy Framework ("Capital Components") which is applicable to all licensed banks, licensed investment banks and financial holding companies in Malaysia, which came into effect immediately and shall be applied prospectively. The revised Policy Document was updated to include transitional arrangements for regulatory capital treatment of accounting provisions. Financial institutions which elected to apply the transitional arrangements are allowed to add back a portion of the Stage 1 and Stage 2 provisions for expected credit losses ("ECL") to Common Equity Tier 1 Capital over a four-year period from financial year beginning 2020 or a three-year period from financial year beginning 2021.

For the financial year ended 31 March 2021, the Bank did not elect to apply the transitional arrangement and will reassess the position in the next financial year.

2. Significant accounting policies

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

(a) Financial instruments

(i) Classification and measurement of financial assets and liabilities

The Bank classifies its financial assets into the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through profit or loss ("FVTPL")

Financial liabilities are classified as either:

- Amortised cost; or
- Fair value through profit or loss ("FVTPL")

Management determines the classification of its financial assets and liabilities at initial recognition of the instruments and they are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at that date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument is not active, the Bank establishes fair value by using valuation techniques.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(i) Classification and measurement of financial assets and liabilities (continued)

Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets and liabilities held at FVTPL, and debt securities classified as financial assets held at FVOCI are initially recognised on the trade date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at FVTPL.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss but is amortised or released to profit or loss as the inputs become observable, or the transaction matures or is terminated.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(i) Classification and measurement of financial assets and liabilities (continued)

Recognition and initial measurement (continued)

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at FVTPL. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(A) Financial assets held at amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI"). The financial assets are not designated as FVTPL.

In assessing whether the contractual cashflows have SPPI characteristics, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

(B) Financial assets held at FVOCI

FVOCI category comprises debt investments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investments, and their contractual terms give rise on specified dates to cash flows that are SPPI. The debt investments are not designated at FVTPL.

In assessing whether the contractual cashflows have SPPI characteristics, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(i) Classification and measurement of financial assets and liabilities (continued)

(C) Financial assets and liabilities held at FVTPL

Financial assets which are not held at amortised cost or that are not held at FVOCI are held at FVTPL. Financial assets and liabilities held at FVTPL are either mandatorily classified at FVTPL or irrevocably designated at FVTPL at initial recognition.

Mandatorily categorised as FVTPL

Financial assets and liabilities which are mandatorily measured at FVTPL include:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term;
- Derivative financial assets and liabilities except for a derivative that is a designated and effective hedging instrument;
- Financial assets that give rise to cash flows that are not SPPI;
- Equity instruments that have not been designated as held at FVOCI; and
- Financial liabilities that constitute contingent consideration in a business combination.

Designated at FVTPL at initial recognition

Financial assets and liabilities may be designated at FVTPL when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis ("accounting mismatch").

Interest rate swaps have been acquired with the intention of significantly reducing interest rate risk on certain loans and advances and debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at FVTPL.

Financial liabilities may also be designated at FVTPL where they are managed on a fair value basis or have a bifurcately embedded derivative where the Bank is not able to separately value the embedded derivative component.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(i) Classification and measurement of financial assets and liabilities (continued)

(D) Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at FVTPL are classified as financial liabilities held at amortised cost.

(E) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers*.

Liabilities arising from financial guarantees are presented together with other provisions.

Subsequent measurement

(A) Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest rate method. Foreign exchange gains and losses and impairment losses are recognised in profit or loss.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

(B) Financial assets measured at FVOCI

Debt investments held as measured at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (excluding any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Changes in expected credit losses are recognised in profit or loss and are accumulated in a separate component of equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to profit or loss.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(i) Classification and measurement of financial assets and liabilities (continued)

(C) Financial assets and financial liabilities measured at FVTPL

Financial assets and financial liabilities mandatorily held at FVTPL and financial assets designated at FVTPL are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in profit or loss unless the instrument is part of a cash flow hedging relationship. Contractual interest income on financial assets held at FVTPL is recognised as interest income in a separate line in profit or loss.

(D) Financial liabilities designated at FVTPL

Financial liabilities designated at FVTPL are measured at fair value, with changes in fair value recognised in the net trading income line in profit or loss, other than those attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at FVTPL is recognised in profit or loss.

(ii) Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition.

Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their carrying value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at FVOCI do not affect effective interest rate or expected credit loss computations.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Reclassifications (continued)

(A) Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at FVTPL, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to FVOCI, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

(B) Reclassified from FVOCI

Where financial assets held at FVOCI are reclassified to financial assets held at FVTPL, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

For financial assets held at FVOCI that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

(C) Reclassified from FVTPL

Where financial assets held at FVTPL are reclassified to financial assets held at FVOCI or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at FVTPL are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iii) Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards of ownership have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement. Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Impairment of financial assets

Expected credit losses are determined for all financial assets that are classified at amortised cost or debt instruments measured at FVOCI, undrawn commitments, financial guarantees, contract assets and other financial assets that are not measured at FVTPL. Expected credit losses are a probability-weighted estimate of credit loss.

Measurement

The estimate of expected cash shortfalls is determined by multiplying the probability of default ("PD") with the loss given default ("LGD") with the expected exposure at the time of default ("EAD"). There may be multiple default events over the life time of an instrument.

Forward looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates and FTSE Bursa Malaysia KLCI. These assumptions are incorporated using the Bank's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes those available externally.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

Measurement (continued)

To account for the potential non-linearity in credit losses, multiple forward looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is aggregate risk of downside credit losses than upside gains, multiple forward looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Bank is exposed to credit risk shortfall.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Bank may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

Cash flows from credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to the contractual terms of the instrument. These credit enhancements include financial guarantees, risk participations and other non-derivative credit insurance. Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Recognition

(A) 12-months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the life time cash shortfalls arising from possible default events up to 12-months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

Recognition (continued)

(B) Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk ("SICR") since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default ("PD") since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the 12-months PD at the reporting date to the 12-months PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on "watchlist" (and subject to closer monitoring).

A "watchlist" account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by Management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over Management's ability to manage operations, weak / deteriorating operating results, liquidity strain and overdue balances amongst other factors.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Impairment of financial assets (continued)

Recognition (continued)

(C) Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and / or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the Stage 3 credit impairment allowance to the extent that the commitment cannot be withdrawn.

Loss allowances against credit impaired financial assets are determined based on an assessment of the recoverable cashflows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss allowances held represent the difference between the present value of the cashflows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

(v) Hedge accounting

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for a hedged item categorised as FVOCI, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss.

For a hedged item categorised as FVOCI, the fair value gain or loss attributable to the hedged risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(v) Hedge accounting (continued)

The Bank has applied the interbank offered rate (“IBOR”) reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest/profit rate benchmark with an alternative risk-free rate (“RFR”). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

The Bank assumes that for the purpose of assessing expected future hedge effectiveness, the interest/profit rate is not altered as a result of IBOR reform. The Bank does not discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness falls outside the monitoring threshold, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

The Bank has disclosed the details of hedge accounting in Note 31.

2. Significant accounting policies (continued)

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposits maturing within one month.

(c) Plant and equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs that are directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

When significant parts of an item of plant or equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of plant and equipment, and are recognised net within 'other operating income' or 'other operating expense' respectively in profit or loss.

Fixed assets additions for the Bank are classified into the following categories:

- Motor vehicles
- Furniture, fixtures and fittings
- Computer equipment
- Renovations

Details of each specific type of asset is manually maintained in the fixed assets register and reconciled to the general ledger.

Additions to equipment costing more than RM1,000 are depreciated at the depreciation rates below. Depreciation is calculated on a monthly basis in the same month when the assets are available for use.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

Subsequent costs

The cost of replacing a component of an item of plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced component is derecognised in profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

- | | |
|------------------------------------|--------------|
| ● Motor vehicles | 5 years |
| ● Furniture, fixtures and fittings | 5 - 10 years |
| ● Computer equipment | 3 years |
| ● Renovations | 10 years |

Depreciation methods, rates, useful lives and residual values are reassessed at each financial year end and adjusted if appropriate.

(d) Other receivables

Other receivables are initially recognised at their costs when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, other receivables are measured at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

(e) Bills and acceptances payable

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

(f) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments at FVOCI or a financial instrument designated as a hedge of currency risk which are recognised in other comprehensive income.

(g) Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified assets. The Bank assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

2. Significant accounting policies (continued)

(g) Leases (continued)

(i) Definition of a lease (continued)

- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Bank is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement - As a lessee

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

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

2. Significant accounting policies (continued)

(g) Leases (continued)

(ii) Recognition and initial measurement - As a lessee (continued)

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

- fixed payments, including in-substance fixed payments less any incentives receivable;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Bank is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term or remaining lease term of 12 months or less as at reporting date. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Subsequent measurement - As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. Significant accounting policies (continued)

(h) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Bank contributes to the Employee Provident Fund, the national defined contribution plan, on a mandatory basis. The contributions are charged to profit or loss in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligation.

(i) Provisions and contingent liabilities

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Significant accounting policies (continued)

(j) Revenue and other income

(i) Interest income / financing income and expense

Interest income / financing income and expense is recognised in profit or loss using the effective interest /profit method.

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

The calculation of the effective interest / profit rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(ii) Fees and commission

Fees and commission income and expenses that are integral to the effective interest/profit rate on a financial asset or financial liability are included in the measurement of the effective interest/profit rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight line basis over the commitment period. When it is probable that a loan commitment will result in a specific lending arrangement, commitment fees are included in the measurement of the effective interest/profit rate.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

2. Significant accounting policies (continued)

(k) Tax expense

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

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

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

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

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

(l) Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2. Significant accounting policies (continued)

(m) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.
- Level 2: inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Bank recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

(n) Impairment of other assets

The carrying amounts of other assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (or cash-generating units).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

2. Significant accounting policies (continued)

(n) Impairment of other assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

3. Cash and short-term funds

	2021	2020
	RM'000	RM'000
Cash and balances with banks and other financial institutions	91,167	52,275
Money at call and deposit placements maturing within one month	4,253,081	4,194,190
	<u>4,344,248</u>	<u>4,246,465</u>
Less: Allowance for expected credit losses ("ECL")	(4,343)	(7,069)
	<u><u>4,339,905</u></u>	<u><u>4,239,396</u></u>

Movement in allowance for ECL on cash and short-term funds

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	7,069	-	-	7,069
Charge to profit or loss				
- (Decrease)/Increase in ECL	(5,091)	2,365	-	(2,726)
At 31 March 2021	<u>1,978</u>	<u>2,365</u>	<u>-</u>	<u>4,343</u>
At 1 April 2019	701	-	-	701
Charge to profit or loss				
- Increase in ECL	6,368	-	-	6,368
At 31 March 2020	<u>7,069</u>	<u>-</u>	<u>-</u>	<u>7,069</u>

4. Deposits and placements with banks and other financial institutions

	2021	2020
	RM'000	RM'000
Money at call and deposit placements maturing more than one month	978,366	870,000
Less: Allowance for ECL	(2,642)	(514)
	<u>975,724</u>	<u>869,486</u>

Movement in allowance for ECL on deposits and placements with banks and other financial institutions

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	514	-	-	514
Charge to profit or loss				
- Increase in ECL	698	1,430	-	2,128
At 31 March 2021	<u>1,212</u>	<u>1,430</u>	<u>-</u>	<u>2,642</u>
At 1 April 2019	555	-	-	555
Charge to profit or loss				
- Decrease in ECL	(41)	-	-	(41)
At 31 March 2020	<u>514</u>	<u>-</u>	<u>-</u>	<u>514</u>

5. Debt instruments at fair value through other comprehensive income ("FVOCI")

	2021 RM'000	2020 RM'000
At fair value		
Negotiable Instruments of Deposits	250,734	351,981
Malaysian Government Securities	20,238	70,546
Malaysian Government Investment Issues	121,773	173,553
	<u>392,745</u>	<u>596,080</u>

Movement in allowance for ECL on debt instruments measured at FVOCI

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	1,449	-	-	1,449
- (Decrease)/Increase in ECL	(1,413)	831	-	(582)
At 31 March 2021	<u>36</u>	<u>831</u>	<u>-</u>	<u>867</u>
At 1 April 2019	377	-	-	377
- Increase in ECL	1,072	-	-	1,072
At 31 March 2020	<u>1,449</u>	<u>-</u>	<u>-</u>	<u>1,449</u>

The carrying amount of a debt instrument measured at FVOCI is its fair value. Accordingly, the recognition of an impairment loss does not affect the carrying amount of those assets, but is reflected as a debit to profit or loss or retained earnings and credit to other comprehensive income.

6. Loans, advances and financing

	2021	2020
	RM'000	RM'000
(a) By type:		
<u>At amortised cost:</u>		
Overdraft	2,128	57,704
Term loans / financing		
- Syndicated loans / Syndicated Islamic financing	2,533,056	2,497,022
- Factoring receivables	49,554	112,804
- Other term loans / Islamic term financing	7,689,206	7,958,484
Trade bills discounted	43,175	396,635
Revolving credits / Revolving credit-i	4,590,041	4,220,856
Other loans	150,296	150,329
Gross loans, advances and financing	<u>15,057,456</u>	<u>15,393,834</u>
Less: Allowance for ECL		
- 12-month ECL (Stage 1)	(10,453)	(42,425)
- Lifetime ECL not credit impaired (Stage 2)	(59,634)	(40,296)
- Lifetime ECL credit impaired (Stage 3)	(10,384)	-
Net loans, advances and financing	<u><u>14,976,985</u></u>	<u><u>15,311,113</u></u>
(b) By geographical distribution:		
Malaysia	12,010,889	12,374,229
Other countries:		
- Jordan	1,038,068	1,077,014
- Australia	727,828	556,470
- United States of America	418,146	431,273
- Japan	202,576	214,722
- Germany	-	71,047
- Hong Kong	54,199	56,549
- Cayman Islands	256,427	280,044
- Netherlands	178,676	173,742
- United Kingdom	170,647	158,744
Gross loans, advances and financing	<u><u>15,057,456</u></u>	<u><u>15,393,834</u></u>
(c) By type of customer:		
Domestic non-bank financial institutions	4,461,467	4,168,306
Domestic business enterprises	10,361,177	11,001,619
Foreign entities	234,812	223,909
Gross loans, advances and financing	<u><u>15,057,456</u></u>	<u><u>15,393,834</u></u>
(d) By interest rate sensitivity:		
Fixed rate		
- Other fixed rate loans	1,164,613	1,358,867
Variable rate		
- Cost-plus	4,403,751	4,390,165
- Other variable rates	9,489,092	9,644,802
Gross loans, advances and financing	<u><u>15,057,456</u></u>	<u><u>15,393,834</u></u>

6. Loans, advances and financing (continued)

	2021	2020
	RM'000	RM'000
(e) By sector:		
Primary agriculture	-	50,006
Mining and quarrying	188,839	213,421
Manufacturing	2,360,094	3,111,093
Electricity, gas and water	1,749,648	2,189,634
Construction	71,173	194,176
Wholesale and retail trade, and restaurants and hotels	1,152,663	1,656,354
Transport, storage and communication	1,021,691	388,362
Finance, insurance and business services	5,547,025	5,278,551
Real estate	1,968,852	1,406,126
Education, health and other services	668,926	682,202
Other sectors	328,545	223,909
Gross loans, advances and financing	<u>15,057,456</u>	<u>15,393,834</u>
(f) By economic purpose:		
Purchase of securities	437,447	465,835
Purchase of non-residential property		
- Purchase of land	142,714	142,787
- Commercial complexes	-	191,268
Purchase of fixed assets other than land and buildings	397,949	406,368
Construction	899,264	642,417
Working capital	6,477,069	6,709,108
Mergers and acquisition	249,501	345,644
Other purpose	6,453,512	6,490,407
Gross loans, advances and financing	<u>15,057,456</u>	<u>15,393,834</u>
(g) By residual contractual maturity:		
Maturing within one year	6,640,915	6,008,659
One year to three years	4,063,338	4,501,199
Three years to five years	2,349,882	3,647,464
More than five years	2,003,321	1,236,512
Gross loans, advances and financing	<u>15,057,456</u>	<u>15,393,834</u>

6. Loans, advances and financing (continued)**(h) Movements in credit-impaired loans, advances and financing are as follows:**

	RM'000
At 1 April 2019/ 31 March 2020/ 1 April 2020	-
Impaired during the financial year	<u>54,199</u>
At 31 March 2021	54,199
Less: Lifetime ECL credit impaired (Stage 3)	<u>(10,384)</u>
Net impaired loans, advances and financing	<u><u>43,815</u></u>
Gross credit-impaired loans and financing as a percentage of gross loans, advances and financing	<u><u>0.36%</u></u>
(i) Credit-impaired loans, advances and financing by geographical distribution:	
Hong Kong	<u><u>54,199</u></u>
(j) Credit-impaired loans, advances and financing by sector:	
Other sectors	<u><u>54,199</u></u>
(k) Credit-impaired loans, advances and financing by economic purpose:	
Other purpose	<u><u>54,199</u></u>

6. Loans, advances and financing (continued)**(I) Change in gross loans, advances and financing carrying amount**

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	13,178,998	2,214,836	-	15,393,834
Transfer to 12-month ECL (Stage 1)	119,442	(119,442)	-	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(4,577,456)	4,577,456	-	-
Transfer to lifetime ECL credit impaired (Stage 3)	-	(52,780)	52,780	-
Loans, advances and financing derecognised	(4,340,183)	(1,184,545)	-	(5,524,728)
New loans, advances and financing originated or purchased	4,927,916	552,810	-	5,480,726
Other adjustments	(295,101)	1,306	1,419	(292,376)
At 31 March 2021	<u>9,013,615</u>	<u>5,989,642</u>	<u>54,199</u>	<u>15,057,456</u>
At 1 April 2019	12,325,321	728,335	-	13,053,656
Transfer to 12-month ECL (Stage 1)	1,208,584	(1,208,584)	-	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,268,264)	3,268,264	-	-
Transfer to lifetime ECL credit impaired (Stage 3)	(7,710)	-	7,710	-
Loans, advances and financing derecognised	(4,536,768)	(101,723)	(6,309)	(4,644,800)
New loans, advances and financing originated or purchased	6,477,456	46,358	-	6,523,814
Other adjustments	980,379	(517,814)	(1,401)	461,164
At 31 March 2020	<u>13,178,998</u>	<u>2,214,836</u>	<u>-</u>	<u>15,393,834</u>

6. Loans, advances and financing (continued)**(m) Movements in allowance for ECL on loans, advances and financing measured at amortised cost**

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	42,425	40,296	-	82,721
Transfer to 12-month ECL (Stage 1)	396	(396)	-	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(14,282)	14,282	-	-
Transfer to lifetime ECL credit impaired (Stage 3)	-	(9,804)	9,804	-
Loans, advances and financing derecognised	(12,280)	(9,339)	-	(21,619)
New loans, advances and financing originated or purchased	9,177	2,460	-	11,637
Changes due to change in credit risk	(14,983)	22,135	580	7,732
At 31 March 2021	<u>10,453</u>	<u>59,634</u>	<u>10,384</u>	<u>80,471</u>
At 1 April 2019	14,026	19,236	-	33,262
Transfer to 12-month ECL (Stage 1)	17,206	(17,206)	-	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(12,570)	12,570	-	-
Transfer to lifetime ECL credit impaired (Stage 3)	(7)	-	7	-
Loans, advances and financing derecognised	(7,093)	(5,397)	(3,565)	(16,055)
New loans, advances and financing originated or purchased	18,140	4,040	-	22,180
Changes due to change in credit risk	12,723	27,053	3,558	43,334
At 31 March 2020	<u>42,425</u>	<u>40,296</u>	<u>-</u>	<u>82,721</u>

7. Other assets

	2021	2020
	RM'000	RM'000
Interest receivable	6,188	10,322
Amount due from related corporations	123	174
Cash collateral placements	181,320	46,783
Other receivables	979	2,234
Deposits	1,943	2,028
Prepayments	810	41
	<u>191,363</u>	<u>61,582</u>
Less: Allowance for ECL	(400)	(114)
	<u><u>190,963</u></u>	<u><u>61,468</u></u>

The cash collaterals are placed in respect of derivative balances pursuant to agreements in accordance with International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") entered into with respective counterparties amounting to RM181,320,000 (2020: RM45,060,000) and nil with related corporations (2020: RM1,723,000).

Movement in allowance for ECL on other assets

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	114	-	-	114
Charge to profit or loss				
- Increase in ECL	286	-	-	286
At 31 March 2021	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
At 1 April 2019	18	-	-	18
Charge to profit or loss				
- Increase in ECL	96	-	-	96
At 31 March 2020	<u>114</u>	<u>-</u>	<u>-</u>	<u>114</u>

8. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Sections 26(2)(c) and 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined as set percentages of total eligible liabilities.

9. Plant and equipment

	Renovations RM'000	Computer equipment RM'000	Furniture, fixtures and fittings RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 April 2019	13,536	18,151	5,520	1,790	38,997
Additions	195	1,087	26	-	1,308
At 31 March 2020 / 1 April 2020	13,731	19,238	5,546	1,790	40,305
Additions	-	4,028	61	119	4,208
At 31 March 2021	13,731	23,266	5,607	1,909	44,513
Accumulated depreciation					
At 1 April 2019	4,952	14,884	2,473	866	23,175
Charge for the year	1,373	1,819	676	301	4,169
At 31 March 2020 / 1 April 2020	6,325	16,703	3,149	1,167	27,344
Charge for the year	1,373	2,472	499	231	4,575
At 31 March 2021	7,698	19,175	3,648	1,398	31,919
Carrying amount					
At 31 March 2020 / 1 April 2020	7,406	2,535	2,397	623	12,961
At 31 March 2021	6,033	4,091	1,959	511	12,594

10. Leases

The Bank leases buildings and office equipment. Information about leases for which the Bank are the lessees is presented below:

10.1. Right-of-use assets

	Building RM'000	Office equipment RM'000	Total RM'000
Cost			
At 1 April 2019	10,282	49	10,331
Additions	705	-	705
At 31 March 2020 / 1 April 2020	10,987	49	11,036
Additions	14,909	275	15,184
Lease modifications	(129)	(1)	(130)
At 31 March 2021	<u>25,767</u>	<u>323</u>	<u>26,090</u>
Accumulated depreciation			
At 1 April 2019	-	-	-
Charge for the year	5,620	12	5,632
At 31 March 2020 / 1 April 2020	5,620	12	5,632
Charge for the year	5,700	54	5,754
At 31 March 2021	<u>11,320</u>	<u>66</u>	<u>11,386</u>
Carrying amount			
At 31 March 2020 / 1 April 2020	<u>5,367</u>	<u>37</u>	<u>5,404</u>
At 31 March 2021	<u>14,447</u>	<u>257</u>	<u>14,704</u>

10.2. Lease liabilities

The following table sets out a maturity analysis of lease liabilities, showing contractual undiscounted cash flows:

	2021 RM'000	2020 RM'000
Within one year	5,429	5,330
Between one and five years	10,601	341
	<u>16,030</u>	<u>5,671</u>
Lease liabilities included in the statement of financial position	<u>15,051</u>	<u>5,487</u>

10. Leases (continued)**10.3. Amount recognised in profit or loss**

	2021	2020
	RM'000	RM'000
Depreciation charge of right-of-use assets (Note 21)	5,754	5,632
Interest expense (Note 19)	218	267

10.4. Amount recognised in the statement of cash flows

	2021	2020
	RM'000	RM'000
Included in net cash from operating activities		
Payment relating to short-term leases	(1,519)	(601)
Interest expense on lease liabilities (Note 19)	(218)	(267)
Included in net cash from financing activities		
Payment of lease liabilities	(5,715)	(5,899)
Total cash outflow for leases	(7,452)	(6,767)

10.5. Leasing activitiesBuilding leases

The Bank leases premises to conduct its business. Rental contracts are typically made for fixed periods of different duration. Most leases include the option to renew the lease for an additional period which is mutually agreed by both parties before the end of the contract term.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements generally do not impose any covenants other than to keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Leases are either non-cancellable or may only be cancelled by giving written notice as mutually agreed by both parties in the agreement before the termination date.

The lease payments are adjusted upon renewal of the lease contract, subject to mutual agreement by both parties or current market rates.

Office equipment

The Bank leases office equipment under finance lease. At the end of the lease term, the Bank has the option to acquire the assets at a nominal price deemed to be a bargain purchase option. There are no restrictive covenants imposed by the lease agreement and no arrangements have been entered into for contingent rental payments. These assets are presented in right-of-use assets.

11. Deposits from customers

	2021 RM'000	2020 RM'000
(a) By type of deposits:		
Demand deposits	3,584,651	3,468,661
Fixed deposits *	9,214,084	8,381,772
Short-term deposits	3,502,633	3,586,301
	<u>16,301,368</u>	<u>15,436,734</u>

* Included in the fixed deposits are deposits amounting to RM7,676,162,000 (2020: RM7,303,659,000) placed by a branch of the immediate holding corporation as cash collateral for certain loans, advances and financing.

	2021 RM'000	2020 RM'000
<u>The maturity structure of fixed deposits and short-term deposits is as follows:</u>		
Due within six months	5,127,521	4,910,471
Six months to one year	1,821,425	981,029
One year to three years	2,428,029	3,143,885
Three years to five years	1,933,213	1,699,005
Five years to ten years	697,952	474,260
Ten years and above	708,577	759,423
	<u>12,716,717</u>	<u>11,968,073</u>

(b) By type of customers:		
Domestic non-bank financial institutions	212,732	256,069
Domestic business enterprises	7,954,323	7,572,915
Branch of immediate holding corporation	7,676,162	7,303,658
Foreign non-bank entities	247,165	302,421
Domestic other entities	3,334	1,671
Government	207,652	-
	<u>16,301,368</u>	<u>15,436,734</u>

12. Deposits and placements of banks and other financial institutions

	2021 RM'000	2020 RM'000
Licensed Malaysian banks	213,307	399,548
Foreign banks		
- Immediate holding corporation	854,596	1,698,739
- Other related corporations / companies	-	173,460
	<u>1,067,903</u>	<u>2,271,747</u>

13. Other liabilities

	2021	2020
	RM'000	RM'000
Interest payable	9,676	13,774
Amount due to immediate holding corporation and related corporations / companies	10,122	15,186
Cash collateral placements	65,295	157,328
Other payables	33,396	37,834
Accruals	14,343	12,695
	<u>132,832</u>	<u>236,817</u>

The cash collaterals are received in respect of derivative balances pursuant to agreements in accordance with ISDA and CSA entered into with respective counterparties.

14. Provision for credit commitments and contingencies

	2021	2020
	RM'000	RM'000
Provision for credit commitments and contingencies	<u>7,627</u>	<u>5,399</u>

Movement in allowance for ECL on credit commitments and contingencies

	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2020	5,250	149	-	5,399
- (Decrease) / Increase in ECL	(3,763)	5,982	9	2,228
At 31 March 2021	<u>1,487</u>	<u>6,131</u>	<u>9</u>	<u>7,627</u>
At 1 April 2019	2,006	14,010	-	16,016
- Increase / (Decrease) in ECL	3,244	(13,861)	-	(10,617)
At 31 March 2020	<u>5,250</u>	<u>149</u>	<u>-</u>	<u>5,399</u>

15. Deferred tax**Recognised deferred tax assets / (liabilities)**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
		Restated		Restated		Restated
Plant and equipment	182	403	-	-	182	403
Right-of-use assets	110	119	-	-	110	119
Fair value reserve	-	-	(342)	(917)	(342)	(917)
Unrealised foreign exchange gain	-	-	(17,182)	(15,290)	(17,182)	(15,290)
Deferred income	7,716	9,013	-	-	7,716	9,013
Allowance on ECL	20,630	20,108	-	-	20,630	20,108
Other items	3,948	3,080	-	-	3,948	3,080
Tax assets / (liabilities)	32,586	32,723	(17,524)	(16,207)	15,062	16,516
Set off of tax	(17,524)	(16,207)	17,524	16,207	-	-
Net tax assets	15,062	16,516	-	-	15,062	16,516

15. Deferred tax (continued)**Recognised deferred tax assets / (liabilities) (continued)**

Movement in temporary differences during the financial year:

	At 1 April 2019 RM'000 Restated	Recognised in profit or loss RM'000 Restated	Recognised directly in equity RM'000	At 31 March 2020/ 1 April 2020 RM'000 Restated	Recognised in profit or loss RM'000	Recognised directly in equity RM'000	At 31 March 2021 RM'000
Plant and equipment	371	32	-	403	(221)	-	182
Right-of-use assets	-	119	-	119	(9)	-	110
Fair value reserve	(788)	-	(129)	(917)	-	575	(342)
Unrealised foreign exchange gain	(12,196)	(3,094)	-	(15,290)	(1,892)	-	(17,182)
Deferred income	9,479	(466)	-	9,013	(1,297)	-	7,716
Allowance on ECL	7,217	12,891	-	20,108	522	-	20,630
Other items	3,135	(55)	-	3,080	868	-	3,948
	<u>7,218</u>	<u>9,427</u>	<u>(129)</u>	<u>16,516</u>	<u>(2,029)</u>	<u>575</u>	<u>15,062</u>
		(Note 25)			(Note 25)		

16. Share capital

	Amount 2021 RM'000	Number of shares 2021 '000	Amount 2020 RM'000	Number of shares 2020 '000
Ordinary shares				
Issued and fully paid up shares with no par value classified as equity instruments :				
At beginning / end of the year	<u>2,452,605</u>	<u>2,452,605</u>	<u>2,452,605</u>	<u>2,452,605</u>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Bank, after obtaining the regulatory approval from Bank Negara Malaysia prior to the declaration of dividends.

All ordinary shares carry one vote per share at meetings of the Bank and rank equally with regards to the Bank's residual assets.

17. Reserves

	Note	As at 31 March 2021 RM'000	As at 31 March 2020 RM'000 Restated	As at 1 April 2019 RM'000 Restated
<i>Non-distributable:</i>				
Fair value reserve	17.1	1,944	4,353	2,872
Regulatory reserve	17.2	93,220	80,480	111,598
		<u>95,164</u>	<u>84,833</u>	<u>114,470</u>
<i>Distributable:</i>				
Retained earnings		959,944	782,100	554,173
		<u>1,055,108</u>	<u>866,933</u>	<u>668,643</u>

17.1 Fair value reserve

Fair value reserve relates to the cumulative fair value changes of financial assets measured at fair value through other comprehensive income and its corresponding effect on deferred tax.

17.2 Regulatory reserve

The regulatory reserve is maintained in compliance with the requirements under BNM's policy document on Financial Reporting to maintain, in aggregate, impairment allowance for non-credit exposures (Stage 1 and Stage 2 ECL) and regulatory reserves of no less than 1% of total credit exposures, net of impairment allowance for credit-impaired exposures.

18. Interest income

	2021	2020
	RM'000	RM'000
		Restated
Loans, advances and financing		
- Interest income	241,732	364,328
- Financing income	21,960	66,691
Money at call and deposit placements with banks and other financial institutions	84,909	175,412
Debt instruments measured at FVOCI	14,184	25,546
	<u>362,785</u>	<u>631,977</u>

The amounts reported above include interest income calculated using the effective interest rate method that relate to the following:

	2021	2020
	RM'000	RM'000
		Restated
Financial assets measured at amortised cost	348,601	606,431
Financial assets measured at FVOCI	14,184	25,546
Interest income from financial assets not measured at FVTPL	<u>362,785</u>	<u>631,977</u>

19. Interest expense

	2021	2020
	RM'000	RM'000
Deposits from customers	153,941	366,394
Deposits and placements of banks and other financial institutions	4,675	32,911
Lease liabilities	218	267
Others	2	53
	<u>158,836</u>	<u>399,625</u>

The amounts reported above are interest expense calculated using the effective interest rate method that relates to financial liabilities measured at amortised cost.

20. Other operating income

	2021	2020
	RM'000	RM'000
Fee and commission income		
- Service charges and guarantee fees	1,561	1,810
- Loan related fees	15,712	12,636
- Commitment fees	1,663	2,815
	<u>18,936</u>	<u>17,261</u>
Realised gain from derivative financial instruments	<u>3,891</u>	<u>9,862</u>
Unrealised gain/(loss) on revaluation of derivatives	<u>40,527</u>	<u>(12,753)</u>
Unrealised (loss)/gain on hedging activities	<u>(22,988)</u>	<u>44,996</u>
Foreign exchange, net gain	<u>77,650</u>	<u>72,911</u>
Other income		
- Management fees	18,433	10,021
- Rental of fixed assets	1,850	2,191
- Income from sub-leasing right-of-use assets	3,297	3,590
- Miscellaneous income	3,772	6,571
	<u>27,352</u>	<u>22,373</u>
	<u>145,368</u>	<u>154,650</u>

21. Other operating expenses

	2021	2020
	RM'000	RM'000
		Restated
Personnel costs		
Salaries, allowances and bonuses	42,670	37,440
Employees' provident fund contributions	5,555	4,754
Staff training expenses	86	410
Staff welfare expenses	173	430
Other personnel expenses	4,792	3,497
	<u>53,276</u>	<u>46,531</u>
Establishment costs		
Depreciation - Plant and equipment	4,575	4,169
Depreciation - Right-of-use assets	5,754	5,632
Repair and maintenance	1,519	602
Other establishment expenses	15,624	18,257
	<u>27,472</u>	<u>28,660</u>
Marketing expenses		
Advertisement and publicity	226	269
Other marketing expenses	40	114
	<u>266</u>	<u>383</u>
Administration and general expenses		
Auditors' remuneration		
- Statutory audit	345	315
- Other services	-	100
Professional fees	1,660	1,093
Communication expenses	648	428
Management fees	20,830	20,082
Licence fees and stamp duties	150	150
Non-executive directors' fees and allowances	820	872
Other administration and general expenses	9,683	8,072
	<u>34,136</u>	<u>31,112</u>
	<u>115,150</u>	<u>106,686</u>

22. Directors' remuneration

Remuneration of the Directors of the Bank are as follows:

	2021					2020				
	Salary and other remuneration, including meeting allowance RM'000	Bonus RM'000	Fees RM'000	Benefit-in-kind RM'000	Total RM'000	Salary and other remuneration, including meeting allowance RM'000	Bonus RM'000	Fees RM'000	Benefit-in-kind RM'000	Total RM'000
Executive Director and Chief Executive Officer										
Mr. Tetsuya Kainaka	655	215	-	394	1,264	681	218	-	346	1,245
Non-executive Directors										
Mr. Chin Kok Sang	81	-	230	-	311	104	-	230	-	334
Mr. Tan Kim Seng	81	-	190	-	271	94	-	190	-	284
Dato' Wan Fadzmi	81	-	160	-	241	94	-	160	-	254
	898	215	580	394	2,087	973	218	580	346	2,117

23. (Writeback)/Allowance for impairment on loans, advances and financing

	Note	2021 RM'000	2020 RM'000
<u>Allowance / (Writeback of allowance) for ECL:</u>			
Loans, advances and financing	6	(2,250)	49,459
Provision for credit commitments and contingencies	14	2,228	(10,617)
		<u>(22)</u>	<u>38,842</u>

24. (Writeback)/Allowance for impairment on other financial assets

		2021 RM'000	2020 RM'000
<u>(Writeback of allowance) / Allowance for ECL:</u>			
Cash and short-term funds	3	(2,726)	6,368
Deposits and placements with banks and other financial institutions	4	2,128	(41)
Other assets	7	286	96
Debt instruments measured at FVOCI	5	(582)	1,072
		<u>(894)</u>	<u>7,495</u>

25. Tax expense

	2021 RM'000	2020 RM'000 Restated
Recognised in profit or loss		
Malaysian income tax		
- Current year	53,413	47,560
- Over provision in prior years	(10,943)	(963)
	<u>42,470</u>	<u>46,597</u>
Deferred tax expense		
Origination and reversal of temporary differences	2,029	(9,427)
Total tax expense	<u>44,499</u>	<u>37,170</u>
Reconciliation of effective tax expense		
Profit before taxation	<u>235,083</u>	<u>233,979</u>
Income tax calculated using Malaysian tax rate of 24% (2020: 24%)		
	56,420	56,155
Non-deductible expenses	14,162	1,000
Non-taxable income	(15,140)	(19,022)
Over provision in prior years	(10,943)	(963)
	<u>44,499</u>	<u>37,170</u>

26. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of the basic earnings per ordinary share for the year ended 31 March 2021 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the financial year:

	2021 RM'000	2020 RM'000 Restated
Net profit attributable to ordinary shareholder	<u>190,584</u>	<u>196,809</u>
	2021 Number ('000)	2020 Number ('000)
Weighted average number of ordinary shares outstanding	<u>2,452,605</u>	<u>2,452,605</u>
Basic earnings per ordinary shares (sen)	<u>7.77</u>	<u>8.02</u>

27. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control. Related parties may be individuals or other entities.

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

27. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows:

31 March 2021	Amount transacted for the year ended RM'000	Gross balance outstanding as at RM'000	Allowance for impairment loss as at RM'000	Net balance outstanding as at RM'000	Impairment loss recognised for the year ended RM'000
Immediate holding corporation					
<u>Income</u>					
- Interest income from deposits and placements with banks and other financial institutions	186	-	-	-	-
- Other income	15,750	-	-	-	-
- Fee and commission income	88	-	-	-	-
<u>Expenses</u>					
- Interest expense on deposits from customers	32,893	-	-	-	-
- Interest expense on deposits and placements of banks and other financial institutions	2,691	-	-	-	-
- Fee and commission expenses	392	-	-	-	-
- Other operating expenses	60,821	-	-	-	-
<u>Amount due from</u>					
- Cash and short-term funds	-	369,636	-	369,636	-
- Derivative financial assets	-	6,365	-	6,365	-
- Other assets	-	1	-	1	-

27. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows (continued):

31 March 2021	Amount transacted for the year ended RM'000	Gross balance outstanding as at RM'000	Allowance for impairment loss as at RM'000	Net balance outstanding as at RM'000	Impairment loss recognised for the year ended RM'000
Immediate holding corporation (continued)					
<u>Amount due to</u>					
- Deposits from customers	-	7,676,162	-	7,676,162	-
- Deposits and placements of banks and other financial institutions	-	854,597	-	854,597	-
- Derivative financial liabilities	-	14,476	-	14,476	-
- Other liabilities	-	7,823	-	7,823	-
Other related corporations / companies					
<u>Income</u>					
- Interest income from deposits and placements with banks and financial institutions	123	-	-	-	-
- Interest income from loans, advances and financing	2,633	-	-	-	-
- Fee and commission income	7	-	-	-	-
- Other income	5,885	-	-	-	-
<u>Expenses</u>					
- Interest expense on deposits from customers	3,297	-	-	-	-
- Other operating expenses	20,830	-	-	-	-

27. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows (continued):

31 March 2021	Amount transacted for the year ended RM'000	Gross balance outstanding as at RM'000	Allowance for impairment loss as at RM'000	Net balance outstanding as at RM'000	Impairment loss recognised for the year ended RM'000
Other related corporations / companies (continued)					
<u>Amount due from</u>					
- Cash and short-term funds	-	5,685	-	5,685	-
- Loans, advances and financing	-	364,389	(1,148)	363,241	-
- Derivative financial assets	-	18,033	-	18,033	-
- Other assets	-	132	-	132	-
<u>Amount due to</u>					
- Deposits from customers	-	118,221	-	118,221	-
- Derivative financial liabilities	-	17,467	-	17,467	-
- Other liabilities	-	2,308	-	2,308	-

27. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows (continued):

31 March 2020	Amount transacted for the year ended RM'000	Gross balance outstanding as at RM'000	Allowance for impairment loss as at RM'000	Net balance outstanding as at RM'000	Impairment loss recognised for the year ended RM'000
Immediate holding corporation					
<u>Income</u>					
- Interest income from deposits and placements with banks and other financial institutions	1,350	-	-	-	-
- Other income	7,771	-	-	-	-
- Fee and commission income	95	-	-	-	-
<u>Expenses</u>					
- Interest expense on deposits from customers	130,195	-	-	-	-
- Interest expense on deposits and placements of banks and other financial institutions	28,220	-	-	-	-
- Fee and commission expenses	384	-	-	-	-
- Other operating expenses	56,588	-	-	-	-
<u>Amount due from</u>					
- Cash and short-term funds	-	104,748	-	104,748	-
- Derivative financial assets	-	35,143	-	35,143	-
- Other assets	-	9	-	9	-

27. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows (continued):

31 March 2020	Amount transacted for the year ended RM'000	Gross balance outstanding as at RM'000	Allowance for impairment loss as at RM'000	Net balance outstanding as at RM'000	Impairment loss recognised for the year ended RM'000
Immediate holding corporation (continued)					
<u>Amount due to</u>					
- Deposits from customers	-	7,303,659	-	7,303,659	-
- Deposits and placements of banks and other financial institutions	-	1,698,739	-	1,698,739	-
- Derivative financial liabilities	-	59,907	-	59,907	-
- Other liabilities	-	12,975	-	12,975	-
Other related corporations / companies					
<u>Income</u>					
- Interest income from deposits and placements with banks and financial institutions	829	-	-	-	-
- Interest income from loans, advances and financing	4,103	-	-	-	-
- Fee and commission income	22	-	-	-	-
- Other income	6,034	-	-	-	-
<u>Expenses</u>					
- Interest expense on deposits from customers	4,002	-	-	-	-
- Other operating expenses	19,996	-	-	-	-

27. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows (continued):

31 March 2020	Amount transacted for the year ended RM'000	Gross balance outstanding as at RM'000	Allowance for impairment loss as at RM'000	Net balance outstanding as at RM'000	Impairment loss recognised for the year ended RM'000
Other related corporations / companies (continued)					
<u>Amount due from</u>					
- Cash and short-term funds	-	9,148	-	9,148	-
- Loans, advances and financing	-	412,139	-	412,139	-
- Derivative financial assets	-	4,480	-	4,480	-
- Other assets	-	1,888	-	1,888	-
<u>Amount due to</u>					
- Deposits from customers	-	131,050	-	131,050	-
- Deposits and placements of banks and other financial institutions	-	173,460	-		-
- Derivative financial liabilities	-	30,146	-	30,146	-
- Other liabilities	-	2,211	-	2,211	-

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

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

27. Related parties (continued)

(b) Expenses by type of services received:

	Immediate holding corporation 2021 RM'000	Other related corporations 2021 RM'000	Immediate holding corporation 2020 RM'000	Other related corporations 2020 RM'000
Information technology services	13,666	-	15,321	-
Financial guarantee services	42,482	-	37,484	-
Group administrative and business support services	4,671	20,830	3,781	19,996
Operations processing services	2	-	2	-
	<u>60,821</u>	<u>20,830</u>	<u>56,588</u>	<u>19,996</u>

(c) Expenses by geographical distribution:

	Immediate holding corporation 2021 RM'000	Other related corporations 2021 RM'000	Immediate holding corporation 2020 RM'000	Other related corporations 2020 RM'000
Malaysia	42,497	20,830	37,601	19,996
Japan	18,324	-	18,987	-
	<u>60,821</u>	<u>20,830</u>	<u>56,588</u>	<u>19,996</u>

(d) The key management personnel compensations are as follows:

	2021 RM'000	2020 RM'000
Executive Directors:		
- Remuneration	870	899
- Other short-term employee benefits	394	346
	<u>1,264</u>	<u>1,245</u>
Non-executive Directors:		
- Fees	580	580
- Allowances	243	292
	<u>823</u>	<u>872</u>
Other key management personnel:		
- Short-term employee benefits	<u>13,905</u>	<u>13,007</u>

Other key management personnel comprise persons other than the Directors of the Bank, having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly.

28. Credit exposures to connected parties

Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties came into effect in October 2008. The credit exposures of the Bank to connected parties are as follows:

	2021	2020
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	1,005,042	1,066,549
As a percentage of total credit exposure	<u>3.70%</u>	<u>3.89%</u>

There are currently no exposures to connected parties which are classified as impaired.

29. Commitments and contingencies

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

The commitments and contingencies are as follows:

	Principal amount RM'000	Credit equivalent amount * RM'000	Risk- weighted assets RM'000
2021			
Transaction related contingent items	493,254	242,386	234,550
Short-term self liquidating trade-related contingencies	137,937	27,153	27,153
Foreign exchange related contracts:			
- Less than one year	9,440,347	303,878	215,356
- One year to less than five years	7,176,944	878,545	523,234
- Five years and above	1,845,388	397,290	258,946
Interest / Profit rate related contracts			
- Less than one year	526,989	4,622	4,270
- One year to less than five years	1,241,286	40,103	31,169
- Five years and above	157,573	31,319	22,750
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	7,560,446	3,777,267	3,565,453
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	393,032	78,606	72,356
Total	28,973,196	5,781,169	4,955,237

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

29. Commitments and contingencies (continued)

2020	Principal amount RM'000	Credit equivalent amount * RM'000	Risk-weighted assets RM'000
Transaction related contingent items	395,088	194,859	184,770
Short-term self liquidating trade-related contingencies	148,710	29,008	29,008
Foreign exchange related contracts:			
- Less than one year	14,023,563	512,164	273,498
- One year to less than five years	8,117,375	871,802	569,035
- Five years and above	2,132,258	510,364	351,887
Interest / Profit rate related contracts			
- Less than one year	333,715	1,154	1,048
- One year to less than five years	1,527,572	57,704	45,501
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	6,523,113	3,259,577	3,225,117
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	500,131	100,026	67,718
Total	33,701,525	5,536,658	4,747,582

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

30. Financial instruments

30.1. Categories of financial instruments

The tables below provide an analysis of financial instruments categorised as follows:-

- (a) Amortised cost ("AC")
- (b) Fair value through profit or loss ("FVTPL")
- (c) Fair value through other comprehensive income ("FVOCI")
- (d) Derivatives used for hedging ("DH")

2021	Carrying amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000	DH RM'000
<u>Financial assets</u>					
Cash and short-term funds	4,339,905	4,339,905	-	-	-
Deposits and placements with banks and other financial institutions	975,724	975,724	-	-	-
Debt instruments measured at FVOCI	392,745	-	-	392,745	-
Loans, advances and financing	14,976,985	14,976,985	-	-	-
Derivative financial assets	395,700	-	395,626	-	74
Other assets [^]	190,153	190,153	-	-	-
Total financial assets	21,271,212	20,482,767	395,626	392,745	74
<u>Financial liabilities</u>					
Deposits from customers	(16,301,368)	(16,301,368)	-	-	-
Deposits and placements of banks and other financial institutions	(1,067,903)	(1,067,903)	-	-	-
Bills and acceptances payable	(775)	(775)	-	-	-
Derivative financial liabilities	(359,158)	-	(325,305)	-	(33,853)
Other liabilities [*]	(86,336)	(86,336)	-	-	-
Total financial liabilities	(17,815,540)	(17,456,382)	(325,305)	-	(33,853)

[^] Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

^{*} Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

30. Financial instruments (continued)**30.1. Categories of financial instruments (continued)**

2020	Carrying amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000	DH RM'000
<u>Financial assets</u>					
Cash and short-term funds	4,239,396	4,239,396	-	-	-
Deposits and placements with banks and other financial institutions	869,486	869,486	-	-	-
Debt instruments measured at FVOCI	596,080	-	-	596,080	-
Loans, advances and financing	15,311,113	15,311,113	-	-	-
Derivative financial assets	620,808	-	620,808	-	-
Other assets [^]	61,427	61,427	-	-	-
Statutory deposits with Bank Negara Malaysia	51,463	51,463	-	-	-
Total financial assets	21,749,773	20,532,885	620,808	596,080	-
<u>Financial liabilities</u>					
Deposits from customers	(15,436,734)	(15,436,734)	-	-	-
Deposits and placements of banks and other financial institutions	(2,271,747)	(2,271,747)	-	-	-
Bills and acceptances payable	(2,150)	(2,150)	-	-	-
Derivative financial liabilities	(560,269)	-	(503,502)	-	(56,767)
Other liabilities [*]	(186,570)	(186,570)	-	-	-
Total financial liabilities	(18,457,470)	(17,897,201)	(503,502)	-	(56,767)

[^] Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

^{*} Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

30. Financial instruments (continued)**30.2. Net gains and losses arising from financial instruments**

	2021	2020
	RM'000	RM'000
Net gains/(losses) arising on:		
Financial assets measured at FVTPL:	99,080	115,016
- Held-for-trading	122,068	70,020
- Held-for-hedging	(22,988)	44,996
Financial assets measured at FVOCI:	(2,998)	(290)
- Amortisation of premium and gain on redemption on debt securities held recognised in profit or loss	(1,171)	(699)
- Revaluation on debt instruments recognised in other comprehensive income	(1,827)	409
Financial assets measured at amortised cost:	350,157	608,240
- Loans, advances and financing	263,692	431,018
- Deposits and placements with banks and other financial institutions	84,904	175,412
- Other assets	1,561	1,810
Financial liabilities measured at amortised cost:	(158,613)	(399,358)
- Deposits from customers	(153,941)	(366,394)
- Deposits and placements of banks and other financial institutions	(4,675)	(32,911)
- Other liabilities	3	(53)
	<u>287,626</u>	<u>323,608</u>
Net gains/(losses) on impairment of financial instruments:		
- Financial assets at amortised cost	334	(45,265)
- Debt instruments measured FVOCI	582	(1,072)
	<u>916</u>	<u>(46,337)</u>

31. Financial risk management

The Bank adopts the Basel II policies to establish sound risk management practices with the proper risk management discipline, practices and processes.

Currently, the Bank is in compliance with the regulatory standards under the Basel II Pillar 1. The Bank is also in compliance with the Basel II Pillar 2 that involves self-assessment exercise of the level of capital required to be held and Basel II Pillar 3, which is related to market discipline and disclosure requirements.

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

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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established BRMC, which are responsible for developing the risk management policies and assessing the implementation of risk management by the management of the Bank. The Bank has also established the Risk Management Committee ("RMC") as one of the management committees to formulate the policies, procedures and risk limits and conduct periodical monitoring on risk exposure, risk portfolio and risk management activities.

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank's exposure to credit risk arises principally from loans and advances to customers, placements with other banks, investment in debt securities, derivative financial assets and other receivables.

Management of credit risk

The Bank has established the Credit Committee as one of the management committees with the following objectives:

- (i) to discuss, formulate, review and implement the credit policies, procedures and manuals; and
- (ii) to review, analyse and approve credit proposals by ensuring effective credit limit control and monitoring.

The Bank has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are required to be performed on customers requiring credit.

As at the end of the reporting period, the maximum exposure to credit risk arising from loans, advances, investments and receivables is represented by the carrying amounts in the statement of financial position as shown in Notes 3, 4, 5, 6, 7 and 8 to the financial statements.

31. Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

The Bank has taken reasonable steps to ensure that loans, advances, investments and receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these loans, advances, investments and receivables are regular customers or counterparties that have been transacting with the Bank.

The RMC conducts periodical monitoring on credit exposure trend, asset quality by obligor grading / impaired loans, portfolio concentration analysis and credit related limits control such as single counterparty exposure limit, large loan limit, exposure to connected parties and sectorial limits.

(i) Maximum exposure to credit risk

The following tables present the Bank's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2021 and 31 March 2020, before taking into account any collateral held or other credit enhancements. For on-balance sheet financial instruments, the maximum exposure to credit risk is the carrying amount reported on the statement of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represented the contractual nominal amount.

	2021	2020
	RM'000	RM'000
<u>On-balance sheet assets</u>		
Cash and short-term funds	4,339,905	4,239,396
Deposits and placements with banks and other financial institutions	975,724	869,486
Debt instruments measured at FVOCI	392,745	596,080
Loans, advances and financing	14,976,985	15,311,113
Derivative financial assets	395,700	620,808
Other assets ^	190,553	61,427
Statutory deposits with Bank Negara Malaysia	-	51,463
	<u>21,271,612</u>	<u>21,749,773</u>
<u>Off-balance sheet assets</u>		
Contingent commitments	493,254	395,088
Undrawn irrevocable standby facilities, credit line and other commitments to lend	7,953,478	7,023,244
	<u>8,446,732</u>	<u>7,418,332</u>
Total maximum exposure to credit risk	<u>29,718,344</u>	<u>29,168,105</u>

^ Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

31. Financial risk management (continued)**(a) Credit risk (continued)****(ii) Summary analysis of loans, advances and financing**

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks * RM'000
2021		
Gross carrying amount	15,057,456	5,322,614
Assets at amortised cost		
Neither past due nor impaired loans	15,003,257	5,322,614
Impaired loans	54,199	-
ECL	(80,471)	(6,985)
	<u>14,976,985</u>	<u>5,315,629</u>
2020		
Gross carrying amount	15,393,834	5,116,465
Assets at amortised cost		
Neither past due nor impaired loans	15,393,834	5,116,465
ECL	(82,721)	(7,583)
	<u>15,311,113</u>	<u>5,108,882</u>

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

31. Financial risk management (continued)**(a) Credit risk (continued)****(ii) Summary analysis of loans, advances and financing (continued)**

The following table presents the gross credit exposures of the Bank analysed by geographical location based on where the credit risk resides:

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks * RM'000
2021		
Gross carrying amount	<u>15,057,456</u>	<u>5,322,614</u>
Concentration of credit risk based on geographical location of customers		
Malaysia	12,010,889	4,924,532
Other countries:		
- Jordan	1,038,068	-
- Australia	727,828	291
- United States of America	418,146	14,131
- Japan	202,576	19,034
- Germany	-	19,820
- Hong Kong	54,199	2,459
- Netherlands	178,676	-
- United Kingdom	170,647	5,630
- Singapore	-	333,518
- Others	256,427	3,199
	<u>15,057,456</u>	<u>5,322,614</u>

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

31. Financial risk management (continued)**(a) Credit risk (continued)****(ii) Summary analysis of loans, advances and financing (continued)**

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks * RM'000
2020		
Gross carrying amount	<u>15,393,834</u>	<u>5,116,465</u>
Concentration of credit risk based on geographical location of customers		
Malaysia	12,374,229	4,999,108
Other countries:		
- Jordan	1,077,014	-
- Australia	556,470	654
- United States of America	431,273	5,015
- Japan	214,722	53,670
- Germany	71,047	2,806
- Hong Kong	56,549	1,953
- Netherlands	173,742	-
- United Kingdom	158,744	9,090
- Singapore	-	43,631
- Others	280,044	538
	<u>15,393,834</u>	<u>5,116,465</u>

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

31. Financial risk management (continued)**(a) Credit risk (continued)****(iii) Deposit placements maturing within one month and deposits and placements with banks and other financial institutions**

All deposits and placements as at the reporting date are neither past due nor impaired. Table below summarises credit quality of the balances, excluding balances with Bank Negara Malaysia, analysed by ratings from external credit ratings agencies.

	Fitch RM'000	Moody's RM'000	RAM RM'000	S&P RM'000
2021				
A- to A+	-	50,000	-	582,170
BBB	960,536	-	-	552,930
	<u>960,536</u>	<u>50,000</u>	<u>-</u>	<u>1,135,100</u>
2020				
AA- to AA+	58	654	488	1
A- to A+	104,748	1,016,935	-	1,735,729
	<u>104,806</u>	<u>1,017,589</u>	<u>488</u>	<u>1,735,730</u>

(iv) Summary analysis on securities portfolio

The following table summarises the debt instruments measured at FVOCI:

	2021 RM'000	2020 RM'000
Negotiable Instruments of Deposits	250,734	351,981
Malaysian Government Securities	20,238	70,546
Malaysian Government Investment Issues	121,773	173,553
	<u>392,745</u>	<u>596,080</u>

31. Financial risk management (continued)**(a) Credit risk (continued)****(v) Credit quality of gross loans and advances**

Gross loans and advances are analysed as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Neither past due nor impaired	9,013,615	5,989,642	-	15,003,257
Impaired	-	-	54,199	54,199
ECL	(10,453)	(59,634)	(10,384)	(80,471)
	<u>9,003,162</u>	<u>5,930,008</u>	<u>43,815</u>	<u>14,976,985</u>

	2020			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Neither past due nor impaired	13,178,998	2,214,836	-	15,393,834
ECL	(42,425)	(40,296)	-	(82,721)
	<u>13,136,573</u>	<u>2,174,540</u>	<u>-</u>	<u>15,311,113</u>

(vi) Loans and advances neither past due nor impaired and impaired

Analysis of gross loans and advances based on the Bank's internal loan classification is as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Loan classification				
Good	11,232,585	3,047,698	-	14,280,283
Closely monitored	-	722,974	-	722,974
Impaired	-	-	54,199	54,199
	<u>11,232,585</u>	<u>3,770,672</u>	<u>54,199</u>	<u>15,057,456</u>

	2020			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Loan classification				
Good	13,178,998	1,853,693	-	15,032,691
Closely monitored	-	361,143	-	361,143
	<u>13,178,998</u>	<u>2,214,836</u>	<u>-</u>	<u>15,393,834</u>

31. Financial risk management (continued)**(a) Credit risk (continued)****(vi) Loans and advances neither past due nor impaired and impaired (continued)**

The definition of loan classification is as follows:

Classification	Definition
Good	Loans, advances and financing which have never been past due in the last 6 months, or never been restructured or rescheduled before.
Closely monitored	Loans, advances and financing where there is uncertainty in repayment due to borrowers deteriorated credit standing or business environment.
Impaired	Loans, advances and financing which have been 90 days in past due or more or an occurrence of weaknesses in the credit facility that renders the facility to be credit impaired.

31. Financial risk management (continued)

(a) Credit risk (continued)

(vii) Amount arising from MFRS 9 Expected Credit Losses ("ECL")

ECL under MFRS 9 applies to all financial assets held at amortised cost, fair value through other comprehensive income ("FVOCI"), credit commitments and contingencies.

Instrument	Location of ECL
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value
Financial assets held at FVOCI - investment securities	Other comprehensive income (FVOCI fair value reserve) ^
Undrawn financing commitments and financial guarantees - credit commitments and contingencies	Provisions for liability and charges *

^ Financial assets classified as FVOCI are held at fair value on the face of the statement of financial position. The ECL attributed to these instruments is held as a separate reserve within OCI and is recycled to profit or loss along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

* ECL on undrawn financing commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a financing and undrawn commitment and it is not possible to separately identify the ECL on these components, the ECL amount on the financing commitment is recognised together with the ECL amount on the financial asset. To the extent the combined ECL exceeds the gross carrying amount of the financial asset, the ECL is recognised as a liability provision.

As required under MFRS 9, the measurement of ECL includes the current and forecast of future economic conditions, where the Malaysian relevant Macroeconomic Variables ("MEVs") are considered for the forward looking estimation. Measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

As at financial year ended 31 March 2021, the selected MEVs that are material and relevant to the Bank's portfolio are GDP growth and FTSE Bursa Malaysia KLCI Index (31 March 2020: GDP growth, FTSE Bursa Malaysia KLCI Index and 5-year Government Bond Yield). Forecasted MEVs are used for the forward looking adjustment to the estimated ECL. A weighting is applied to forward looking macro-economic scenarios within the ECL estimate.

31. Financial risk management (continued)**(a) Credit risk (continued)****(vii) Amount arising from MFRS 9 ECL (continued)**

The economic scenarios used include the following:

At 31 March 2021**Baseline**

	2021	2022	2023	2024	2025
GDP change	3.97	4.26	5.69	5.52	5.36
KLCI Index	1,573.91	1,633.49	1,636.28	1,744.45	1,959.72

Upside: stronger near-term growth with 10% probability economy perform better

	2021	2022	2023	2024	2025
GDP change	5.72	6.51	5.16	4.95	5.66
KLCI Index	1,692.28	1,954.13	1,856.21	1,873.12	2,071.73

Downside: moderate recession with 10% probability economy will be worse

	2021	2022	2023	2024	2025
GDP change	(0.86)	2.08	7.16	6.05	5.20
KLCI Index	1,312.41	1,309.65	1,362.37	1,485.58	1,700.83

At 31 March 2020**Baseline**

	2020	2021	2022	2023	2024
GDP change	0.61	4.94	3.85	3.15	3.05
5 yr GBYield	2.87	3.21	3.45	3.97	4.24
KLCI Index	1,382.83	1,469.94	1,588.45	1,577.87	1,607.78

Upside: stronger near-term growth with 10% probability economy perform better

	2020	2021	2022	2023	2024
GDP change	1.71	7.66	3.76	2.37	3.27
5 yr GBYield	2.93	3.58	3.95	4.16	4.32
KLCI Index	1,437.52	1,746.10	1,832.03	1,714.73	1,700.47

Downside: moderate recession with 10% probability economy will be worse

	2020	2021	2022	2023	2024
GDP change	(3.59)	1.04	5.05	4.12	2.84
5 yr GBYield	2.74	2.29	1.74	1.88	2.52
KLCI Index	1,224.46	1,147.18	1,316.45	1,335.76	1,388.47

31. Financial risk management (continued)**(a) Credit risk (continued)****(viii) COVID-19 specific disclosures****Exposures to COVID-19 impacted sectors**

	Loans, advances and financing	
	On-balance sheet (net of impairment)	
	2021	2020
	RM'000	RM'000
Manufacturing	2,350,439	3,083,548
Real estate	1,954,945	1,400,161
Electricity, gas and water	1,749,617	2,189,634
Wholesale and retail trade, restaurants and hotels	1,126,155	1,647,568
	<u>7,181,156</u>	<u>8,320,911</u>

The exposures to COVID-19 impacted sectors were based on the one notch rating downgrades of accounts within specified industries that are significantly or largely impacted by the COVID-19 pandemic as at 31 March 2021. The industries and its severity of impact were based on the impact to the credit cost for each industry. Based on the identified industries from these criteria, 4 sectors (from top most impacted) having more than 5% of exposure out of the total Bank's portfolio and the impacted industries accounted for more than 50% exposure in total exposure of the top 4 industries.

COVID-19 customer relief and support measures

There is no stage 1 and stage 2 borrowers under the repayment assistance or moratorium as at 31 March 2021 and 31 March 2020.

31. Financial risk management (continued)

(a) Credit risk (continued)

(viii) COVID-19 specific disclosures (continued)

Overlays and adjustments for expected credit losses amid COVID-19 environment

As the current MFRS 9 models are not expected to generate levels of ECL with sufficient reliability in view of the unprecedented and on-going COVID-19 pandemic, management overlays adjustments have been applied to determine a sufficient overall level of ECL as at 31 March 2021.

These management overlays adjustments were made at portfolio level by a one notch downgrade of accounts within the identified sectors which are significantly and largely impacted by the COVID-19 pandemic based on the impact to the credit cost for each industry.

The management overlays adjustments involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward-looking assessment for ECL estimation purposes.

The borrowers and customers who have received repayment support remain in their existing stages unless they have been individually identified as not viable or with subsequent indicators of significant increase in credit risk from each of their pre-COVID-19 status.

31. Financial risk management (continued)**(b) Liquidity risk**

Liquidity risk arises when a bank is not able to refinance its assets upon liabilities due, for any reason, which can be at macro-level, affecting most or all the market participants, or names specific to the bank.

Liquidity risk is managed through the Bank's Assets and Liabilities Management Committee ("ALCO"), which meets on a monthly basis. The ALCO is chaired by the CEO who is responsible for both the statutory and prudential liquidity.

The primary tools used to monitor the liquidity risk are the Bank Negara Malaysia's Liquidity Coverage Ratio ("LCR") requirement and the internal liquidity risk management policy set by ALCO and Head Office. Under the LCR requirement, the Bank must ensure that there is sufficient high quality liquid assets ("HQLA") to cover potential net cash outflows for the next 30 days. While under the internal policy, among others, the Bank is guided by tight money gap limits for one day, two days, one week and one month periods. Adherence to these limits are monitored on daily basis and reported to the Management, Regional Office and Head Office. The LCR and money gap limits are as follows:

At 31 March 2021

BNM			Internal Policy			
LCR			Money gaps limits (USD million)			
HQLA (RM'mil)	Net cash outflows (RM'mil)	Ratio	One day	Two days	One week	One month
2,820	1,410	200%	-20	-30	-40	-100

At 31 March 2020

BNM			Internal Policy			
LCR			Money gaps limits (USD million)			
HQLA (RM'mil)	Net cash outflows (RM'mil)	Ratio	One day	Two days	One week	One month
2,502	1,883	133%	-20	-30	-40	-100

31. Financial risk management (continued)**(b) Liquidity risk (continued)**

Cash flows payable by the Bank (for financial liabilities) based on remaining contractual maturity as at the financial year end, on an undiscounted basis are as follows:

	Carrying amount RM'000	Interest rate %	Contractual cash flows RM'000	Under 3 months RM'000	3-12 months RM'000	1-2 years RM'000	2-5 years RM'000	> 5 years RM'000
2021								
Liabilities								
Deposits from customers	16,301,368	0.00 to 3.20	16,366,253	8,239,895	2,309,186	1,311,425	3,070,076	1,435,671
Deposits and placements of banks and other financial institutions	1,067,903	-0.46 to 0.45	1,068,034	1,003,469	-	64,565	-	-
Bills and acceptances payable	775	-	775	775	-	-	-	-
Other liabilities *	86,336	-	86,336	80,348	3,250	2,116	298	324
Lease liabilities	15,051	3.30	16,029	1,357	4,072	5,511	5,089	-
Total liabilities	17,471,433		17,537,427	9,325,844	2,316,508	1,383,617	3,075,463	1,435,995
Derivative financial liabilities, gross settled								
Outflows	5,724,103		11,699,883	2,352,325	3,661,075	1,137,129	3,961,767	587,587
Inflows	(5,364,945)		(11,155,371)	(2,295,389)	(3,509,720)	(1,030,791)	(3,755,164)	(564,307)
	359,158		544,512	56,936	151,355	106,338	206,603	23,280
Grand total	17,830,591		18,081,939	9,382,780	2,467,863	1,489,955	3,282,066	1,459,275

* Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

31. Financial risk management (continued)**(b) Liquidity risk (continued)**

	Carrying amount RM'000	Interest rate %	Contractual cash flows RM'000	Under 3 months RM'000	3-12 months RM'000	1-2 years RM'000	2-5 years RM'000	> 5 years RM'000
2020								
Liabilities								
Deposits from customers	15,436,734	0.00 to 4.05	15,774,199	7,840,241	1,546,495	2,045,545	2,965,830	1,376,088
Deposits and placements of banks and other financial institutions	2,271,747	-0.36 to 1.45	2,273,440	2,155,394	40,936	-	77,110	-
Bills and acceptances payable	2,150	-	2,150	2,150	-	-	-	-
Other liabilities *	186,570	-	186,570	174,180	6,878	1,961	1,828	1,723
Lease liabilities	5,487	3.30	5,671	1,332	3,998	220	121	-
Total liabilities	<u>17,902,688</u>		<u>18,242,030</u>	<u>10,173,297</u>	<u>1,598,307</u>	<u>2,047,726</u>	<u>3,044,889</u>	<u>1,377,811</u>
Derivative financial liabilities, gross settled								
Outflows	6,163,847		13,973,616	3,043,056	4,272,573	2,210,555	3,442,679	1,004,753
Inflows	<u>(5,603,578)</u>		<u>(13,324,992)</u>	<u>(2,951,574)</u>	<u>(4,093,280)</u>	<u>(2,038,699)</u>	<u>(3,256,005)</u>	<u>(985,434)</u>
	<u>560,269</u>		<u>648,624</u>	<u>91,482</u>	<u>179,293</u>	<u>171,856</u>	<u>186,674</u>	<u>19,319</u>
Grand total	<u><u>18,462,957</u></u>		<u><u>18,890,654</u></u>	<u><u>10,264,779</u></u>	<u><u>1,777,600</u></u>	<u><u>2,219,582</u></u>	<u><u>3,231,563</u></u>	<u><u>1,397,130</u></u>

* Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

31. Financial risk management (continued)

(c) Market risk

Market risk is defined as the potential impact on the Bank's operating results resulting from changes in the market prices and rates. The Bank's market risks are categorised as:

- (i) Interest rate risk, the impact on the values of the Bank's derivatives and forward foreign exchange contracts arising from the movement of yield curves; and
- (ii) Foreign exchange risk, the impact on the values of the Bank's foreign currency exposures arising from the movement of the exchange rates.

ALCO is responsible to oversee the management of market risk for the Bank, which include ensuring compliance to the Bank's Market Risk Management Policy and Trading Book Policy.

The primary tools to control the market risks are the exposure (position) limits and the stop loss limits, implemented on portfolio basis and on individual dealer basis. Adherence to these limits is monitored and reported on daily basis to the Management, Regional Office and Head Office.

Interest rate risk management

Interest rate risk is defined as the potential impact on the Bank's earnings (i.e. the net interest income) and the net assets value resulting from a change in interest rates.

Interest rate risk is managed through the Bank's ALCO, which meets on a monthly basis. The committee is responsible to study the sensitivity of the net interest income against change in interest rates and subsequently, to determine the Bank's policy on balance sheet management. The committee also monitors the impact of the change in interest rates on the net assets value.

The primary tool used for monitoring the interest rate risk impact on the earnings is the re-pricing gap analysis. In this analysis, the re-price dates of rate sensitive assets are compared against the re-price dates of rate sensitive liabilities. A positive gap position indicates that more assets are available to be re-priced than liabilities; hence, an increase in the interest rates will positively impact the Bank's net interest income.

In addition to monitoring the assets and liabilities gap, the Bank also uses interest rate derivatives (i.e. interest rate swaps) to mitigate the interest rate risk impact on the earnings.

The primary tool used to monitor the interest rate risk impact on the net assets value is the basis point value ("BPV") analysis and economic value of equity ("EVE") analysis. The Bank's BPV positions are monitored on daily basis against the approved BPV limits as set by the Head Office based on recommendation by ALCO, whereas, the EVE is monitored and reported to ALCO on a monthly basis.

31. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk management (continued)

IBOR reformed

London Inter-bank Offered Rate ("LIBOR") and LIBOR linked base rates (i.e. SGD SOR) ("IBOR") which have been widely used in the global financial markets, would be discontinued by end-2021 or June 2023 and be replaced by RFRs or other types of base rates as part of the global reform of benchmark interest rates. The transition from IBOR to RFRs or other types of base rates will have significant impact on the Bank arising from legal implications for existing derivatives and loan contracts referenced to IBOR, adjustments to accounting and valuation approaches, and system recalibration and reconfiguration. In Quarter 3 of Financial Year 2019, the Bank set up the IBOR Transition Project Working Group ("PWG"), which consists of senior leaders from various functions across including Legal, Finance, Market Adoption, Product, Operations, Systems, Risk, Reporting and Compliance, to address the Bank's readiness for the IBOR Reform.

Since the establishment of the PWG, the Bank has been planning and laying the foundations to ensure a smooth IBOR Transition within the organisation and for its clients. These efforts include reviewing affected legal contracts, staff training, client engagement and ensuring systems and operational readiness to offer RFR products. The Bank actively monitors the developments in the industry in order to align itself to global market practices. The Board is updated on the progress of the Bank's IBOR Transition on a quarterly basis.

IBOR reform exposes the Bank to various risks, which the PWG is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to affect IBOR reform;
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available;
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs; and
- Legal and Compliance risk of litigation due to transition value transfer between the Bank and its customers and counterparties.

31. Financial risk management (continued)**(c) Market risk (continued)****Interest rate risk management (continued)**

As at 31 March 2021, the Bank's exposure on references to IBORs which remain available after respective cessation dates as follows:

	RM'000
Loans, advances and financing	5,422,000
Interest rate swaps	1,490,000
Cross currency swaps	8,436,000
Deposits from customers	3,974,000
Deposits and placements of banks and other financial institutions	133,000
	<u>19,455,000</u>

Foreign exchange risk management

Foreign exchange risk arises from exchange rate movements, which affects the profit of the Bank from its foreign exchange open positions taken from time to time. This risk is principally managed by setting predetermined limits on open foreign exchange positions and the setting predetermined limits on open foreign exchange positions and the setting and monitoring of cut-loss mechanisms. The Bank enters into foreign exchange related derivatives, namely spot and forward contracts, as part of its strategies to manage foreign exchange risk.

31. Financial risk management (continued)**(c) Market risk (continued)****Interest / profit rate risk**

The tables below summarise the Bank's financial instruments at carrying amounts, categorised by contractual re-pricing or maturity dates.

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest bearing # RM'000		
2021								
Assets								
Cash and short-term funds	4,253,081	-	-	-	-	86,824	-	4,339,905
Deposits and placements with banks and other financial institutions	-	249,999	728,367	-	-	(2,642)	-	975,724
Debt instruments measured at FVOCI	50,103	250,734	50,785	41,123	-	-	-	392,745
Loans, advances and financing								
- non-impaired	2,516,193	1,902,031	2,189,387	6,392,325	2,003,321	(70,087)	-	14,933,170
- impaired	-	-	33,303	20,896	-	(10,384)	-	43,815
Derivative financial assets	-	-	-	74	-	-	395,626	395,700
Other assets [^]	184,334	1,741	1,783	-	-	2,295	-	190,153
Total assets	7,003,711	2,404,505	3,003,625	6,454,418	2,003,321	6,006	395,626	21,271,212

The negative balance represents allowance for expected credit losses on financial assets.

[^] Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

31. Financial risk management (continued)**(c) Market risk (continued)****Interest / profit rate risk (continued)**

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000		
2021								
Liabilities								
Deposits from customers	3,252,055	1,396,047	2,300,843	4,361,242	1,406,530	3,584,651	-	16,301,368
Deposits and placements of banks and other financial institutions	715,932	283,100	-	64,565	-	4,306	-	1,067,903
Bills and acceptances payable	-	-	775	-	-	-	-	775
Derivative financial liabilities	126	-	934	62,441	-	-	295,657	359,158
Other liabilities *	3,973	3,270	3,130	532	324	75,107	-	86,336
Total liabilities	3,972,086	1,682,417	2,305,682	4,488,780	1,406,854	3,664,064	295,657	17,815,540
On balance sheet interest rate gap	3,031,625	722,088	697,943	1,965,638	596,467	(3,658,058)	99,969	3,455,672
Off balance sheet interest rate gap	2,104,924	-	(504,498)	(1,373,185)	(227,241)	-	-	-
Total interest rate gap	5,136,549	722,088	193,445	592,453	369,226	(3,658,058)	99,969	3,455,672

* Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

31. Financial risk management (continued)**(c) Market risk (continued)****Interest / profit rate risk (continued)**

	Non-trading book					Non- interest bearing # RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000			
2020								
Assets								
Cash and short-term funds	4,194,190	-	-	-	-	45,206	-	4,239,396
Deposits and placements with banks and other financial institutions	-	800,000	70,000	-	-	(514)	-	869,486
Debt instruments measured at FVOCI	-	150,626	201,354	30,557	232,156	(18,613)	-	596,080
Loans, advances and financing	2,728,462	1,745,517	1,534,681	8,148,662	1,236,512	(82,721)	-	15,311,113
Derivative financial assets	6,634	-	7,255	646	-	-	606,273	620,808
Other assets ^	49,400	4,090	2,500	-	-	5,437	-	61,427
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	51,463	-	51,463
Total assets	6,978,686	2,700,233	1,815,790	8,179,865	1,468,668	258	606,273	21,749,773

The negative balance represents allowance for expected credit losses on financial assets.

^ Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

31. Financial risk management (continued)**(c) Market risk (continued)****Interest / profit rate risk (continued)**

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000		
2020								
Liabilities								
Deposits from customers	2,930,689	1,430,876	1,529,941	4,842,882	1,233,683	3,468,663	-	15,436,734
Deposits and placements of banks and other financial institutions	1,775,986	374,127	40,789	77,110	-	3,735	-	2,271,747
Bills and acceptances payable	-	-	2,150	-	-	-	-	2,150
Derivative financial liabilities	-	59	-	63,492	-	-	496,718	560,269
Other liabilities *	6,853	3,331	6,289	3,789	1,723	164,585	-	186,570
Total liabilities	4,713,528	1,808,393	1,579,169	4,987,273	1,235,406	3,636,983	496,718	18,457,470
On balance sheet interest rate gap	2,265,158	891,840	236,621	3,192,592	233,262	(3,636,725)	109,555	3,292,303
Off balance sheet interest rate gap	-	1,527,810	-	(238)	(1,527,572)	-	-	-
Total interest rate gap	2,265,158	2,419,650	236,621	3,192,354	(1,294,310)	(3,636,725)	109,555	3,292,303

* Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

31. Financial risk management (continued)**(c) Market risk (continued)****Interest / profit rate risk (continued)**

The table below details the disclosure for interest rate risk in the Banking Book. The increase or decline in earnings and equity for upward and downward rate shocks which are consistent with shocks applied in stress test for measuring interest rate risk, is broken down by various currencies, where relevant:

Type of currency	Impact on positions as at reporting date (200 basis points) hike		Impact on positions as at reporting date (200 basis points) hike	
	Decline in		Decline in	
	profit before taxation	Decline in equity	profit before taxation	Decline in equity
	2021	2021	2020	2020
	RM'000	RM'000	RM'000	RM'000
JPY	(547)	(416)	(440)	(334)
USD	(2,249)	(1,709)	(919)	(698)
MYR	(6,444)	(4,897)	(8,505)	(6,464)

The table below summarises the average effective interest rates by major currencies for each class of financial asset and financial liability:

	2021 MYR % p.a.	2021 USD % p.a.	2020 MYR % p.a.	2020 USD % p.a.
<u>Financial assets</u>				
Cash and short-term funds	1.79	0.19	2.59	1.85
Deposits and placements with banks and other financial institutions	1.97	0.38	2.86	-
Loans, advances and financing	3.57	1.18	4.16	2.24
<u>Financial liabilities</u>				
Deposits from customers	2.04	0.20	3.00	1.36
Deposits and placements of banks and other financial institutions	-	-	-	0.71

31. Financial risk management (continued)**(c) Market risk (continued)****Currency risk**

The table below summarises the Bank's foreign exchange position for its financial instruments outstanding by major currencies. "Others" include Singaporean Dollar, Hong Kong Dollar, Thailand Baht, Australian Dollar, Euro, Great Britain Pound, Indonesia Rupiah and Chinese Yuan.

2021	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial assets</u>					
Cash and short-term funds	2,923,600	1,284,680	19,034	112,591	4,339,905
Deposits and placements with banks and other financial institutions	747,357	228,367	-	-	975,724
Debt instruments measured at FVOCI	392,745	-	-	-	392,745
Loans, advances and financing					
- non-impaired	4,632,342	7,522,191	1,396,338	1,382,299	14,933,170
- impaired	-	43,815	-	-	43,815
Derivative financial assets	137,717	188,189	67,627	2,167	395,700
Other assets ^	189,743	233	-	177	190,153
Total financial assets	9,023,504	9,267,475	1,482,999	1,497,234	21,271,212

^ Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

31. Financial risk management (continued)**(c) Market risk (continued)****Currency risk (continued)**

2021	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial liabilities</u>					
Deposits from customers	5,509,089	8,662,685	1,299,551	830,043	16,301,368
Deposits and placements of banks and other financial institutions	103,190	64,565	243,752	656,396	1,067,903
Bills and acceptances payable	775	-	-	-	775
Derivative financial liabilities	235,898	105,897	2,748	14,615	359,158
Other liabilities *	79,900	5,934	735	(233)	86,336
Total financial liabilities	5,928,852	8,839,081	1,546,786	1,500,821	17,815,540
Total foreign currency sensitivity gap	3,094,652	428,394	(63,787)	(3,587)	3,455,672

* Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

Stress test has been performed on foreign currency trading positions to assess impact of a 10% weakening in Ringgit Malaysia exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be an increase of RM36,102,000 in profit before taxation and RM27,438,000 in equity. This analysis assumes that all variables, in particular interest rates, remained constant.

31. Financial risk management (continued)**(c) Market risk (continued)****Currency risk (continued)**

The table below summarises the Bank's foreign exchange position for its financial instruments outstanding by major currencies. "Others" include Singaporean Dollar, Hong Kong Dollar, Thailand Baht, Australian Dollar, Euro, Great Britain Pound, Indonesia Rupiah and Chinese Yuan.

2020	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial assets</u>					
Cash and short-term funds	2,950,782	1,159,935	53,670	75,009	4,239,396
Deposits and placements with banks and other financial institutions	869,486	-	-	-	869,486
Debt instruments measured at FVOCI	596,080	-	-	-	596,080
Loans, advances and financing	4,688,327	8,449,443	1,215,051	958,292	15,311,113
Derivative financial assets	254,031	334,806	18,980	12,991	620,808
Other assets ^	58,654	2,297	-	476	61,427
Statutory deposits with Bank Negara Malaysia	51,463	-	-	-	51,463
Total financial assets	9,468,823	9,946,481	1,287,701	1,046,768	21,749,773

^ Other assets exclude prepayments and deferred expenses as these items are classified as non-financial assets.

31. Financial risk management (continued)**(c) Market risk (continued)****Currency risk (continued)**

2020	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial liabilities</u>					
Deposits from customers	5,774,362	8,135,721	1,027,575	499,076	15,436,734
Deposits and placements of banks and other financial institutions	330,988	1,154,123	555,605	231,031	2,271,747
Bills and acceptances payable	2,150	-	-	-	2,150
Derivative financial liabilities	188,947	333,937	35,114	2,271	560,269
Other liabilities *	174,825	10,800	822	123	186,570
Total financial liabilities	6,471,272	9,634,581	1,619,116	732,501	18,457,470
Total foreign currency sensitivity gap	2,997,551	311,900	(331,415)	314,267	3,292,303

* Other liabilities exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

Stress test has been performed on foreign currency trading positions to assess impact of a 10% weakening in Ringgit Malaysia exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be an increase of RM29,475,000 in profit before taxation and RM22,401,000 in equity. This analysis assumes that all variables, in particular interest rates, remained constant.

31. Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events. Operational risk is inherent in each of the Bank's business activities. It includes risks such as fraud, physical damage, business interruption, transaction failures, legal and regulatory breaches, shariah non-compliance and employee health and safety hazards. Operational risk may result in direct financial loss as well as indirect financial losses to the Bank.

Operational risks are managed and controlled within the individual business lines. The RMC monitors the predetermined items to assess the trend of operational risks.

The calculation of value equivalent to operational risk-weighted asset

The Bank currently uses Basic Indicator Approach ("BIA") to calculate its value equivalent to operational risk-weighted assets as at 31 March 2021.

32. Fair value measurements

Recognised financial instruments

The estimated fair values of the financial assets and financial liabilities carried on the statement of financial position as at 31 March (excluding those short-term / on demand financial assets and financial liabilities where the carrying amounts are deemed reasonable approximation of their fair values) are as follows:

	Carrying amount		Fair value	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Debt instruments measured at FVOCI	392,745	596,080	392,745	596,080
Loans, advances and financing *	15,057,456	15,393,834	14,527,894	14,662,965
Derivative financial assets **	395,700	620,808	395,700	620,808
Total financial assets	15,845,901	16,610,722	15,316,339	15,879,853
Financial liabilities				
Derivative financial liabilities **	359,158	560,269	359,158	560,269
Total financial liabilities	359,158	560,269	359,158	560,269

* The expected credit losses impairment provision of the Bank is not included in the carrying amount.

** The contractual notional amount of cross currency swaps held for hedging which is based on IBOR is RM504,149,000 (2020: RM578,945,000). The contractual notional amount of interest rate swaps held for hedging which is based on IBOR is RM803,912,000 (2020: RM792,613,000).

Methods and assumptions

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(a) Financial investments measured at FVOCI

The estimated fair value is based on quoted or observable market prices at the statement of financial position date. Where such quoted or observable market prices are not available, the fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using the prevailing market rates for similar instruments at the reporting date.

(b) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the reporting date offered for similar loans.

32. Fair value measurements (continued)

Methods and assumptions (continued)

(c) Derivative financial instruments

Fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is financial assets (favourable) or financial liabilities (unfavourable) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Bank's derivative instruments are estimated by reference to observable market prices. Internal models are used where no market price is available.

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

	Level 1	Level 2	Level 3
Fair value determined using	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Type of financial assets	Actively traded corporate, government and government agency securities	Corporate and other government bonds and loans	Unquoted equity investments
	Actively traded derivatives	Over-the-counter ("OTC") derivatives	Corporate bonds in non-liquid market
	-	-	Loans, advances and financing
Type of financial liabilities	-	OTC derivatives	-

32. Fair value measurements (continued)**Fair value hierarchy (continued)**

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2021										
Assets										
Debt instruments measured at FVOCI	-	392,745	-	392,745	-	-	-	-	392,745	392,745
Loans, advances and financing	-	-	-	-	-	-	14,527,894	14,527,894	14,527,894	15,057,456
Derivative financial assets	-	395,700	-	395,700	-	-	-	-	395,700	395,700
At 31 March 2021	-	788,445	-	788,445	-	-	14,527,894	14,527,894	15,316,339	15,845,901
Liabilities										
Derivative financial liabilities	-	359,158	-	359,158	-	-	-	-	359,158	359,158
At 31 March 2021	-	359,158	-	359,158	-	-	-	-	359,158	359,158

32. Fair value measurements (continued)**Fair value hierarchy (continued)**

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2020										
Assets										
Debt instruments measured at FVOCI	-	596,080	-	596,080	-	-	-	-	596,080	596,080
Loans, advances and financing	-	-	-	-	-	-	14,662,965	14,662,965	14,662,965	15,393,834
Derivative financial assets	-	620,808	-	620,808	-	-	-	-	620,808	620,808
At 31 March 2020	-	1,216,888	-	1,216,888	-	-	14,662,965	14,662,965	15,879,853	16,610,722
Liabilities										
Derivative financial liabilities	-	560,269	-	560,269	-	-	-	-	560,269	560,269
At 31 March 2020	-	560,269	-	560,269	-	-	-	-	560,269	560,269

32. Fair value measurements (continued)**Derivative financial instruments**

	Principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
2021			
Derivatives designated as fair value hedges:			
- Interest rate swaps	605,384	74	16,331
- Currency swaps	521,750	-	17,522
	<u>1,127,134</u>	<u>74</u>	<u>33,853</u>
Derivatives held-for-trading:			
- Forward exchange contracts	7,360,696	43,032	42,788
- Interest rate swaps	1,320,464	21,913	15,784
- Currency swaps	10,580,234	330,681	266,733
	<u>19,261,394</u>	<u>395,626</u>	<u>325,305</u>
	<u>20,388,528</u>	<u>395,700</u>	<u>359,158</u>
2020			
Derivatives designated as fair value hedges:			
- Interest rate swaps	658,210	-	21,338
- Currency swaps	563,500	-	35,429
	<u>1,221,710</u>	<u>-</u>	<u>56,767</u>
Derivatives held-for-trading:			
- Forward exchange contracts	12,519,143	188,681	161,278
- Interest rate swaps	1,203,076	26,246	21,734
- Currency swaps	11,190,555	405,881	320,490
	<u>24,912,774</u>	<u>620,808</u>	<u>503,502</u>
	<u>26,134,484</u>	<u>620,808</u>	<u>560,269</u>

32. Fair value measurements (continued)**Derivative financial instruments (continued)****By sector:**

	Principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
2021			
Primary agriculture	207,606	11,599	-
Manufacturing	1,930,437	20,201	12,958
Electricity	193,120	26	2,301
Construction	259,418	37	60,285
Wholesale and retail trade, and restaurants and hotels	660,227	7,887	2,695
Finance, insurance, and business services	16,706,725	347,171	280,919
Transport, storage and communication	21,809	192	-
Education, health and others	409,186	8,587	-
	<u>20,388,528</u>	<u>395,700</u>	<u>359,158</u>
2020			
Primary agriculture	430,780	-	6,512
Manufacturing	2,582,343	61,840	29,619
Electricity	141,161	952	1,526
Construction	476,033	64	75,180
Wholesale and retail trade, and restaurants and hotels	563,168	12,053	6,253
Finance, insurance, and business services	21,894,316	544,657	441,147
Transport, storage and communication	4,256	79	24
Education, health and others	42,427	1,163	8
	<u>26,134,484</u>	<u>620,808</u>	<u>560,269</u>

33. Offsetting of financial assets and financial liabilities

The Bank enters into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to other. In certain circumstances e.g. when a credit event such as a default occurs, all outstanding agreements are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Bank currently does not have any legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the Bank's commitments or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

33. Offsetting of financial assets and financial liabilities (continued)

	Gross amount recognised as financial assets/ liabilities RM'000	Gross amount offset in the statement of financial position RM'000	Amount presented in the statement of financial position RM'000	Amount not set-off in the statement of financial position		
				Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000
At 31 March 2021						
Financial assets						
Derivative financial assets						
- Foreign exchange related contracts	373,713	-	373,713	(71,092)	(65,295)	237,326
- Interest rate related contracts	21,987	-	21,987	(3,233)	-	18,754
	<u>395,700</u>	<u>-</u>	<u>395,700</u>	<u>(74,325)</u>	<u>(65,295)</u>	<u>256,080</u>
Financial liabilities						
Derivative financial liabilities						
- Foreign exchange related contracts	327,043	-	327,043	(71,092)	(151,632)	104,319
- Interest rate related contracts	32,115	-	32,115	(3,233)	(29,688)	(806)
	<u>359,158</u>	<u>-</u>	<u>359,158</u>	<u>(74,325)</u>	<u>(181,320)</u>	<u>103,513</u>

33. Offsetting of financial assets and financial liabilities (continued)

	Gross amount recognised as financial assets/ liabilities RM'000	Gross amount offset in the statement of financial position RM'000	Amount presented in the statement of financial position RM'000	Amount not set-off in the statement of financial position		
				Values of the financial instruments RM'000	Cash collateral received/ pledged RM'000	Net amount RM'000
At 31 March 2020						
Financial assets						
Derivative financial assets						
- Foreign exchange related contracts	594,562	-	594,562	(228,432)	(157,328)	208,802
- Interest rate related contracts	26,246	-	26,246	-	-	26,246
	<u>620,808</u>	<u>-</u>	<u>620,808</u>	<u>(228,432)</u>	<u>(157,328)</u>	<u>235,048</u>
Financial liabilities						
Derivative financial liabilities						
- Foreign exchange related contracts	517,197	-	517,197	(228,432)	(30,453)	258,312
- Interest rate related contracts	43,072	-	43,072	-	(16,330)	26,742
	<u>560,269</u>	<u>-</u>	<u>560,269</u>	<u>(228,432)</u>	<u>(46,783)</u>	<u>285,054</u>

34. Capital adequacy

The capital adequacy ratios of the Bank are analysed as follows:

	2021	2020
	RM'000	RM'000
		Restated
<u>Tier 1 capital</u>		
Paid-up ordinary share capital	2,452,605	2,452,605
Retained earnings	959,944	782,100
Other reserves	95,164	84,833
	<u>3,507,713</u>	<u>3,319,538</u>
Less: Deferred tax assets	(15,062)	(16,516)
55% of fair value reserve	(1,069)	(2,394)
Regulatory reserve	(93,220)	(80,480)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	<u>3,398,362</u>	<u>3,220,148</u>
<u>Tier 2 capital</u>		
Expected credit losses (Stage 1 and Stage 2)	85,957	97,266
Regulatory reserve *	86,391	78,083
Total Tier 2 capital	<u>172,348</u>	<u>175,349</u>
Total capital base	<u>3,570,710</u>	<u>3,395,497</u>
<u>Capital ratios</u>		
CET 1 and Tier 1 capital ratio	22.876%	21.418%
Total capital ratio	24.036%	22.585%

* Collective ECL on non-credit impaired exposure and regulatory reserves is subject to a maximum of 1.25% of total credit risk-weighted assets.

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

	2021	2020
	RM'000	RM'000
Credit risk	13,787,858	14,027,952
Market risk	393,141	370,237
Operational risk	674,596	636,404
Total risk-weighted assets	<u>14,855,595</u>	<u>15,034,593</u>

34. Capital adequacy (continued)

The capital adequacy ratios of the Bank are analysed as follows:

(a) The breakdown of risk-weighted assets by exposures in each major risk category is as follows:

2021	Gross exposures	Net exposures	Risk-weighted assets	Capital requirements
Exposure class	RM'000	RM'000	RM'000	RM'000
(i) Credit risk				
<u>On-balance sheet exposures:</u>				
Sovereigns / central banks	2,822,183	2,822,183	-	-
Banks, development financial institutions and MDBs	3,092,709	3,092,709	719,933	57,595
Corporates	15,034,767	15,034,767	7,685,994	614,880
Other assets	427,132	427,132	426,694	34,135
Total on-balance sheet exposures	21,376,791	21,376,791	8,832,621	706,610
<u>Off-balance sheet exposures:</u>				
Credit-related exposures	5,781,169	5,781,169	4,955,237	396,419
Total off-balance sheet exposures	5,781,169	5,781,169	4,955,237	396,419
Total on and off-balance sheet exposures	27,157,960	27,157,960	13,787,858	1,103,029
(ii) Large exposure risk requirement				
	-	-	-	-
(iii) Market risk				
	Long position	Short position		
	RM'000	RM'000		
Interest rate risk	19,462,572	19,362,530	100,042	381,337
Foreign exchange risk	11,804	(216)	12,020	11,804
	19,474,376	19,362,314	112,062	393,141
(iv) Operational risk			674,596	53,968
Total risk-weighted assets and capital requirements			14,855,595	1,188,448

34. Capital adequacy (continued)

The capital adequacy ratios of the Bank are analysed as follows (continued):

(a) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

2020	Gross exposures	Net exposures	Risk-weighted assets	Capital requirements
Exposure class	RM'000	RM'000	RM'000	RM'000
(i) Credit risk				
<u>On-balance sheet exposures:</u>				
Sovereigns / central banks	2,555,940	2,555,940	-	-
Banks, development financial institutions and MDBs	3,264,725	3,264,725	683,608	54,689
Corporates	15,393,835	15,393,835	7,951,178	636,094
Other assets	644,103	644,103	643,650	51,492
Total on-balance sheet exposures	21,858,603	21,858,603	9,278,436	742,275
<u>Off-balance sheet exposures:</u>				
Credit-related exposures	5,536,658	5,536,658	4,749,516	379,961
Total off-balance sheet exposures	5,536,658	5,536,658	4,749,516	379,961
Total on and off-balance sheet exposures	27,395,261	27,395,261	14,027,952	1,122,236
(ii) Large exposure risk requirement				
	-	-	-	-
(iii) Market risk				
	Long position	Short position		
	RM'000	RM'000		
Interest rate risk	24,361,125	24,251,263	109,862	357,832
Foreign exchange risk	12,405	-	12,405	12,405
	24,373,530	24,251,263	122,267	370,237
(iv) Operational risk			636,404	50,912
Total risk-weighted assets and capital requirements			15,034,593	1,202,767

35. Capital management

The objective of the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory minimum requirement. The Bank's capital management process includes analysis of the risk appetite and the capital requirement for the business growth and periodical monitoring of capital adequacy ratios.

The Bank's capital requirements and capital adequacy ratios, in accordance with Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework ('RWCAF'): Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk (Basel II) are disclosed in Note 34.

36. Changes in comparatives

Certain comparatives in the financial statements have been restated to align with the current financial year presentation in accordance with the latest accounting standards and disclosure requirements.

(i) Reclassifications

In the current financial year, guarantee fees payable to Sumitomo Mitsui Banking Corporation Labuan Branch, a related company, (as a consideration for participation of risk through the deposits placed with the Bank as cash collateral) are included in interest income. For comparability purposes, the guarantee fees which were included in other operating expenses in the previous financial year ended 31 March 2020 are included in interest income accordingly.

Statement of profit or loss and other comprehensive income for the financial year ended 31 March 2020	As restated RM'000	Differences RM'000	As previously reported RM'000
Interest income	631,977	(37,484)	669,461
Other operating expenses	(106,686)	37,484	(144,170)

36. Changes in comparatives (continued)**(ii) Prior year adjustments**

The Bank reassessed its deferred tax liabilities position during the financial year, focusing on the taxable timing difference arising from unrealised foreign exchange gains, which have accumulated over the years. Following the reassessment, the Bank decided to reverse certain taxable timing difference arising from unrealised foreign exchange gains, which resulted in a reduction in deferred tax liabilities, and increase in retained earnings and profit or loss of prior years.

Statement of financial position as at 1 April 2019	As restated RM'000	Differences RM'000	As previously reported RM'000
Deferred tax (assets)/liabilities	(7,218)	(39,215)	31,997
Retained earnings	554,173	39,215	514,958
<hr/>			
Statement of financial position as at 31 March 2020	As restated RM'000	Differences RM'000	As previously reported RM'000
Deferred tax (assets)/liabilities	(16,516)	(49,474)	32,958
Retained earnings	782,100	49,474	732,626
<hr/>			
Statement of profit or loss and other comprehensive income for the financial year ended 31 March 2020	As restated RM'000	Differences RM'000	As previously reported RM'000
Tax expense	(37,170)	10,259	(47,429)
<hr/>			

37. The operations of International Currency Business Unit (ICBU)

The Bank had obtained approval from BNM to set up an International Currency Business Unit ("ICBU") to promote Islamic Banking business. The ICBU is permitted to conduct a wide range of Islamic banking business in international currencies other than Malaysian Ringgit and the currency of Israel as per the Guidelines on the Establishment of International Currency Business Unit issued by BNM.

The following breakdown shows the Bank's financing and advances and deposits from customers which are conducted through the ICBU.

(a) Financing and advances

	2021 RM'000	2020 RM'000
(i) By type:		
<u>At amortised cost:</u>		
Term financing		
- Syndicated Islamic financing	422,983	248,968
- Islamic term financing	549,310	1,391,120
Revolving credit-i	1,077,176	575,622
Gross financing and advances	2,049,469	2,215,710
Less: Allowance for ECL		
- 12-month ECL (Stage 1)	(623)	(4,933)
- Lifetime ECL not credit impaired (Stage 2)	(9,686)	(7,020)
Net financing and advances	<u>2,039,160</u>	<u>2,203,757</u>
(ii) By contract:		
Murabahah	2,049,469	2,215,710
Gross financing and advances	<u>2,049,469</u>	<u>2,215,710</u>

(b) Deposits from customers

	2021 RM'000	2020 RM'000
(i) By type and contract:		
<u>At amortised cost:</u>		
Demand deposits - Qard	3,723	3,645
	<u>3,723</u>	<u>3,645</u>

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]

(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 38 to 149 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2021 and of its financial performance and cash flows for the financial year then ended.

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

[Signed]

Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah

Director

[Signed]

Tan Kim Seng

Director

Kuala Lumpur

Date: 6 September 2021

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

[Company No. 201001042446 (926374-U)]

(Incorporated in Malaysia)

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

I, Soji Takano, the officer primarily responsible for the financial management of Sumitomo Mitsui Banking Corporation Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 38 to 149 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Soji Takano, Passport No.: TZ1257271, at Kuala Lumpur in the Federal Territory on 6 September 2021.

[Signed]

Soji Takano

Before me:

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD**

[Company No. 201001042446 (926374-U)]
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sumitomo Mitsui Banking Corporation Malaysia Berhad ("Bank"), which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 149.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2021, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' Report and the Shariah Committee's 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 Directors' Report and the Shariah Committee's Report and we do not express any form of assurance conclusion thereon.

Company No. 201001042446 (926374-U)

Sumitomo Mitsui Banking Corporation Malaysia Berhad
*Independent Auditors' Report for the
Financial Year Ended 31 March 2021*

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and the Shariah Committee's Report and, in doing so, consider whether the Directors' Report and the Shariah Committee's Report are materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit, or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report and the Shariah Committee's Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 ability of the Bank 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:

- 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.

Company No. 201001042446 (926374-U)

Sumitomo Mitsui Banking Corporation Malaysia Berhad
*Independent Auditors' Report for the
Financial Year Ended 31 March 2021*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 internal control of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

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 members 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.

[Signed]
KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

[Signed]
Foo Siak Chung
Approval Number: 03184/02/2022 J
Chartered Accountant

Petaling Jaya

Date: 6 September 2021