Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Financial Statements
31 December 2010

BOARD OF DIRECTORS

Mr. Yi Huiman, *Non-Independent Non-Executive Director and Chairman*
(appointed on 3 June 2010)

Mr. Tian Fenglin, *Non-Independent Executive Director*
(appointed on 28 January 2010)

Dato' Leong Sonny @ Leong Khee Seong, *Independent Non-Executive Director*
(appointed on 3 June 2010)

Mr. Ong Ah Tin @ Ong Chee Kwee, *Independent Non-Executive Director*
(appointed on 3 June 2010)

Mr. Zhao Guicai, *Non-Independent Non-Executive Director*
(appointed on 3 June 2010)

Mr. Tang Wei, *Non-Independent Non-Executive Director*
(appointed on 3 June 2010)

Mr. Li Kezhao, *Non-Independent Executive Director*
(appointed on 28 January 2010 and resigned on 18 October 2010)

PROFILE OF DIRECTORS

Mr. Yi Huiman

Age 47. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors. Appointed to the Board on 3 June 2010. Attended one out of the two Board meetings held in the financial period. Holds a PhD in Economics from Nanjing University, China. Has been with ICBC Group for the last 26 years holding various positions, such as President of Beijing branch, President of Jiangsu branch, Vice President of Zhejiang branch and President of Hangzhou branch. Currently holds the position of Executive Vice President of ICBC Group. No conflict of interest with the Bank and has no family relationship with any other Director.

Mr. Tian Fenglin

Age 43. Chinese. Non-Independent Executive Director. Appointed to the Board on 28 January 2010. Attended both the Board meetings in the financial period. Holds a Masters degree from Macau University of Science and Technology. Corporate roles with ICBC Group include Senior Economist and Qualified Senior Credit Approval Official at head office, Manager at Nanjing branch (1992-1996), Head of International Department, Nanjing branch (1997-1999), President of Nanjing Xinjiekou sub-branch (2000-2002), Vice President of Nanjing Regional office (2002-2006) and Deputy General Manager of Singapore branch (2007-2009). No conflict of interest with the Bank and has no family relationship with any other Director. Mr. Tian also sits in the Bank's Nominating Committee.

Dato' Leong Sonny @ Leong Khee Seong

Age 72. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended both the Board meetings held in the financial period. Engineer by profession with a Bachelor of Science in Chemical Engineering from the University of New South Wales, Australia. Served the Malaysian Government as the Minister of Primary Industries (1976-1986) and was a member of Parliament (1974-1990). Dato' Leong Sonny was also the Chairman of the Group of 14 ASEAN Economic Cooperation and Integration (1986-1987), Chairman of General Trade Agreement on Tariffs and Trade's Negotiating Committee on Tropical Products (1986-1990), acted as Independent Non-Executive Director of Sin Chew Media Corporation (2004-2007) and Non-Independent Executive Director cum Executive Chairman of Nanyang Press Holdings Berhad (2007-2009). Dato' Leong Sonny also sits on the Board as Independent Non-Executive Director of AirAsia Berhad (2004-current), and as Independent Non-Executive Director in TSH Resources Bhd (2005-current). No conflict of interest with the Bank and has no family relationship with any other Director.

Dato' Leong Sonny is also the Chairman of the Audit committee and Nominating committee and a member of the Risk Management committee and Remuneration committee.

PROFILE OF DIRECTORS *(continued)*

Mr. Ong Ah Tin @ Ong Chee Kwee

Age 61. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended both the Board meetings in the financial period. Holds a Bachelor of Arts in Economics from the University of Malaya and Diploma in Banking from Institute of Bankers, London. Held various positions as the Vice President of Credit Risks at Citibank (1973-1987), Assistant General Manager at Malaysian French Bank (1988-1994), Director and General Manager of OUB Finance (1994-1997), Head/Vice President of Enterprise Banking at Overseas Union Bank Bhd (1998-2001), Acting CEO of Alliance Finance Bhd (2002-2004) and Senior General Manager of Alliance Bank (2004-2005). No conflict of interest with the Bank and has no family relationship with any other Director. Mr. Ong Ah Tin is also the chairman for the Risk Management committee and Remuneration committee, as well as being a member of the Audit committee and Nominating committee.

Mr. Zhao Guicai

Age 44. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended one out of the two Board meetings held in the financial period. Holds a Bachelor of Arts in Economics from the Central University of Finance and Economics, China. Served various roles with ICBC Group as the Senior Economist and Qualified Senior Credit Approval Official (1990), Manager (1991-2000), Senior Manager of Credit Review Division (2000-2004), Chief Manager, Branch Manager of Ningbo branch (2005), Chief Manager of Marketing Division (2006-2007) and Deputy General Manager of Corporate Banking Department of ICBC (2007-current). No conflict of interest with the Bank and has no family relationship with any other Director. Mr. Zhao Guicai also sits as a member of the Risk Management committee and Nominating committee.

Mr. Tang Wei

Age 48. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended one out of the two Board meetings held in the financial period. Holds a Bachelor of Arts in Economics from Beijing Central College, China. Held various roles with ICBC Group for the last 26 years as the Manager of International Department (1984-1996), Senior Manager of Credit Review Division (1997-2000), Deputy General Manager of ICBC Tokyo (2001-2005), Chief Manager of Asia Pacific Branch and Administration Management Division (2006-2008) and Deputy General Manager of International Business Department (2009-current). No conflict of interest with the Bank and has no family relationship with any other Director. Mr. Tang Wei also sits as a member of the Audit committee, Nominating committee and Remuneration committee.

FINANCIAL PERFORMANCE DURING THE FINANCIAL PERIOD

The Malaysian economy continued to recover in 2010, registering GDP growth of 7.2% for the year. The demand for financing from both the public and private sectors were supported by continued access to financing, reasonably low cost of borrowing and ample liquidity in the financial system. Overall, the banking sector remained resilient, with strong capital buffers, sustained profitability and stable loan quality with ample liquidity.

2010 was an exciting start for the Bank. The Bank officiated the opening of its first main branch located at Wisma Equity, Kuala Lumpur in November 2010. Amid in its first year of operations, the Bank has recorded a commendable net profit of RM2.1 million for the financial period under review. The main source of revenue was interest income generated from international trade business and interbank placements. The Bank incurred relatively high operating expenses for the financial period under review in setting up the business and establishing its presence in Malaysia.

OUTLOOK FOR 2011

Looking into the year 2011, the Malaysian economy is expected to grow at a steady pace. Malaysia has strong macroeconomic fundamentals and a sound financial system to aid and sustain its recovery. The strong banking system is backed by a huge capital base and low exposure to foreign debt, providing flexibility for the financial system to intermediate volatile capital flows. The domestic demand is expected to have continuous strong expansion in private consumptions supported by sustained employment and income growth. The monetary policy will continue to remain accommodative and supportive of economic growth.

The roll-out of the Economic Transformation Programme (ETP) and the Tenth Malaysia Plan (10MP) by the Government will provide private investments with a catalytic push and provide significant support to the growth momentum of the economy in 2011 and beyond. However, competition is expected to intensify as new banking licenses were issued to foreign banks during the financial period under review as part of the financial sector liberalisation process.

Going forward in 2011, the Bank aims to lay a solid foundation on its presence and to expand its geographical footprint by setting up more new branches in the country, in order to serve and expand the individuals and business community's banking needs, ranging from small and medium enterprises to large multinationals.

The focus is to grow the e-banking business, aimed at encouraging at least 20% of the existing customers into using the e-banking services. The Bank will also diligently accelerate to establish new business segments such as debit cards, credit cards and ATM services. Having established a comprehensive range of financial products and services, the Bank aims to offer innovative, unique and tailor-made banking packages to respective corporate and retail customers. The Bank will continuously rely on innovation to seize opportunities and explore new breakthroughs. The Bank strives to increase its deposits and assets base by 100% and increase net profit by 150% from the previous financial period under review.

In view of the strong and growing bilateral and economic trade relations between Malaysia and China, the Bank also sees a growing potential demand in servicing these customers. The target customer group of the Bank in Malaysia is those that have business relationship with China counterparts requiring international banking needs. These customers are exposed to cross border settlements and require financial services to hedge against the Renmimbi (RMB) foreign exchange fluctuation risks. Hence, the unique RMB financial products and services offered by the Bank creates a competitive advantage to attract new customers and further expand the customer base.

In the future, the Bank aims to be more forward looking to increase profitability, reinforce liquidity management, maintain high asset quality, implement more vigorous risk management and increase shareholders' wealth. The Bank will also continue to deliver quality customer service and offer innovative banking products and business solutions in winning more quality customers and market share. The Bank remains committed to its objectives of becoming the most preferred banking choice for the local community in the local market, and continue to stimulate the growing economic development and bilateral trade between Malaysia and China.

CORPORATE GOVERNANCE STATEMENT

The Board of Industrial and Commercial Bank of China (Malaysia) Berhad fully appreciates the importance of adopting high standards of corporate governance within the Bank in order to safeguard stakeholders' interests as well as enhancing shareholders' value. The Board views corporate governance to be synonymous with four key concepts; namely transparency, accountability, integrity and corporate responsibilities.

The Board of Industrial and Commercial Bank of China (Malaysia) Berhad believes in inculcating a culture that seeks to balance conformance requirements with the need to deliver long-term strategic success through performance, predicated on entrepreneurship, control and ownership, without compromising personal or corporate ethics and integrity.

A. Directors

The Board

The Board plays a pivotal role in the stewardship of the Bank's direction and operations, including enhancing long-term shareholders' value. In order to fulfill this role, the Board is explicitly responsible for reviewing and adopting a strategic plan for business performance; overseeing the proper conduct of the Bank's business; identifying principal risks and ensuring the implementation of systems to manage risks; succession planning; and reviewing the adequacy and integrity of the Bank's internal control systems and management information systems.

The Board is responsible for establishing operating framework and policies as well as strategic direction. The management is responsible for instituting compliance with regulations, rules, directives and guidelines, including the achievement of the Bank's corporate objectives. This demarcation of roles both complements and reinforces the supervisory role of the Board.

The Board has a schedule of matters required for its decision making. Such matters include the overall Bank strategy and direction, approval of major capital expenditure, consideration of significant financial matters and monitoring the financial and operating performance of the Bank.

The role and function of the Board, which includes the complementing roles of Executive Director and Non-Executive Directors as well as the schedule of matters reserved for the Board, are clearly delineated in the Terms of Reference of the Board of Directors.

Meetings

The Board ordinarily meets at least six (6) times a year with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. Due notice is given for scheduled meetings and matters to be dealt with. All Board meeting proceedings are minuted, including the issues discussed and the conclusions made in discharging its duties and responsibilities.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Meetings *(continued)*

During the financial period, the Board met on two (2) occasions, where it deliberated upon and considered a variety of matters, including approving the Bank's strategic decisions, appointment of committee members, organisation structure etcetera.

The agenda for each Board meeting and papers relating to the agenda items are disseminated to all Directors at least ten (10) days before the meeting, in order to provide sufficient time for the Directors to review the Board papers and seek clarifications, if any. Papers for consideration by the Board at their meeting should normally be circulated by the Secretary at the same time that the agenda is circulated. If this is not possible, then the papers must be circulated to the Board members no later than three (3) working days before the Board meeting.

All proceedings from the Board meetings are minuted and signed by the Chairman of the meeting.

Details of each Director's meeting attendances are as follows:

Meetings attended (out of 2)		
Directors		**Number of meetings attended**
Yi Huiman	Chairman, Non-Independent Non-Executive Director	1/2
Tian Fenglin	Non-Independent Executive Director	2/2
Dato' Leong Sonny @ Leong Khee Seong	Independent Non-Executive Director	2/2
Ong Ah Tin @ Ong Chee	Independent Non-Executive Director	2/2
Zhao Guicai	Non-Independent Non-Executive Director	1/2
Tang Wei	Non-Independent Non-Executive Director	1/2

Board Committees

The Board has delegated certain responsibilities to the following Board Committees, which operate within clearly defined terms of reference:

Board Committees	**Key Functions**
Nominating Committee	Explained on pages 8 and 9 of these financial statements
Risk Management Committee	Explained on page 9 of these financial statements
Remuneration Committee	Explained on page 10 of these financial statements
Audit Committee	Explained on pages 11 to 13 of these financial statements

The Board periodically reviews the Committees' terms of reference and operating procedures. The Committees are required to report to the Board on all their deliberations and recommendations and such reports are incorporated in the minutes of the Board meeting.

Board balance

The Board has six (6) members, comprising one (1) Non-Independent Executive Director, two (2) Independent Non-Executive Directors and three (3) Non-Independent Non-Executive Directors. A brief profile of each Director is presented on pages 2 and 3 of these financial statements.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board balance *(continued)*

The Directors, with their differing backgrounds and specialisations, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. The Executive Director in particular is responsible for implementing the policies and decisions of the Board, overseeing the operations as well as co-ordinating the development and implementation of business and corporate strategies.

The Independent Non-Executive Directors contribute significantly and bring forth independent judgement in areas relating to policy and strategy, business performance, resources allocation as well as improving governance and controls. Together with the Executive Director who has intimate knowledge of the business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities.

There is clear division of responsibilities at the head of the Bank, to enable a balance of power and authority. The Board is led by Mr. Yi Huiman as the Non-Independent Non-Executive Director cum Chairman, while the executive management of the Bank is helmed by Mr. Tian Fenglin, the Bank's Chief Executive Officer (CEO).

The roles of the Chairman and the CEO are clearly defined in their individual position descriptions. The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board and acts as a facilitator at Board meetings. The CEO, supported by the management team, is responsible for the day-to-day management of the Bank as well as the effective implementation of the strategic plan and policies established by the Board.

Supply of information

The Secretary undertakes primary responsibility for organising information necessary for the Board to deal with the agenda and in ensuring that all Directors have full and timely access to the information relevant to matters that will be deliberated at the Board meeting.

The Audit Committee plays a pivotal role in channeling pertinent operational and assurance related issues to the Board. The Committee partly functions as a filter to ensure that only pertinent matters are tabled at the Board level.

All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making; that Board procedures are followed and all the statutory and regulatory requirements are met. The Company Secretary ensures that all Board meetings are properly convened and that accurate and proper records of the proceedings and resolutions passed are recorded and maintained. The Board believes that the Company Secretary is capable of carrying out the duties to ensure the effective functioning of the Board and the removal of the Company Secretary from the post, if contemplated, is a matter for consideration by the Board as a whole.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Appointments to the Board

Nominating Committee

The Nominating Committee comprises the following Directors:

Dato' Leong Sonny @ Leong Khee Seong
Tian Fenglin
Ong Ah Tin @ Ong Chee Kwee
Zhao Guicai
Tang Wei

Responsibilities and duties

i) To establish minimum requirements for the Board members, with a good mix of skills, experience, qualification and other core competencies required of a director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the full Board.

ii) Recommending and assessing the nominees for directorship, Board committee members as well as nominees for the CEO. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia (BNM). The final decision on the nomination and appointment of Board and Committee rests with the Board.

iii) Overseeing 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.

iv) Recommending to the Board the removal of a director or CEO from the Board or management if the director or CEO is ineffective, errant and negligent in discharging his responsibilities.

v) Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers. Annual assessment should be conducted based on objective performance criteria. Such performance criteria should be approved by the full Board.

vi) Ensuring that all directors receive an appropriate continuous training programme in order to keep abreast with the latest developments in the industry.

vii) Overseeing the appointment, management succession planning and performance evaluation of key senior management officers.

viii) Recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.

ix) Assessing, on an annual basis, to ensure that the directors and key senior management officers are not disqualified under Section 56 of the Banking and Financial Institutions Act 1989 (BAFIA).

The Committee reports to the full Board of Directors and is entitled to the full assistance of the Bank's management. The Committee should not be delegated with decision making powers but should report its recommendations to the full Board of Directors for its decision.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Appointments to the Board *(continued)*

Re-election

The Bank's Articles of Association provide that all member of the Board are subject to retirement at the first Annual General Meeting. Directors appointed by the Board in each financial year are subject to re-election by the shareholders at the next Annual General Meeting following their appointments. The election of each Director is voted on separately.

Risk Management Committee

The Risk Management Committee comprises the following Directors:

Ong Ah Tin @ Ong Chee Kwee
Dato' Leong Sonny @ Leong Khee Seong
Zhao Guicai

Responsibilities and duties

i) Reviewing and recommending risk management strategies, policies and risk tolerance for Board’s approval.

ii) Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.

iii) Ensuring infrastructure, resources and systems are in place for risk management, including ensuring that staff responsible for implementing risk management systems perform their duties independent of the Bank’s risk taking activities.

iv) Reviewing management’s periodic reports on risk exposure, risk portfolio composition and risk management activities.

v) Where risk strategies and policies are driven by the Bank’s parent bank, the Committee shall:

- Evaluate and provide input on such strategies and/or policies to suit local conditions.
- Make appropriate recommendations to the Board on execution or compliance of such strategies and/ or policies.

CORPORATE GOVERNANCE STATEMENT *(continued)*

B. Directors' remuneration

Remuneration Committee

The Remuneration Committee comprises exclusively of the following Directors:

Ong Ah Tin @ Ong Chee Kwee
Dato' Leong Sonny @ Leong Khee Seong
Tang Wei

Responsibilities and duties

i) Recommending a framework of remuneration for directors, CEO and key senior management officers for the full Board's approval. The remuneration framework should support the Bank's culture, objectives and strategy and should reflect the responsibility and commitment, which goes with Board membership and responsibilities of the CEO and senior management officers. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent the Bank's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fees, salaries, allowances, bonuses, share options and benefits-in-kind.

ii) Recommending specific remuneration packages for executive directors and the CEO. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be based on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. In addition, the remuneration of each Board member may differ based on their level of expertise, knowledge and experience.

The Committee reports to the full Board of Directors and is entitled to the full assistance of the Bank's management. The Committee should not be delegated with decision making powers but should report its recommendations to the full Board of Directors for its decision.

Details of Directors' remuneration

The details of the nature and amount of each major element of the remuneration of each Director of the Bank for the financial period ended 31 December are disclosed in Note 22 (b) to the financial statements.

CORPORATE GOVERNANCE STATEMENT *(continued)*

C. Accountability and audit

Financial reporting

It is the Board's commitment to present a balanced and meaningful assessment of the Bank's financial performance and prospects at the end of the financial period, primarily through the annual financial statements to the Central Bank.

The Board is assisted by the Audit Committee to oversee the Bank's financial reporting process and the quality of its financial reporting.

Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Bank as at the end of the accounting period and of their operations results and cash flows for the period then ended. In preparing the financial statements, the Directors have ensured that the preparation and fair presentation of these financial statements in accordance with Malaysian accounting standards in all respects and other legal requirements.

Relationship with the Auditor

Key features underlying the relationship of the Audit Committee with the external auditor are included in the Audit Committee's terms of reference.

AUDIT COMMITTEE REPORT

Membership
The Audit Committee comprises the following Directors:

Dato' Leong Sonny @ Leong Khee Seong
Ong Ah Tin @ Ong Chee Kwee
Tang Wei

Terms of reference
The Committee was established on 16 December 2010 to act as a Committee of the Board of Directors, with the terms of reference as set out on pages 12 to 13.

Meetings
The Committee convened one (1) meeting, which was attended by all members, during the financial period. The meeting was appropriately structured through the use of agenda, which were distributed to members with sufficient notification.

AUDIT COMMITTEE REPORT *(continued)*

Objectives

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling the following oversight objectives on the activities of the Bank:

- provide independent oversight of the Bank's financial reporting and internal control system.
- ensuring checks and balances within the Bank.

Composition

The Board shall elect and appoint the Audit Committee comprising of non-executive directors with at least three (3) members, of which the majority should be independent directors. The committee should be chaired by an independent director.

Quorum and Committee's procedures

Meetings shall be conducted at least four (4) times annually, with each meeting planned to coincide with key dates in the Bank's financial reporting cycle, or more frequently as circumstances dictate.

In order to form a quorum for the meeting, two members must be present in person with a majority being independent non-executive director. A majority of vote shall be required to pass or defeat any resolution. In the event of an equality of votes, the Chairman shall have a second or casting vote.

The Audit Committee may invite other directors, the CEO and other senior management staff to its meetings to assist in the discharge of its responsibilities.

Responsibilities and duties

In fulfilling its primary objectives, the Committee shall undertake the following responsibilities and duties:

- The Committee reports to the full Board. It is entitled to the full assistance of the Bank’s management and internal and external auditors in the discharge of its responsibilities and may communicate directly with any of them.

- Review/discuss with the external auditors and management on the fairness of presentation and reporting of the financial statements/reports and prompt publication of the financial accounts.

- In reliance on review and discussions with management and external auditors, the Committee will ensure that the Bank’s financials are fairly presented in conformity with Malaysian accounting standards in all respects and other legal requirements.

- Oversee the functions of the Internal Audit Department and ensuring compliance with BNM/GP10 requirement.

- Review and approve the annual audit plan including its audit objectives, scope and resources allocation.

- Review internal audit findings/reports, management’s response and follow-up on internal auditors’ recommendations.

- Appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor.

AUDIT COMMITTEE REPORT *(continued)*

Responsibilities and duties *(continued)*

- Review with the internal and external auditors, their findings on their evaluation of the system of internal controls with particular attention to material internal controls, including financial, operational and compliance controls and risk management.

- Select external auditors for appointment by Board annually, the audit fee and any questions of resignation or dismissal.

- To review the independence and objectivity of the external auditors, including the requisite disclosures from the external auditors evidencing their independence. In reviewing the independence of external auditors, the Committee is to consider the financial, business and professional relationship between the external auditors and the Bank.

- Review the external auditor's management letter and response.

- Review and approve the provision of non-audit service by external auditor so as to ensure that provision of non-audit services does not interfere with the exercise of independent judgement of auditors.

- Review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner.

- Discuss with external auditors without presence of management annually.

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

- The Committee will also review generally the administrative and control aspects of the operations of the Bank, however, is not concerned with the exercise of business judgements.

- The Committee may make such recommendations to the Board on any audit or financial reporting matters as they may think fit.

DIRECTORS' REPORT
For the period ended 31 December 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial period from 28 January 2010 (date of incorporation) to 31 December 2010.

PRINCIPAL ACTIVITIES

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

RESULTS

	RM'000
Profit before taxation	3,036
Tax expense	(917)
Net profit for the period	2,119

RESERVES AND PROVISIONS

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

DIVIDENDS

No dividend was paid during the financial period and the Directors do not recommend any dividend to be paid for the financial period.

DIRECTORS OF THE BANK

Directors who served since the date of incorporation and at the date of this report are:

	Appointment date	Resignation date
Mr. Yi Huiman	3 June 2010	-
Mr. Tian Fenglin	28 January 2010	-
Dato' Leong Sonny @ Leong Khee Seong	3 June 2010	-
Mr. Ong Ah Tin @ Ong Chee Kwee	3 June 2010	-
Mr. Zhao Guicai	3 June 2010	-
Mr. Tang Wei	3 June 2010	-
Mr. Li Kezhao	28 January 2010	18 October 2010

In accordance with Article 73 of the Company’s Articles of Association, at the first annual general meeting of the Bank, all the directors shall retire from office. A retiring director shall be eligible for re-election.

DIRECTORS' INTEREST

None of the Directors holding office at 31 December 2010 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial period.

DIRECTORS' BENEFITS

Since the incorporation date, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments 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 as shown in Note 22 (b) to the financial statements) by reason of a contract made by the Bank 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.

There were no arrangements during and at the end of the financial period which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

On the date of incorporation, 2 ordinary shares of RM1 each were issued at par for cash. During the financial period, the Bank issued 330,999,998 new ordinary shares of RM1 each at an issue price of RM1 per share for working capital purposes.

There were no other changes in the authorised, issued and paid-up capital of the Bank during the financial period. There were no debentures issued during the financial period.

OPTIONS GRANTED OVER UNISSUED SHARES

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

BANK RATINGS

The Bank has not been rated by any external agencies.

HOLDING COMPANY

The Directors regard Industrial and Commercial Bank of China Limited, a company incorporated in China, as the holding company of the Bank.

OTHER STATUTORY INFORMATION

Before the statement of comprehensive income and statement of financial position of the Bank were made out, the Directors took reasonable steps to ascertain that:

i) adequate provision has been made for doubtful debts; and

ii) any current assets 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:

i) that would render the amount of the provision for doubtful debts in the Bank inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the Bank financial statements misleading, or

iii) which has arisen which render adherence to the existing method of valuation of assets and liabilities of the Bank misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Bank misleading.

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

i) any charge on the assets of the Bank that has arisen since the end of the financial period 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 period.

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 period 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.

In the opinion of the Directors, the results of the operations of the Bank for the financial period ended 31 December 2010 have 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 period and the date of this report.

(Company No. 839839 M)

AUDITORS

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

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

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Tian Fenglin

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Dato' Leong Sonny @ Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 0 7 MAR 2011

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Tian Fenglin and Dato' Leong Sonny @ Leong Khee Seong being two of the directors of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 22 to 54 are drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2010 and of the results and cash flows of the Bank for the period ended on that date.

TIAN FENGLIN

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Tian Fenglin

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Dato' Leong Sonny @ Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 07 MAR 2011

STATUTORY DECLARATION PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Tian Fenglin, being the Director primarily responsible for the financial management of Industrial and Commercial Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 22 to 54 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur, Malaysia on 7 March 2011.

Tian Fenglin

....

Tian Fenglin

BEFORE ME:

PESURUHJAYA SUMPAH
NO: W 606
NAMA: CHARANJIT KAUR
MALAYSIA

....

L8-06, LEVEL 8,
BREM MALL, JALAN KEPONG,
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H/P: 012-271 9605

KPMG (Firm No. AF 0758)
Chartered Accountants
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Independent Auditors' Report to the Member Of Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2010 of the Bank, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 54.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

(Company No. 839839 M)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia so as to give a true and fair view of the financial position of the Bank as of 31 December 2010 and of its financial performance and cash flows for the period then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/12(J)

Petaling Jaya, Malaysia

Date: 7 March 2011

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 RM'000
ASSETS		
Cash and short-term funds	4	321,307
Deposits and placements with banks and other financial institutions	5	568,236
Loans, advances and financing	6	118,817
Other assets	7	6,774
Deferred tax assets	8	766
Plant and equipment	9	1,001
TOTAL ASSETS		1,016,901
LIABILITIES		
Deposits from customers	10	32,030
Deposits and placements of banks and other financial institutions	11	645,430
Other liabilities	12	4,639
Provision for taxation		1,683
TOTAL LIABILITIES		683,782
EQUITY		
Share capital	13	331,000
Reserves	14	2,119
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK		333,119
TOTAL LIABILITIES AND EQUITY		1,016,901

The notes set out on pages 26 to 54 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 28 JANUARY 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2010

	Note	28.1.2010 to 31.12.2010 RM'000
Interest income		12,942
Interest expense		(3,505)
Net interest income	15	9,437
Fee income	16	29
Net trading income	17	3,748
Net operating income		13,214
Other operating expenses	18	(8,369)
Operating profit		4,845
Allowance for impairment on loans, advances and financing	19	(1,809)
Profit before taxation		3,036
Tax expense	20	(917)
Profit after taxation		2,119
Other comprehensive income for the period, net of tax		-
Total comprehensive income for the period		2,119
Basic earnings per ordinary share (sen):	21	0.78

The notes set out on pages 26 to 54 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 28 JANUARY 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2010

	Non-distributable		Distributable	
	Share Capital RM'000	Statutory Reserve RM'000	Retained Earnings RM'000	Total RM'000
At 28 January 2010 (date of incorporation)	-	-	-	-
Issuance of shares	331,000	-	-	331,000
Total comprehensive income for the period	-	-	2,119	2,119
Transfer to statutory reserve	-	1,060	(1,060)	-
At 31 December 2010	331,000	1,060	1,059	333,119
		Note 14.1	Note 14.2	

The notes set out on pages 26 to 54 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 28 JANUARY 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2010

	Note	28.1.2010 to 31.12.2010 RM'000
Cash flows from operating activities		
Profit before taxation		3,036
Adjustments for:		
Depreciation of plant and equipment		139
Allowance for impairment on loans, advances and financing		1,809
Operating profit before working capital changes		4,984
Increase in operating assets		
Loans, advances and financing		(120,626)
Other assets		(6,774)
Increase in operating liabilities		
Deposits from customers		32,030
Deposits and placements of banks and other financial institutions		645,430
Other liabilities		4,639
Net cash generated from operating activities		559,683
Cash flows from investing activity		
Purchase of plant and equipment		(1,140)
Net cash used in investing activity		(1,140)
Cash flows from financing activity		
Issuance of shares		331,000
Net cash generated from financing activity		331,000
Net increase in cash and cash equivalents		889,543
Cash and cash equivalents at date of incorporation		*
Cash and cash equivalents at end of the financial period		889,543

** represents RM2*

Cash and cash equivalents comprise:

	Note	RM'000
Cash and short-term funds	4	321,307
Deposits and placements with banks and other financial institutions	5	568,236
		889,543

The notes set out on pages 26 to 54 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2010

1. General information

Industrial and Commercial Bank of China (Malaysia) Berhad is a public limited liability company incorporated and domiciled in Malaysia on 28 January 2010 and is principally engaged in the provision of banking and other related financial services. The addresses of its registered office and principal place of business are as follows:

Registered office	Principal place of business
Level 7, Menara Milenium	Level 34C, Menara Maxis
Jalan Damanlela	Kuala Lumpur City Centre
Pusat Bandar Damansara	50088 Kuala Lumpur.
Damansara Heights	
50490 Kuala Lumpur.	

The financial statements were authorised for issue by the Board of Directors on 7 March 2011.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Companies Act, 1965, generally accepted accounting principles and Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia's Guidelines.

The Bank has not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Bank:

FRSs/Interpretations	Effective date
Amendments to FRS 132, *Financial Instruments: Presentation – Classification of* Rights Issues	1 March 2010
FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)	1 July 2010
FRS 3, *Business Combinations* (revised)	1 July 2010
FRS 127, *Consolidated and Separate Financial Statements* (revised)	1 July 2010
Amendments to FRS 2, *Share-based Payment*	1 July 2010
Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	1 July 2010
Amendments to FRS 138, *Intangible Assets*	1 July 2010
IC Interpretation 12, *Service Concession Agreements*	1 July 2010
IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*	1 July 2010
IC Interpretation 17, *Distributions of Non-cash Assets to Owners*	1 July 2010
Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*	1 July 2010
Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*	1 January 2011
-Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
-Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 2, *Group Cash-settled Share Based Payment Transactions*	1 January 2011
Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*	1 January 2011
IC Interpretation 4, *Determining whether an Arrangement contains a Lease*	1 January 2011
IC Interpretation 18, *Transfers of Assets from Customers*	1 January 2011
Improvements to FRSs (2010)	1 January 2011

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

FRSs/Interpretations	**Effective date**
IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2011
Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*	1 July 2011
FRS 124, *Related Party Disclosures* (revised)	1 January 2012
IC Interpretation 15, *Agreements for the Construction of Real Estate*	1 January 2012

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

- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for Amendments to FRS 132, FRS 3 (revised), FRS 127 (revised), Amendments to FRS 2, Amendments to FRS 5, Amendments to FRS 138, IC Interpretation 12, IC Interpretation 16, IC Interpretation 17, IC Interpretation 4 and IC Interpretation 18 as they are not applicable to the Bank.
- from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for the annual period beginning on or after 1 July 2011 and 1 January 2012 except for IC Interpretation 19, Amendments to IC Interpretation 14 and IC Interpretation 15 as they are not applicable to the Bank.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current period financial statements upon their first adoption.

The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Bank.

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for the derivative financial instruments as disclosed in the notes to the financial statements.

(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 financial information and financial statements in conformity with FRSs 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 estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect are disclosed in the financial statements (if any).

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amount recognised in the financial statements other than those disclosed in Note 32.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Interest recognition

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest 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 rate includes all fees and points paid or received that are 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.

Interest expense on deposits and borrowings of the Bank are recognised on an accrual basis.

(c) Fees recognition

Loan arrangement fees which are material are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Other fee income on services and facilities extended to customers are recognised as the related services are performed.

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

(d) Operating lease payments

Leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the Bank's statement of financial position.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

3. Significant accounting policies *(continued)*

(e) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: 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 be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with BNM and highly liquid financial assets with original maturities less than one month, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are stated at placement value in the statement of financial position.

(g) Derivative financial instruments and hedging activities

Derivatives are recognised at fair value in the statement of financial position. Under the fair value hedge, the gains and losses (realised and unrealised) from changes in the fair value are recognised in the statement of comprehensive income.

(i) Forward Foreign Exchange Contracts

Forward contracts are valued at the prevailing forward rates of exchange at the reporting date. The resultant unrealised gains and losses are recognised in the statement of comprehensive income.

(ii) Currency Swaps

The Bank acts as an intermediary for counterparties who wish to swap their foreign currency obligations. The resultant realised and unrealised gains and losses are recognised in the statement of comprehensive income.

3. Significant accounting policies *(continued)*

(h) Loans, advances and financing

Loans, advances and financing are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

The loans, advances and financing are carried at their outstanding unpaid principal and interest balances, net of individual and collective assessment impairment allowances. The carrying amount of the Bank's loans, advances and financing are reviewed at each reporting date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated.

(i) Allowance for impairment on loans, advances and financing

The Bank's allowance for impairment on loans/financing is in conformity with the Classification and Impairment Provisions for Loans/Financing requirement. Accounts are classified as impaired when interest or principal is in arrears for more than ninety (90) days.

Individual assessment allowances are made for loans/financing which have been individually reviewed and specifically identified as impaired. Individual assessment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the carrying value of the loans/financing (outstanding amount of loans and financing, net of individual assessment allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

A collective assessment allowance based on a percentage of the loans, advances and financing portfolio is also made to cover possible losses which are not specifically identified. The percentage made is in compliance with the minimum requirement of 1.5% set by BNM.

Impaired loans, advances and financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Loans, advances and financing (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, advances and financing, when the proceeds from the realisation of security have been received.

(j) Plant and equipment

Recognition and measurement

All purchases above MYR1,000 are capitalised. Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures 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, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When 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 income' or 'other expense' respectively in the statement of comprehensive income.

3. Significant accounting policies *(continued)*

(j) Plant and equipment *(continued)*

Subsequent costs

The cost of replacing a part 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 part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in the statement of comprehensive income as incurred.

Depreciation

Depreciation is recognised in the statement of comprehensive income 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 plant and equipment are depreciated in the subsequent month of addition, and depreciation is accounted for in the month of disposal.

The depreciation rates for the plant and equipment categories are as follows:

	Depreciation rate per annum (%)
Electronic equipment	33.33
Office equipment, fixtures and fittings	20
Computer software	33.33
Improvement on leased assets	Over the leasehold period

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

Disposal and write-off

On disposal of a plant or equipment, the difference between the net disposal proceeds and its carrying amount is taken to the statement of comprehensive income. Disposal proceeds may also apply to fully depreciated assets. Where the plant or equipment is no longer used, they will be written off.

(k) Impairment

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. 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.

For the purpose of impairment testing, assets that cannot be tested individually 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 groups of assets (the CGU).

3. Significant accounting policies *(continued)*

(k) Impairment *(continued)*

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at end of each reporting date 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. 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 the statement of comprehensive income in the year in which the reversals are recognised.

(l) Provisions

A provision is recognised if, as a result of a 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.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating leases are not provided for.

(m) Employee benefits

(i) Short-term employee 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 expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus 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) Defined contribution plan

The Bank's contribution to statutory pension funds are charged to the statement of comprehensive income in the year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(n) 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.

3. Significant accounting policies *(continued)*

(o) Liabilities

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values.

Other liabilities are measured initially and subsequently at cost. Other liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

4. Cash and short-term funds

	2010 RM'000
Cash and balances with banks and other financial institutions	14,551
Money at call and deposit placements maturing within one month	306,756
	321,307

5. Deposits and placements with banks and other financial institutions

	2010 RM'000
Licensed Malaysian banks	65,200
Foreign banks	503,036
	568,236

6. Loans, advances and financing

At amortised cost **(i) By type**	**2010** **RM'000**
Term loans	63,212
Bankers' acceptance	397
Bills receivable	57,017
Gross loans, advances and financing	120,626
Less: Allowance for impairment	
- Collective allowance for impairment	(1,809)
Net loans, advances and financing	118,817

(ii) By type of customer	**2010** **RM'000**
Domestic business enterprises	
- Others	57,414
Foreign entities	63,212
	120,626

(iii) By interest rate sensitivity	**2010** **RM'000**
Fixed rate loans	57,414
Floating rate loans	63,212
	120,626

6. Loans, advances and financing *(continued)*

(iv) By sector

	2010 RM'000
Agriculture	56,971
Mining and quarrying	397
Manufacturing	47
Others	63,211
	120,626

(v) By geographical distribution

	2010 RM'000
Malaysia	57,414
China	63,212
	120,626

Concentration by location for loans, advances and financing is based on the location of the borrower.

(vi) By residual contractual maturity

	2010 RM'000
< 1 month	38,591
1-3 months	57,367
1-2 years	24,668
	120,626

(vii) Movements in collective allowance for impairment on loans, advances and financing

	2010 RM'000
At beginning of the financial period	-
Allowance made during the financial period	1,809
At end of the financial period	1,809
As % of gross loans, advances and financing (net of individual allowance)	1.5%

7. Other assets

	2010 RM'000
Derivative financial instruments (Note 29)	228
Interest receivable	4,804
Deposits	314
Other receivables and prepayments	1,428
	6,774

8. Deferred tax assets

	2010 RM'000
At beginning of the financial period	-
Recognised in the statement of comprehensive income (Note 20)	766
At end of the financial period	766

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

Plant and equipment	198
Collective assessment allowance	(451)
Others	(513)
	(766)

All movements in deferred tax assets and liabilities have been recognised in the statement of comprehensive income. The components and movements of deferred tax assets and liabilities during the financial period are as follows:

	Plant and equipment RM'000	Collective assessment allowance RM'000	Others RM'000	Total RM'000
Deferred tax (assets)/ liabilities				
At 28 January 2010 (date of incorporation)	-	-	-	-
Recognised in income statement (Note 20)	198	(451)	(513)	(766)
At 31 December 2010	198	(451)	(513)	(766)

9. Plant and equipment

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Total RM'000
Cost					
At 28 January 2010 (date of incorporation)	-	-	-	-	-
Additions	773	90	167	110	1,140
At 31 December 2010	773	90	167	110	1,140
Accumulated depreciation					
At 28 January 2010 (date of incorporation)	-	-	-	-	-
Charge during the period	116	4	8	11	139
At 31 December 2010	116	4	8	11	139
Net carrying amount					
At 28 January 2010 (date of incorporation)	-	-	-	-	-
At 31 December 2010	657	86	159	99	1,001

10. Deposits from customers

(i) By type of deposit

	2010 RM'000
Demand deposits	3,500
Savings deposits	1,112
Fixed deposits	27,418
	32,030

(ii) By type of customer

	2010 RM'000
Business enterprises	16,577
Individuals	14,392
Others	1,061
	32,030

(iii) By maturity structure of term deposits

	2010 RM'000
Due within six months	31,525
Six months to 1 year	505
	32,030

11. Deposits and placements of banks and other financial institutions

	2010 RM'000
Licensed Malaysian banks	562,136
Foreign banks	83,294
	645,430

12. Other liabilities

	2010 RM'000
Interest payable	2,307
Other payables and accruals	2,332
	4,639

13. Share capital

	Number of shares 2010 '000	Amount 2010 RM'000
Authorised		
Ordinary shares of RM1 each:		
At 28 January 2010 (date of incorporation)/ At 31 December 2010	380,000	380,000
Issued and fully paid		
Ordinary shares of RM1 each:		
At 28 January 2010 (date of incorporation)	*	*
Issued during the financial period	331,000	331,000
At 31 December 2010	331,000	331,000

* At date of incorporation, two ordinary shares were issued at RM1 each.

14. Reserves

14.1 Statutory reserve

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 (BAFIA) and is not distributable as cash dividends.

14.2 Retained earnings

In accordance with the Finance Act 2007 which was gazetted on 28 December 2008, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). Hence, the Bank will be able to distribute dividends out of its entire retained earnings under the single tier system.

15. Interest income

	From 28.1.2010 to 31.12.2010 RM'000
Loans, advances and financing:	
- Interest income other than from impaired loans	269
Money at call and deposit placements with financial institutions	12,673
	12,942
Interest expense	
Deposits and placements of banks and other financial institutions	(3,409)
Deposits from customers	(96)
	(3,505)
Net interest income	9,437

All items of interest income and expense were recognised from assets and liabilities that were not at fair value through profit or loss.

16. Fee income

	From 28.1.2010 to 31.12.2010 RM'000
Fee income:	
- Service charges and fees	28
- Guarantee fees	1
	29

17. Net trading income

	From 28.1.2010 to 31.12.2010 RM'000
Realised revaluation gains in foreign exchange	688
Unrealised revaluation gains in foreign exchange	2,832
Unrealised gains arising from derivative trading	228
	3,748

18. Other operating expenses

	From 28.1.2010 to 31.12.2010 RM'000
Personnel costs:	
- Salaries, allowance and bonuses (excluding Directors' remuneration)	4,187
- Directors' remuneration (Note 22 (b))	426
- Pension fund contributions	111
- Other staff costs	185
Promotion and marketing related expenses:	
- Advertising and promotion	47
- Others	199
Establishment costs:	
- Depreciation of plant and equipment	139
- Rental	882
- Others	485
Administrative expenses:	
- Audit fees	100
- Professional fees	264
- Licence fee	103
- Membership fee	23
- Others	1,218
	8,369

19. Allowance for impairment on loans, advances and financing

	From 28.1.2010 to 31.12.2010 RM'000
Collective allowance for impairment	
- made during the financial period	1,809

20. Tax expense

	From 28.1.2010 to 31.12.2010 RM'000
Income tax expense	
- Current financial period	1,683
Deferred taxation (Note 8):	
- Origination and reversal of temporary differences	(766)
	917

	From 28.1.2010 to 31.12.2010 RM'000
Reconciliation of tax expense	
Profit before taxation	3,036
Income tax using Malaysian tax rate @ 25%	759
Non-deductible expenses	158
Tax expense	917

21. Basic earnings per ordinary share

The basic earnings per ordinary share has been calculated based on the profit attributable to equity holder and 270,818,182 weighted average number of ordinary shares of RM1 each in issue during the financial period.

22. Significant related party transactions and balances

(a) The significant transactions and outstanding balances of the Bank with holding company and other related entities are as follow:-

	2010	
	RM'000 Holding company	**RM'000** Related companies
Income		
Interest income		
- Deposits and placements with banks and other financial institutions	14	5,738
Expenses		
Interest expense		
- Deposits and placements of banks and other financial institutions	170	49
Other operating expenses		
- Other charges	22	186
Amount due from		
- Cash and short-term funds	5,810	3,114
- Deposits and placements with banks and other financial institutions	-	517,792
- Other assets	1,185	3,881
Amount due to		
- Deposits and placements of banks and other financial institutions	1,328	81,966
- Other liabilities	-	60

22. Significant related party transactions and balances *(continued)*

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

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

(b) Key management personnel compensation

The remuneration of key management personnel, being the members of the Board of Directors of the Bank, during the financial period are shown below.

Aggregate remuneration of all Directors during the period are as follows:

	From 28.1.2010 to 31.12.2010 RM'000
Executive Director and CEO	
Mr. Tian Fenglin	
- salaries	306
- benefits-in-kind *	38
	344
Non-Executive Directors' fees	
Dato' Leong Sonny @ Leong Khee Seong	41
Mr. Ong Ah Tin @ Ong Chee Kwee	41
	82
	426

**Benefits-in-kind include relocation expenses.*

23. Credit exposures to connected parties

BNM's "Guidelines on Credit Transactions and Exposures with Connected Parties" came into effect in October 2008. Other than those disclosed in Note 22 to the financial statements, there is no outstanding credit exposure to connected parties as at period end.

There are no outstanding credit exposures to connected parties which is impaired or in default.

24. Commitments and contingencies

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

The commitments and contingencies constitute the following:

	2010			
	Principal amount RM'000	**Positive value of derivative contracts ^ RM'000**	**Credit equivalent amount * RM'000**	**Risk weighted assets * RM'000**
Credit-related exposures				
Transaction-related contingent items	430,919	-	215,460	107,730
Derivative financial contracts				
Foreign exchange related contracts:				
- less than one year	11,400	228	427	384
Total	442,319	228	215,887	108,114
		Note 29		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The table above shows the Bank's derivative financial instruments as at the reporting date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at reporting date are as shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

25. Lease commitments

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the long-term lease commitments is as follow:

	2010 RM'000
Within one year	1,220
After one year but not more than five years	1,033
	2,253

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26. Interest rate risk

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

2010	Non-trading book						Trading book	Total	Effective interest rate
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	RM'000	RM'000	%
Assets									
Cash and short-term funds	306,756	-	-	-	-	14,551	-	321,307	2.67
Deposits and placements with banks and other financial institutions	-	135,180	433,056	-	-	-	-	568,236	2.53
Loans, advances and financing:									
- performing	38,012	56,507	24,298	-	-	-	-	118,817	1.93
Other assets ^	-	-	-	-	-	8,541	-	8,541	-
Total assets	344,768	191,687	457,354	-	-	23,092	-	1,016,901	
Liabilities									
Deposits from customers	11,959	16,045	526	-	-	3,500	-	32,030	2.35
Deposits and placements of banks and other financial institutions	120,105	92,958	429,332	-	-	3,035	-	645,430	1.36
Other liabilities #	-	-	-	-	-	6,322	-	6,322	-
Total liabilities	132,064	109,003	429,858	-	-	12,857	-	683,782	
Equity	-	-	-	-	-	333,119	-	333,119	
Total liabilities and equity	132,064	109,003	429,858	-	-	345,976	-	1,016,901	
On-balance sheet interest sensitivity gap	212,704	82,684	27,496	-	-	(322,884)	-		
Total interest sensitivity gap	212,704	82,684	27,496	-	-	(322,884)	-		

^ Other assets include other assets, deferred tax assets as well as plant and equipment as disclosed in the statement of financial position.

\# Other liabilities include other liabilities and provision for taxation as disclosed in the statement of financial position.

27. Capital adequacy

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

	2010 RM'000
Tier 1 capital	
Paid-up share capital	331,000
Retained earnings	1,059
Statutory reserves	1,060
	333,119
Less: Deferred tax assets	(766)
Total Tier 1 capital	332,353
Tier 2 capital	
Collective assessment allowance, representing total Tier 2 capital	1,809
Capital base	334,162
Core capital ratio	71.40%
Risk-weighted capital ratio	71.79%

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	2010 Principal RM'000	 Risk-weighted RM'000
Total RWA for credit risk	1,233,605	436,205
Total RWA for market risk	-	4,498
Total RWA for operational risk	-	24,781
	1,233,605	465,484

Capital adequacy ratios of the Bank are computed in accordance with BNM's revised Risk Weighted Capital Adequacy Framework, "RWCAF": Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk (Basel 2).

27. Capital adequacy *(continued)*

(a) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category under standardised approach for the current financial period are as follow:

		2010			
		Gross Exposures RM'000	**Net Exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital Requirements RM'000**
Credit Risk					
On-Balance Sheet Exposures					
Sovereigns/Central Bank		173,896	173,896	-	-
Banks, Development Financial Institutions and MDBs		714,325	714,325	260,405	20,832
Corporates		120,626	120,626	60,138	4,811
Other assets		8,871	8,871	7,548	604
Total On-Balance Sheet Exposures		1,017,718	1,017,718	328,091	26,247
Off-Balance Sheet Exposures					
Credit-related off-balance sheet exposures		215,460	215,460	107,730	8,618
OTC derivatives		427	427	384	31
Total Off-Balance Sheet Exposures		215,887	215,887	108,114	8,649
Total On and Off-Balance Sheet Exposures		1,233,605	1,233,605	436,205	34,896
Large exposure risk requirement		-	-	-	-
Market Risk	Long position	Short position			
Foreign currency risk	4,498	-	4,498	4,498	360
Operational Risk	-	-	-	24,781	1,982
Total RWA and Capital Requirements				465,484	37,238

Note:

MDBs - Multilateral Development Banks

OTC - Over the counter

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27. Capital adequacy ***(continued)***

(b) The breakdown of credit risk exposures by risk weights for the current financial period are as follows:

2010 Risk Weights	Exposures after Netting and Credit Risk Mitigation				Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Bank	Banks, MDBs and DFIs	Corporates	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	173,896	-	397	1,324	175,617	-
20%	-	322,524	-	53	322,577	64,515
50%	-	391,801	335,642	-	727,443	363,722
75%	-	-	-	-	-	-
100%	-	-	47	7,921	7,968	7,968
150%	-	-	-	-	-	-
Total Exposures	173,896	714,325	336,086	9,298	1,233,605	436,205
Risk-Weighted Assets by Exposures	-	260,405	167,868	7,932	436,205	
Average Risk Weight	0.0%	36.5%	49.9%	85.3%	35.4%	
Deduction from Capital Base	-	-	-	-	-	

The above are disclosures on credit risk by risk weight of the Bank as at reporting date as required with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

28. Fair values of financial assets and financial liabilities

Recognised financial instruments

The fair values are estimated based on quoted or observable market prices as at the reporting date. Where such quoted or observable market prices are not available, the fair values are estimated using discounted cash flow techniques. The expected future cash flows are discounted using prevailing market rates for similar instruments as at reporting date.

The estimated fair values of the financial assets and financial liabilities carried on the statement of financial position as at 31 December are as follow:

	2010 Carrying Value RM'000	2010 Fair Value RM'000
Financial assets		
Cash and short-term funds	321,307	321,307
Deposits and placements with banks and other financial institutions	568,236	568,236
Loans, advances and financing	118,817	118,164
Financial liabilities		
Deposits from customers	32,030	32,030
Deposits and placements of banks and other financial institutions	645,430	645,430

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

(a) **Cash and short-term funds/Deposits and placements with banks and other financial institutions**

For cash and short-term funds and deposits and placements with banks and other financial institutions including interest-earning deposits, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature (less than one year) and limited credit risk.

(b) **Loans, advances and financing**

The fair values of fixed rate loans with remaining maturity less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities 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 reporting date offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment impairment allowance.

(c) **Deposits from customers**

The fair values of demand deposits and saving deposits maturing within a short period of time are the amounts payable on demand. Fair values of fixed deposits maturing within a year are estimated to approximate their carrying amounts.

(d) **Deposits and placements of banks and other financial institutions**

The fair values of non-interest bearing deposits are equal to amounts payable on demand. For deposits with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the deposits.

29. Derivative financial instruments

	Assets RM'000	Liabilities RM'000
At 31 December 2010		
Foreign exchange derivatives	20	-
Currency swaps	208	-
Total recognised derivative assets (Notes 7, 24 and 32)	228	-

30. Financial risk management

(a) Introduction and overview

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

• Credit risk
• Liquidity risk
• Market risk
• Operational risk

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

Risk Management framework

The Bank's risk management policies are established to identify the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Bank's trade finance, direct financing, loans and advances to customers and other banks.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit Committee. The Credit Committee is supervised by the Risk Management Committee. The functions of the Credit Committee are as follows:-

• *Formulating and reviewing credit policies*

Taking the ICBC Group’s credit policies as reference and in consultation with business units, the Credit Committee is tasked to formulate the credit policies that suit the local regulatory and business requirements. The credit policies, which encompass amongst others, the credit risk assessment, risk grading, collateral requirement, documentary and legal requirement, are to be reviewed from time to time to instill the industry's best practices.

30. Financial risk management *(continued)*

(b) Credit risk *(continued)*

• *Setting underwriting standards*

The Credit Committee sets the underwriting standards to ensure that the credit risks to be undertaken by the Bank are controlled even prior to the origination stage. The criteria set forth in the underwriting standards will take into consideration the Bank's risk appetite and the client's credit profile. These underwriting standards are to be reviewed on an annual basis to reflect the dynamic changes in the industry and economic environment.

• *Recommending approval on credit requests*

Each credit facility to be extended to clients is subject to independent credit assessment by the Bank's Risk Management department, which would then recommend approval to the Credit Committee.

• *Monitoring and controlling exposures*

Ongoing monitoring of the Bank's exposures is vital to maintain the quality of the Bank's loan assets. The credit limits are monitored annually or on a more frequent basis depending on the risk level. Mitigation measures, such as collateral and covenants setting, are imposed to protect the Bank's interest. Concentration risk arising from over-exposure to counterparties, industries and geographies are managed through regular monitoring and reporting. Stress test is conducted in the event of a major shift in the economic indicators or whenever a major change is anticipated.

• *Allowances for impairment*

The credit risk grading system employs a 12 risk grade system to ensure that the system captures the various levels of credit risk with the non-impaired loans covering grades 1 to 4 and the impaired loans graded between 5 and 12, as illustrated below:

Loan Class	*Grade*
Pass	1 to 4
Special Mention	5, 6 and 7
Substandard	8 and 9
Doubtful	10 and 11
Loss	12

A collective impairment allowance of 1.5% will be applied to all loans.

In the case of impaired loans (graded 5 to 12), individual impairment allowance is made when required. If there is objective evidence that an impairment loss on loans has been incurred, the amount of the loss is measured as the difference between the loan asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan asset's original effective interest rate.

Write-off policy

The Bank writes off a loan when the Credit Committee determines that the loan is uncollectible, subject to approval of the Board of Directors. The determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the exposure.

30. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk

	2010	
	Loans, advances and financing to customers RM'000	**Loans, advances and financing to banks* RM'000**
Carrying amount	118,817	889,543
Assets at amortised cost		
Individually impaired	-	-
Collective allowance for impairment	(1,809)	-
Neither past due nor impaired:		
Grade 1-4: Pass	120,626	889,543
	118,817	889,543

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

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans, advances and financing to banks. There is no impaired loans as at period end, hence collateral held as security against neither past due nor impaired loans are disclosed.

The Bank monitors the concentration of credit risk by sector and by geographical distribution. An analysis of the concentration of credit risk as at the reporting date is shown below:

	2010
	Loans, advances and financing to banks* RM'000
Carrying amount	889,543
Concentration of credit risk based on geographical location	
Malaysia	362,827
China	526,716
	889,543

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

Concentration by sector and geographical distribution for loans, advances and financing to customers are disclosed under Note 6 (iv) and 6 (v) to the financial statements.

30. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Concentration of credit risk by geographical distribution for loans, advances and financing is measured based on the location of the borrower.

Derivatives

The Bank's derivatives may give rise to risks in the event the counterparty defaults. The derivatives risks are mitigated through hedging, by taking a position in one market to offset and balance against the risk adopted by assuming a position in a contrary or opposing market.

Settlement risk

The Bank's activities may give rise to risks at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawal, overdue payment of the debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets, and daily management of its liquidity positions.

Management of liquidity risk

The management of liquidity and funding is mainly carried out in compliance with BNM's New Liquidity Framework; and practices and limits set by ICBC Group, and the Asset and Liability Committee (ALCO). The Bank maintains a strong liquidity position and constantly manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately balanced and all obligations are met accordingly.

As a new presence in the Malaysian banking industry, it is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base.

Cash flows payable by the Bank (financial liabilities) based on remaining contractual maturity:

	2010				
	On demand	**Due within 3 months**	**Between 3 to 12 months**	**Due between 1 and 5 years**	**Due after 5 years**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Deposits from customers	4,613	26,983	542	-	-
Deposits and placements of banks and other financial institutions	4,364	211,967	431,443	-	-
	8,977	238,950	431,985	-	-

30. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The balances in the above table will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments.

Cash flows payable in respect of customer and savings accounts are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable as inflows and outflows broadly match.

(d) Market risk

Market risk is the risk that adverse movements in market prices (interest rate, exchange rate, stock price and commodity price) will give rise to losses from the Bank's on and off balance sheet exposures. The types of market risk faced by the Bank mainly include interest rate risk and exchange rate risk.

Management of market risk

The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within a tolerable level and maximise risk-adjusted return according to the Bank's risk preference.

As a newly established financial institution in the local banking industry, the Bank tries to minimise and preferably eliminate exposure to market risk. The Bank does not engage in any proprietary trading activities. All significant (>USD 100,000) exposures arising from normal banking activities (deposits, loans, foreign exchange, etc) are immediately hedged. It is impractical to hedge smaller transactions individually; therefore they are only hedged once the total accumulates to at least USD 100,000.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

RM'000	**100 bp* parallel increase**	**100 bp* parallel decrease**
Sensitivity of projected net interest income		
2010		
At 31 December	876	876

**bp - basis point*

30. Financial risk management *(continued)*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each deparment. The responsibility is supported by the development of an overall Bank standard for the management of operational risk in the following areas:

• requirement for appropriate segregation of duties, including the independent authorisation of transactions
• requirements for the reconciliation and monitoring of transactions
• compliance with regulatory and other legal requirements
• documentation of controls and procedures
• development of contingency plans
• training and professional development
• ethical and business standards
• risk mitigation, including insurance where this is effective.

31. Capital management

Regulatory capital

The Bank's lead regulator, Bank Negara Malaysia, sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel 2 framework in respect of regulatory capital adequacy, and use of Basic Indicator Approach for Operational Risk. The Bank adopts the Standardised approach for Credit risk and Market risk in its trading portfolios. Please refer to Note 27 to the financial statements, for the Bank's regulatory capital position under Basel 2.

The Bank's regulatory capital is analysed in two tiers:

• Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.

• Tier 2 capital, which includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired).

32. Use of estimates and judgements

The results of the Bank are sensitive to accounting policies, assumptions and estimates that underline the preparation of its financial statements. The significant accounting policies used in the preparation of the financial statements are described in Note 3 to the financial statements.

The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimates, are as follow:

(i) Impairment of loans, advances and financing

The Bank's accounting policy for losses arising from the impairment of customers' loans, advances and financing is described in the Note 3(i) to the financial statements.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) Valuation of financial instruments

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: Quoted market price (unadjusted) in an active market for an identical instrument.

• Level 2: Valuation techniques based on observable inputs, either directly (as prices) or indiretly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

• Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

32. Use of estimates and judgements *(continued)*

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used in the market. The objective of valuation techniques is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The table below analyses financial instruments measured at fair value at the end of the period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	2010			
	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Derivative financial assets (Note 29)	228	-	-	228