

Company Registration No. 201804195C

Maybank Singapore Limited

Annual Financial Statements
Period from 1 February 2018 (date of incorporation) to
31 December 2018



Maybank Singapore Limited

General information

Directors

Datuk Karownikaran @ Karunikaran	(Appointed on 1 October 2018)
Datuk Abdul Farid bin Alias	(Appointed on 1 October 2018)
Anthony Brent Elam	(Appointed on 1 October 2018)
Spencer Lee Tien Chye	(Appointed on 1 October 2018)
Wong Heng Ning Kevin	(Appointed on 1 October 2018)
Lee Yong Guan	(Appointed on 1 October 2018)

Company Secretary

Melissa Tham Lyn-Li	(Appointed on 20 April 2018)
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Registered Office

2 Battery Road
#01-01 Maybank Tower
Singapore 049907

Auditor

Ernst & Young LLP

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Maybank Singapore Limited

Directors' statement

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

The directors are pleased to present their statement to the member together with the audited financial statements of Maybank Singapore Limited (the "Bank") for the financial period from 1 February 2018 (date of incorporation) to 31 December 2018.

Opinion of the directors

In the opinion of the directors,

- (a) the accompanying statement of comprehensive income, statement of financial position, statement of changes in equity and cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Bank for the financial period from 1 February 2018 (date of incorporation) to 31 December 2018; and
- (b) at the date of this statement there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

Directors

The directors of the Bank in office at the date of this statement are:

Datuk Karownikaran @ Karunakaran	(Appointed on 1 October 2018)
Datuk Abdul Farid Bin Alias	(Appointed on 1 October 2018)
Anthony Brent Elam	(Appointed on 1 October 2018)
Spencer Lee Tien Chye	(Appointed on 1 October 2018)
Wong Heng Ning Kevin	(Appointed on 1 October 2018)
Lee Yong Guan	(Appointed on 1 October 2018)

Arrangements to enable directors to acquire shares and debentures

Except as disclosed in this statement, neither at the end of nor at any time during the financial period was the Bank a party to any arrangement whose objects are, or one of whose objects is, to enable a director of the Bank to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

Maybank Singapore Limited

Directors' statement

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

Directors' interests in shares, options or debentures

The following directors, who held office at the end of the financial period, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in the shares of the Bank and related corporations as stated below:

	Direct interest		Deemed interest	
	At the beginning of financial period or date of appointment	At the end of the financial period	At the beginning of financial period or date of appointment	At the end of the financial period
Malayan Banking Berhad				
<i>No. of ordinary shares</i>				
Datuk Abdul Farid Bin Alias	626,290	633,406	-	-
Spencer Lee Tien Chye	103,220	101,965	273,608	276,739

Employees' Share Grant Plan of the Maybank Group ("ESGP Shares") and Maybank Group Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")

Malayan Banking Berhad ("Maybank") has implemented an employee's share scheme named as the Maybank Group Employees' Share Grant Plan ("ESGP") and the scheme was awarded to the participating Maybank Group who fulfill the eligibility criteria. The ESGP is governed by the by-laws approved by the shareholders of the ultimate parent company, Maybank at an Extraordinary General Meeting held on 6 April 2017. The ESGP was implemented on 14 December 2018 and it is in force for a period of seven (7) years from the effective date and is administered by the ESGP Committee of Maybank. The ESGP consists of two (2) types of performance-based awards namely as Employees' Share Grant Plan of the Maybank Group ("ESGP Shares") and Maybank Group Cash-settled Performance-based Employees' Share Grant Plan ("CESGP").

According to the register of directors' shareholdings of the Bank, none of the directors holding office at the end of the financial period had options to subscribe for ordinary shares of the Bank and its related corporations, except for the following awards pursuant to the ESGP:

	Award date	No. of shares awarded
Datuk Abdul Farid bin Alias	14.12.2018	300,000

The number of ESGP Shares awarded are based on the assumptions that the eligible employees met average performance targets. The eligible employees are given thirty (30) days from award date to accept the offer. The ESGP Shares under the ESGP may be granted over a five-year period and each grant will be vested based on a three-year cliff vesting schedule (i.e. vested at the end of three (3) years from the ESGP grant dates).

Maybank Singapore Limited

Directors' statement

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

Share options

During the financial period, there were:

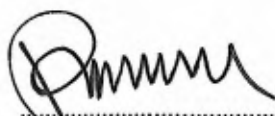
- (a) no share options granted by the Bank to any person to subscribe for unissued shares in the Bank; and
- (b) no shares issued by virtue of the exercise of options to take up unissued shares of the Bank.

As at the end of the financial period, there were no unissued shares of the Bank under option.

Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the Board of Directors:



.....
Datuk Karounakaran @ Karunakaran
Chairman



.....
Datuk Abdul Farid bin Alias
Director

Singapore

15 February 2019, except as to Note 33, which is as of 14 May 2019

Maybank Singapore Limited

Independent auditor's report

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

Independent Auditor's Report to the Member of Maybank Singapore Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Maybank Singapore Limited (the "Bank"), pursuant to Section 373 of the Singapore Companies Act, Chapter 50 (the "Act"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and cash flow statement of the Bank for the financial period from 1 February 2018 (date of incorporation) to 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and financial performance, changes in equity and cash flows of the Bank for the financial period from 1 February 2018 (date of incorporation) to 31 December 2018.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for other information. The other information comprises the general information, directors' statement and supplementary information, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The director's responsibilities include overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

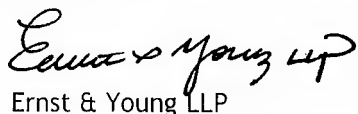
Auditor's responsibilities for the audit of the financial statements (cont'd)

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

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

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.



Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

15 February 2019, except as to Note 33, which is as of 14 May 2019

Maybank Singapore Limited

Statement of comprehensive income
For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

	Note	For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018 S\$'000
Interest income	4	138,381
Interest expense	4	(64,515)
Net interest income		73,866
Fee and commission income	5	29,271
Fee and commission expense	5	(8,590)
Net fee and commission income		20,681
Dealing profits and foreign exchange income	6	3,485
Other income		209
Total other items of income		98,241
Income before operating expenses		
Staff costs	7	(38,072)
Other operating expenses	8	(10,458)
Operating profit before impairment		49,711
Provision for impairment losses on financial assets	9	(17,703)
Profit before taxation		32,008
Taxation	10	(13,092)
Net profit after taxation		18,916
Profit for the period attributable to the owner		18,916
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Net change in fair value on debt securities at fair value through other comprehensive income ("FVOCI")		(19)
Changes in allowance for expected credit losses of debt securities at FVOCI		154
Income tax relating to components of other comprehensive income	24	(23)
Other comprehensive income for the period, net of income tax		112
Total comprehensive income for the period		19,028
Total comprehensive income attributable to the owner		19,028

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

Maybank Singapore Limited

Statement of financial position
As at 31 December 2018

	Note	2018 S\$'000
Assets		
Cash and balances with central bank	11	1,316,742
Singapore government securities and treasury bills	12	3,059,118
Other government securities and treasury bills	13	125,587
Balances and placements with and loans to banks	15	2,641,754
Bills receivable	16	35,466
Loans and advances to non-bank customers	16	22,377,194
Amounts due from related corporations	18	4,040,853
Other assets	19	257,331
Intangible assets	20	88,138
Property and equipment	21	19,646
Total assets		33,961,829
Liabilities		
Deposits of non-bank customers	22	31,183,221
Bills payable		72,996
Amounts due to related corporations	18	4,062
Current income tax payable		5,200
Other liabilities	23	269,407
Deferred tax liabilities	24	7,915
Total liabilities		31,542,801
Equity attributable to the owner		
Share capital	25	2,400,000
Retained earnings		18,916
Fair value adjustment reserve		112
Total equity attributable to the owner		2,419,028
Total liabilities and equity attributable to the owner		33,961,829
Off-balance sheet items		
Contingent liabilities	26	447,641
Commitments	27	8,918,442
Financial derivatives (notional)	28	8,819,171
Total off-balance sheet items		18,185,254

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

Maybank Singapore Limited

Statement of changes in equity

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

	Share capital S\$'000	Retained earnings S\$'000	Fair value adjustment Reserve S\$'000	Total S\$'000
At 1 February 2018 (date of incorporation)	*	-	-	*
Profit for the period	-	18,916	-	18,916
Other comprehensive income:				
Net change in fair value of debt securities at FVOCI	-	-	(19)	(19)
Net changes in allowance for expected credit losses of debt securities at FVOCI	-	-	154	154
Income tax relating to components of other comprehensive income	-	-	(23)	(23)
Total comprehensive income for the period	-	18,916	112	19,028
Issuance of share capital	2,400,000	-	-	2,400,000
At end of financial period	2,400,000	18,916	112	2,419,028

* Consist of 100 ordinary shares at \$1 each.

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

Maybank Singapore Limited

Cash flow statement

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

	Note	For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018 S\$'000
Cash flows from operating activities		
Profit before taxation		32,008
Adjustments for:		
Depreciation and amortisation	8	3,939
Provision for impairment loss for contingent liabilities, bills receivable and loans and advances to non-bank customers	9	18,596
Provision for impairment loss for FVOCI debt securities	9	154
Provision for impairment loss for balances and placements with and loans to banks	9	559
		<hr/>
Operating profit before changes in operating assets and liabilities		55,256
Increase in operating assets:		
Bills receivable		(35,466)
Loans and advances to non-bank customers		(22,395,790)
Other assets		(257,331)
Amounts due from a related corporation		(4,000,000)
Restricted balances with central bank		(992,110)
		<hr/>
		(27,680,697)
Increase in operating liabilities:		
Deposits of non-bank customers		31,183,221
Bills payable		72,996
Other liabilities		269,407
Amounts due to related corporations		4,062
		<hr/>
		31,529,686
Income taxes paid		-
		<hr/>
Net cash flows generated from operating activities		3,904,245
		<hr/>

Maybank Singapore Limited

Cash flow statement

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

	Note	For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018 S\$'000
Cash flows from investing activities		
Property and equipment and intangible assets transferred from Malayan Banking Berhad Singapore Branch ("MBS")	20, 21	(102,107)
Purchase of Singapore government securities and treasury bills		(3,059,135)
Purchase of other government securities and treasury bills		(125,590)
Purchase of property and equipment and intangible assets	20, 21	(9,616)
Net cash flows used in investing activities		(3,296,448)
Cash flows from financing activity		
Proceeds from share issuance	25	2,400,000
Net cash flows generated from financing activity		2,400,000
Net increase in cash and cash equivalents for the period		3,007,797
Cash and cash equivalents at 1 February 2018 (date of incorporation)		-
Cash and cash equivalents at end of period	32	3,007,797

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

1. Corporate information

Maybank Singapore Limited (the “Bank”), incorporated in Singapore, has its registered office at 2 Battery Road, #01-01 Maybank Tower, Singapore 049907.

The immediate holding company is Cepak Mentari Berhad (“CMB”), which in turn is a directly wholly-owned subsidiary of Malayan Banking Berhad (ultimate holding company).

The Bank was incorporated on 1 February 2018 with issued share capital of S\$100. The Monetary Authority of Singapore (“MAS”) has on 3 October 2018, issued a full banking licence with the Qualifying Full Bank privileges to the Bank. The Bank is operating under a qualifying full bank license with an Asian Currency Unit granted by the MAS. The Bank’s operations remained dormant prior to 5 November 2018.

On 5 November 2018, as part of the MAS requirements, Malayan Banking Berhad transferred its Community Financial Services business in Singapore to the Bank. On the same day, CMB had injected share capital of S\$2,400,000,000 to the Bank.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Singapore Financial Reporting Standards (“FRSs”) as required by the Singapore Companies Act, Chapter 50 (the “Act”).

The financial statements of the Bank, expressed in Singapore dollars (“SGD” or “S\$”), are prepared in accordance with the historical cost convention, except as otherwise disclosed in the accounting policies below. All information presented has been rounded to the nearest thousand (“S\$’000”), unless otherwise stated.

The preparation of financial statements in conformity with FRS 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 3.

2. Summary of significant accounting policies (cont'd)

2.2 *New and amended standards and interpretations*

In these financial statements, the Bank has from its date of incorporated adopted all FRSEs which are effective for annual financial periods beginning on or after 1 January 2018. Except for the adoption of FRS 109 as described below, the adoption of these standards do not have a material effect on the financial performance of the Bank. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

FRS 109 Financial Instruments

Classification and measurement

To determine their classification and measurement category, FRS 109 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

Under FRS 109, measurement categories of financial assets are as follows:

- Debt instruments at amortised cost
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition
- Financial assets at Fair Value through Profit or Loss ("FVPL")

Details of the Bank's classification of its financial assets and liabilities is explained in Note 2.6.

Changes to the impairment calculation

FRS 109 requires the Bank to record an allowance for Expected Credit Loss ("ECL") for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired ("POCI"), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method is explained in Note 2.11.

FRS 107 Disclosures

Disclosures was updated and the Bank has adopted it, together with FRS 109, for the period beginning 1 February 2018. Changes include, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used which are set out in Note 29 (b).

2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective*

The Bank has not adopted the following standards that have been issued but not yet effective:

Descriptions	Effective for annual periods beginning on or after
FRS 116 <i>Leases</i>	1 January 2019
Amendments to FRS 109 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to FRS 28 <i>Long-Term Interests in Associates and Joint Ventures</i>	1 January 2019
INT FRS 123 <i>Uncertainty Over Income Tax Treatments</i>	1 January 2019
Annual Improvements to FRSs 2015-2017 Cycle	1 January 2019
Amendments to FRS 110 and FRS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined

Except for FRS 116, the directors expects that the adoption of the standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 116 is described below.

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees - leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Bank had completed Wave 1 to Wave 3 assessments during the financial period ended 31 December 2018 on the leases that are impacted by the classification and measurement requirements. The Bank has also developed its approach for assessing the different types of leases including the exemptions covered in the standard, incorporating forward looking information in taking certain decisions.

The Bank plans to adopt FRS 116 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019. Upon adoption of FRS 116, the Bank expects to recognise both rights-of-use assets of and lease liabilities for its leases on the balance sheet, previously classified as operating leases commitments. The Bank also expects a corresponding decrease in the opening retained earnings to recognise the cumulative effect of depreciation and interest expense, and its related tax impact as of 1 January 2019. The final impact is still being assessed and may be adjusted as necessary, until the Bank adopts FRS 116 in 2019.

2. Summary of significant accounting policies (cont'd)

2.4 *Income and expense recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured as the fair value of consideration received or receivable excluding discounts, rebates and sales taxes or duties. The Bank assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense are recognised in profit or loss using the effective interest rate method. Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment. 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. The Bank does not purchase or originate credit impaired ("POCI") financial assets.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income is recognised as the related services are performed. Fee income relating to loan facilities, trade finance facilities and guarantees, where they are charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature, is recognised on an effective interest rate basis over the relevant period.

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

Dealing profits and foreign exchange income comprise gains less losses related to financial derivatives designated at fair value through profit or loss, and include all realised and unrealised fair value changes, interest and foreign exchange differences.

2.5 *Date of recognition*

All regular way purchases and sales of financial assets are recognised or derecognised on the settlement date i.e., the date that an asset is delivered to or by an entity. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned.

2. Summary of significant accounting policies (cont'd)

2.6 *Financial instruments - Initial recognition and measurement*

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measured at either:

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

- (a) *Cash and balances with central bank, balances and placements with and loans to banks, bills receivable, loans and advances to non-bank customers and amounts due from related corporations at amortised cost*

The Bank measures cash and balances with central bank, balances and placements with and loans to banks, bills receivable, loans and advances to non-bank customers and amounts due from related corporations at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

2. Summary of significant accounting policies (cont'd)

2.6 *Financial instruments - Initial recognition and measurement (cont'd)*

- (a) *Cash and balances with central bank, balances and placements with and loans to banks, bills receivable, loans and advances to non-bank customers and amounts due from related corporations at amortised cost (cont'd)*

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the bank's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporate such information when assessing newly originated or newly purchased financial assets going forward.

2. Summary of significant accounting policies (cont'd)

2.6 *Financial instruments - Initial recognition and measurement (cont'd)*

- (a) *Cash and balances with central bank, balances and placements with and loans to banks, bills receivable, loans and advances to non-bank customers and amounts due from related corporations at amortised cost (cont'd)*

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

- (b) *Debt securities at FVOCI*

Debt securities are measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income ("OCI"). Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for debt securities at FVOCI is explained in Note 2.11(a). Where the Bank holds more than one investment in the same security, they are deemed to be disposed off on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

2. Summary of significant accounting policies (cont'd)

2.6 *Financial instruments - Initial recognition and measurement (cont'd)*

(c) *Contingent liabilities and loan commitments*

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit loss determined in accordance with the policy set out in 2.11 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

Undrawn loan commitments, shipping guarantees and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, shipping guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 16 and 26.

2.7 *Reclassification of financial assets and liabilities*

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line.

Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in the period.

2. Summary of significant accounting policies (cont'd)

2.8 *Derecognition of financial assets and liabilities*

(a) *Derecognition due to substantial modification of terms and conditions*

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired financial assets ("POCI").

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan.
- Introduction of an equity feature.
- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original Effective Interest Rate ("EIR"), the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

(b) *Derecognition other than for substantial modification*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.9 *Fair value*

Fair value is the amount which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. Fair value of financial instruments is based on their quoted price in an active market (including recent market transactions) at the end of the reporting period without any deduction for transaction cost. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques. Valuation techniques include the use of recent arm's length prices, pricing models or discounted cash flow techniques.

The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique which variables include only data from observable markets.

For subsequent measurement of financial assets or financial liabilities at fair value through profit or loss, the Bank values such assets/liabilities using quoted market prices or dealer price quotations for financial instruments traded in active markets without any deduction for transaction cost.

2.10 *Derivative financial instruments*

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Bank in the foreign exchange and interest rate derivative markets.

Derivative financial instruments are recognised initially at fair value on the date that the derivatives are entered into. Subsequent to initial recognition, the derivative financial instruments are re-measured at fair value. The gain or loss on re-measurement at fair value is recognised immediately in profit or loss.

Certain derivatives embedded in other derivatives are treated as separate derivatives when their economic characteristics and risk are not closely related to those of the host contract and the host contract is not carried at fair value.

Assets, including gains, resulting from derivatives financial instruments which are marked-to-market are included in "Other Assets" arising from derivative financial instruments. Liabilities, including losses, resulting from such contracts are included in "Other Liabilities" arising from derivative financial instruments.

2. Summary of significant accounting policies (cont'd)

2.11 *Impairment*

(a) *Financial assets*

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and contingent liabilities, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under FRS 109.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or "LTECL"), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss ("12mECL").

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans and advances into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast exposure at default ("EAD") and multiplied by the expected Loss Given default ("LGD") and discounted by an approximation to the original EIR. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs, with probability of default ("PD") and LGDs are estimated over the lifetime of the financial instrument and discounted by an approximation to the original EIR. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans, with the PD set at 100%.

There are three main components to measure ECL which are PD model, a LGD model and the EAD model. The model is to leverage as much as possible Malayan Banking Berhad's existing Basel II models and perform the required adjustments to produce a FRS 109 compliant model.

2. Summary of significant accounting policies (cont'd)

2.11 *Impairment (cont'd)*

(a) *Financial assets (cont'd)*

Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. The reasonable and supportable forward looking information is based on the Bank's related corporation, Maybank Kim Eng ("MKE"). In addition, the MKE Research's assumptions and analysis are also based on the collation of macroeconomic data obtained from various sources such as, but not limited to regulators, government and foreign ministries as well as independent research organisations. Where applicable, the Bank incorporates forward-looking adjustments in credit risk factors of PD and LGD used in ECL calculation; taking into account the impact of multiple probability-weighted future forecast economic scenarios.

Embedded in ECL is a broad range of forward-looking information as economic inputs, such as:

- Gross Domestic Product ("GDP") growth
- Unemployment rates
- House Price Indices
- Central Banks' policy rates

The Bank applies the following three alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- Base scenario: This scenario reflects that current macro-economic conditions continue to prevail; and
- Upside and Downside scenarios: These scenarios are set relative to the base scenario; reflecting best and worst-case macro-economic conditions based on subject matter expert's best judgment from current economic conditions.

Lifetime expected credit losses must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except for certain revolver financial instruments such as credit cards and overdrafts. The expected life for these revolver facilities generally refers to their behavioural life.

For credit-impaired financial assets that are deemed to be individually significant, the Bank assesses ECLs on individual borrower basis, and performs collective assessment for other financial assets as per Bank's policy.

The ECLs for debt securities measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

2. Summary of significant accounting policies (cont'd)

2.11 Impairment (cont'd)

(a) Financial assets (cont'd)

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated ECLs, the difference is first treated as an addition to the ECLs that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

(b) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. An impairment loss is recognised in profit or loss unless it reverses a previous revaluation.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

2.12 Deposits of non-bank customers

These deposits comprise current, time, short deposits from retail and wholesale activities. Recognition occurs upon the establishment of contractual obligations.

2.13 Bills receivable and payable

Bills receivable and bills payable are classified as financial assets at amortised cost and financial liabilities at amortised cost, respectively.

2. Summary of significant accounting policies (cont'd)

2.14 *Singapore and other government securities and treasury bills*

Singapore and other government securities and treasury bills are debt securities held for dealing and non-dealing purposes. They are classified as either FVTPL or FVOCI, depending on the objective of holding the securities.

2.15 *Loans and advances to non-bank customers*

Loans and advances to non-bank customers are stated at amortised cost net of impairment losses.

2.16 *Property and equipment*

All items of property and equipment are initially recorded at cost. Subsequent to recognition, property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

The cost of replacing part of an item of property and 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 costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

On disposal of an item of property and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

Depreciation is provided on a straight line basis so as to write-off items of property and equipment over their estimated useful lives as follows:

Renovation	- 5 years or lease terms
Office equipment, furniture and fittings	- 5 years
Computer and electrical equipment	- 4 to 10 years
Motor vehicles	- 4 years

Construction-in-progress, representing renovation-in-progress are stated at cost. This includes acquisition cost, materials, direct labour and other directly related expenses. Construction-in-progress is not depreciated until such time as the relevant asset is completed and ready for operational use.

Depreciation methods, useful lives and residual values if not insignificant, are reassessed annually.

2. Summary of significant accounting policies (cont'd)

2.17 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. All software development costs in excess S\$1,000 are capitalised as intangible asset when the Bank can demonstrate the technical feasibility of completing the intangible asset so that it will be available-for-use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development. Amortisation is charged to profit or loss using a straight-line method over their useful lives of 4 years, commencing from the date the software application goes live.

2.18 Taxes

Income tax expense comprises current income tax and deferred tax. Current income tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set-off current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current income tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

2.19 Foreign currencies

The functional currency represents the currency in which transactions are predominantly denominated in the respective books and reflects the economic substance of the underlying events and circumstances relevant to the books.

The Bank adopts SGD as its functional currency. Monetary assets and liabilities denominated in currencies other than SGD are translated into SGD at rates of exchange ruling at the end of the reporting period. 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 dates of the initial transactions. Transactions in foreign currencies during the period are converted at rates of exchange ruling on transaction dates. Exchange differences are dealt with through profit or loss.

2. Summary of significant accounting policies (cont'd)

2.20 *Operating leases*

Rental payable and receivable under operating leases are accounted for in profit or loss on a straight-line basis over the periods of the respective leases. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments and receipts.

2.21 *Repurchase and resale agreements*

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The receivables are shown as collateralised by the underlying securities. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held-for-trading or investments as appropriate.

Repurchase and resell agreements not classified as at fair value through profit or loss are classified as liabilities held at cost and loans and receivables, respectively. The difference between the sale and repurchase (purchase and resell) considerations is recognised on an accrual basis using the effective interest rate method over the period of the transaction and is included in profit or loss as interest.

2.22 *Provisions*

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.23 *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, non-restricted balances with central banks, balances and placements with and loans to banks and nostro and money market deposits with related corporations, which are payable on demand or at short notice. Cash and bank balances with Central Bank includes amounts held for regulatory liquidity reserves.

2. Summary of significant accounting policies (cont'd)

2.24 Employee benefits

(a) *Defined contribution plans*

Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss as incurred.

(b) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expenses as the related service is provided.

A provision 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.

2.25 Share capital

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.26 Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Bank if that person:
- (i) Has control or joint control over the Bank;
 - (ii) Has significant influence over the Bank; or
 - (iii) Is a member of the key management personnel of the Bank or of a parent of the Bank.
- (b) An entity is related to the Bank if any of the following conditions applies:
- (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to the Bank;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3. Significant accounting estimates and judgements

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments made in applying accounting policies

In the process of applying the Bank's accounting policies, the Bank's management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements are as follows:

(a) *Impairment of debt securities at FVOCI*

In carrying out the impairment review, the following management's judgements are required:

- (i) Determination whether the investment is impaired based on certain indicators such as, amongst others, difficulties of the issuers or obligors, deterioration of the credit quality of the issuers or obligors; and
- (ii) Determination of ECL that reflect:
 - An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
 - The time value of money; and
 - Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(b) *Fair value of financial instruments*

Quoted market prices or dealer quotes are obtained for financial instruments traded in an active market. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Bank uses a variety methods and makes assumptions that are based on market conditions existed at the end of each reporting period. Other techniques, such as estimated discounted cash flows are used to determine fair value for the remaining financial instruments not traded in an active market (refer to Note 30).

(c) *Taxes*

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Bank recognises tax liabilities based on estimates of whether additional taxes and interests will be due. These tax liabilities are recognised when the Bank believes that certain positions may not be fully sustained upon review by tax authorities, despite the Bank's belief that its tax return positions are supportable. This assessment relies on estimates and assumptions and may involve judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made. The carrying amount of the Bank's current income tax payable and deferred tax liabilities at the end of the reporting period is disclosed in Notes 10 and 24.

3. Significant accounting estimates and judgements (cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment loss of bills receivables and loans and advances to non-bank customers

The Bank reviews individually significant bills receivables and loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statements. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowances.

The Bank's ECL calculations under FRS 109 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- (a) Internal credit grading model, which assigns PDs to the individual grades.
- (b) Criteria for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- (c) The segmentation of financial assets when their ECL is assessed on a collective basis.
- (d) Development of ECL models, including the various formulas and the choice of inputs.
- (e) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- (f) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The above methodology is consistent with Malayan Banking Berhad group accounting policy.

The carrying amount of the Bank's bills receivables and loans and advances to non-bank customers at the end of the reporting period is disclosed in Note 16 to the financial statements, respectively.

4. Interest income and interest expense

Interest income comprises interest arising from various types of lending and investment activities, including income derived from Islamic Banking activities.

(a) The breakdown of interest income is as follows:

	2018 S\$'000
A related corporation	20,494
Others	117,887
	<u>138,381</u>

Interest income from a related corporation consists of S\$14,211,000 from S\$4,000,000,000 inter-company placements by a related corporation (Note 18) and S\$6,283,000 from S\$2,462,368,000 reverse repo agreements with a related corporation (Note 14).

Interest income derived from each class of financial instruments were as follows:

	2018 S\$'000
Financial assets at FVOCI	10,436
Financial assets at amortised cost	127,945
	<u>138,381</u>

Included in interest income from others is interest income of S\$13,220,000 from impaired loans to customers.

(b) Interest expense comprises all interest incurred on deposits and borrowings from financial institutions and non-bank customers, including expenses derived from Islamic Banking activities.

The breakdown of interest expense is as follows:

	2018 S\$'000
Others	<u>64,515</u>

Interest expense derived from each class of financial instruments were as follows:

	2018 S\$'000
Financial liabilities at amortised cost	<u>64,515</u>

5. Fee and commission income and expense

Fee and commission income, including fee and commission from Islamic Banking activities, mainly comprises remittance and credit card commissions, trade financing, unit-trust related fee income, whilst fee and commission expense mainly comprises credit card and loan, insurance and loan related commission paid:

	2018 S\$'000
Fee and commission income:	
- A related corporation	2,235
- Others	27,036
	<u>29,271</u>
Fee and commission expense:	
- A related corporation	64
- Others	8,526
	<u>8,590</u>

6. Dealing profits and foreign exchange income

	2018 S\$'000
Financial assets at FVTPL:	
- Foreign exchange derivatives	(215)
- Securities transaction	1
- Interest rate derivatives	713
	<u>499</u>
Foreign exchange gain from spot asset revaluation	2,986
	<u>3,485</u>

Maybank Singapore Limited

Notes to the financial statements

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

7. Staff costs

	2018 S\$'000
Wages, salaries and bonuses	30,304
Commission	2,470
Contribution to defined contribution plan	3,272
Staff allowances	1,305
Others	721
	<u>38,072</u>

8. Other operating expenses

	Note	2018 S\$'000
Auditor's remuneration		369
Depreciation of property and equipment	21	1,305
Amortisation of intangible assets	20	2,634
Maintenance and hire of property and equipment		1,148
Operating lease expenses		4,038
Administration expenses		7,771
Outsourcing costs		315
Provision for legal expense (write-back)		(873)
Computerisation costs		1,383
Service charges		2,160
Irrecoverable GST input tax		600
Overhead expenses allocated to related corporations*		(11,381)
Others		989
		<u>10,458</u>

* Overhead expenses allocated to related corporations include overhead expenses charged to/charged by related corporations under service level agreements. Transfer prices between related corporations are on an arm's length basis in a manner similar to transactions with third parties.

9. Provision for impairment losses on financial assets

	Note	2018 S\$'000
Provision for impairment loss for FVOCI debt securities	12,13	154
Provision for impairment loss for balances and placements with and loans to banks	15	559
Provision for impairment loss for bills receivable and loans and advances to non-bank customers	16	18,494
Provision for impairment loss for contingent liabilities		102
Bad debts recovered		(1,610)
Bad debts written-off		4
		<u>17,703</u>

10. Taxes

	Note	2018 S\$'000
Current income tax expense		
Current period		5,200
		<u>5,200</u>
Deferred tax expense		
Movements in temporary differences	24	7,892
		<u>7,892</u>
Total tax expense		<u><u>13,092</u></u>

Reconciliation of tax expense

The following represents a numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate:

	2018 S\$'000
Profit before taxation	32,008
	<u>32,008</u>
Tax at statutory income tax rate of 17%	5,441
Adjustments:	
Tax exempt revenue	(26)
Expenses not deductible for tax purposes	50
Permanent differences due to Section 24 election on fixed assets	7,585
Corporate tax rebates	52
Others	(10)
	<u>13,092</u>

11. Cash and balances with central bank

Included in cash and balances with central bank is an amount of S\$1,251,357,000 held for regulatory liquidity reserve purposes. The amount is unsecured and non-interest-bearing. Of this amount, S\$992,111,000 is restricted.

12. Singapore government securities and treasury bills

	2018 S\$'000
Fair value through other comprehensive income	3,059,118

All Singapore government securities and treasury bills are of investment grade and have an external credit rating of AAA.

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
<u>Singapore government securities and treasury bills</u>				
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
New assets purchased	4,128,322	-	-	4,128,322
Changes in fair value	(154)	-	-	(154)
Amount derecognised or matured (excluding write offs)	(1,069,050)	-	-	(1,069,050)
At 31 December 2018	3,059,118	-	-	3,059,118

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
<u>ECL allowances</u>				
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
New assets purchased	201	-	-	201
Impact on period end ECL of exposures transferred between stages during the period	-	-	-	-
Amount written off	-	-	-	-
Amount derecognised or matured (excluding write offs)	(53)	-	-	(53)
At 31 December 2018	148	-	-	148

13. Other government securities and treasury bills

	2018 S\$'000
Fair value through other comprehensive income	125,587

All other government securities and treasury bills are of investment grade and have an external credit rating of AAA.

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
<u>Other government securities and treasury bills</u>				
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
New assets purchased	125,589	-	-	125,589
Changes in fair value	(2)	-	-	(2)
Amount derecognised or matured (excluding write offs)	-	-	-	-
At 31 December 2018	125,587	-	-	125,587

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
<u>ECL allowances</u>				
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
New assets purchased	6	-	-	6
Impact on period end ECL of exposures transferred between stages during the period	-	-	-	-
Amount written off	-	-	-	-
Amount derecognised or matured (excluding write offs)	-	-	-	-
At 31 December 2018	6	-	-	6

14. Repurchase and Resale agreements

During its normal course of business, the Bank sells securities under agreements to repurchase (repos) and purchases securities under agreements to resell (reverse repos).

At the end of the reporting period, assets purchased subject to resale (“reverse repo”) are as follows:

	Fair value of assets bought under resale agreement 2018 S\$'000	Carrying amount of corresponding receivables 2018 S\$'000
Singapore government securities and treasury bills	1,434,113	1,436,650
Debt securities	1,033,067	1,025,718
	<u>1,434,113</u>	<u>1,025,718</u>

Corresponding receivables are classified under balances and placements with and loans to banks (Note 15). All resale agreements are entered into with a related corporation of an investment grade and classified as Stage 1.

15. Balances and placements with and loans to banks

	2018 S\$'000
At amortised cost:	
A related corporation	2,461,825
Others	179,929
	<u>2,641,754</u>

Included in balances and placements with and loans to banks are nostro accounts, money market placements and deposits and cash paid under resale agreements. These amounts are unsecured, repayable on demand and fixed and floating rate interest bearing, ranging from 0% to 2.44% per annum.

All balances and placements with and loans to banks placed during the year are classified as Stage 1 and are entered into with counterparties of an investment grade. These financial assets are not credit-impaired as at origination and as of year-end and there is no modification of contractual cash flows on these financial assets that resulted in a derecognition during the year. There are no transfers in ECL staging during the year and the loss allowance of these financial assets is measured at an amount equal to a 12-month ECL.

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16. Bills receivable and loans and advances to non-bank customers

	2018 S\$'000
Bills receivable	35,466
Loans and advances to non-bank customers	22,377,194
Total	<u>22,412,660</u>

An analysis of movements in bills receivable and loans and advances to non-bank customers and corresponding ECL allowances are as follows:

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
Gross Bills receivable and loans and advances to non-bank customers				
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	19,790,468	2,414,474	191,451	22,396,393
Transfers to Stage 1	284,422	(283,983)	(439)	-
Transfers to Stage 2	(460,810)	463,516	(2,706)	-
Transfers to Stage 3	(5,004)	(24,719)	29,723	-
New assets originated as at period end	1,255,339	288,378	452	1,544,169
Amount written off	-	-	(12,853)	(12,853)
Amount derecognised or repaid (excluding write offs)	(1,003,166)	(333,333)	(11,342)	(1,347,841)
At 31 December 2018	<u>19,861,249</u>	<u>2,524,333</u>	<u>194,286</u>	<u>22,579,868</u>

16. Bills receivable and loans and advances to non-bank customers (cont'd)

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
ECL allowances of bills receivable and loans and advances to non-bank customers				
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	28,531	46,515	86,521	161,567
Transfers to Stage 1	5,008	(4,748)	(260)	-
Transfers to Stage 2	(1,985)	3,682	(1,697)	-
Transfers to Stage 3	(30)	(1,279)	1,309	-
New assets originated as at period end	5,107	2,921	278	8,306
Impact on period end ECL of exposures transferred between stages during the period	(4,180)	6,092	14,111	16,023
Amount written off	-	-	(12,853)	(12,853)
Amount derecognised or repaid (excluding write offs)	(2,487)	(2,622)	(726)	(5,835)
At 31 December 2018	29,964	50,561	86,683	167,208

ECL for undrawn loan commitments are included in the ECL allowances of bills receivable and loans and advances to non-bank customers, as part of the exposures at default for ECL computation purposes.

17. Non-performing credit facilities

	2018 S\$'000
Gross non-performing loans and advances to customers	194,286
Non-performing guarantees	2,357
	<u>196,643</u>

Non-performing credit facilities represent all outstanding credit facilities, including direct credit substitutes and transaction related contingencies classified as sub-standard, doubtful and loss in accordance with the MAS's loan grading guidelines under MAS Notice to Bank No. 612 "Credit Files, Grading and Provisioning". All non-performing credit facilities are classified as "Stage 3", as disclosed in Note 16. All non-performing guarantees as at period end are not subject to ECL.

18. Amounts due from/due to related corporations

Amounts due from related corporations comprise placements and other balances with related corporations of the Bank. Included in amounts due from related corporation are placements of S\$4,000,000,000 which are unsecured and bear interest at a fixed rate ranging from 2.2% to 2.35% per annum.

Amounts due to related corporations comprise of current accounts maintained by other related corporations of the Bank with the Bank. These amount are unsecured and non-interest bearing.

19. Other assets

	Note	2018 S\$'000
Interest receivable:		
- A related corporation		14,211
- Others		80,670
		<hr/>
Derivative financial instruments	28	94,881
Interest expense paid in advance		19,169
Sundry deposits		79,105
GST input tax		6,361
Sundry debtors		8,884
		48,931
		<hr/>
		257,331
		<hr/> <hr/>

20. Intangible assets

	Note	IT software S\$'000
Cost		
At 1 February 2018 (date of incorporation)		-
Transfer from a related corporation		82,299
Additions		8,473
Disposals		-
		<hr/>
At 31 December 2018		90,772
		<hr/> <hr/>
Accumulated amortisation		
At 1 February 2018 (date of incorporation)		-
Amortisation charge for the period	8	2,634
Disposals		-
		<hr/>
At 31 December 2018		2,634
		<hr/> <hr/>
Net book value		
At 31 December 2018		88,138
		<hr/> <hr/>

Included in intangible assets are IT software work-in-progress of approximately S\$57,616,000. No amortisation is made against this balance until the development work is complete and the software application goes live.

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21. Property and equipment

	Note	Renovation S\$'000	Office equipment, furniture and fittings S\$'000	Computer and electrical equipment S\$'000	Motor vehicles S\$'000	Construction- in-progress S\$'000	Total S\$'000
Cost							
At 1 February 2018 (date of incorporation)		-	-	-	-	-	-
Transfer from a related corporation		6,230	510	10,569	355	2,144	19,808
Additions		-	88	716	-	339	1,143
Disposals		-	-	-	-	-	-
Transfers		-	89	-	-	(89)	-
At 31 December 2018		6,230	687	11,285	355	2,394	20,951
Accumulated depreciation							
At 1 February 2018 (date of incorporation)		-	-	-	-	-	-
Depreciation charge for the period	8	424	52	810	19	-	1,305
Disposals		-	-	-	-	-	-
At 31 December 2018		424	52	810	19	-	1,305
Net book value							
At 31 December 2018		5,806	635	10,475	336	2,394	19,646

Maybank Singapore Limited

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For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

22. Deposits of non-bank customers

	2018 S\$'000
Financial liabilities at amortised cost	31,183,221

23. Other liabilities

	Note	2018 S\$'000
Interest payable		90,799
Derivative financial instruments	28	19,497
Interest income received in advance		20,066
Sundry creditors		65,581
Accrued operating expenses		72,644
ECL for contingent liabilities	26	820
		<u>269,407</u>

24. Deferred tax assets/(liabilities)

Movements in deferred tax liabilities and assets during the financial period are as follows:

	At 1/2/2018 S\$'000	(Charged)/credited to Profit or loss S\$'000 (Note 10)	Fair value adjustment reserve S\$'000	At 31/12/2018 S\$'000
Deferred tax assets/(liabilities)				
Government and other debt securities	-	-	(23)	(23)
Property and equipment	-	(7,892)	-	(7,892)
Net deferred tax assets/ (liabilities)	-	(7,892)	(23)	(7,915)

Maybank Singapore Limited

Notes to the financial statements

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25. Share capital

	No of shares '000	2018 S\$'000
At 1 February 2018 (date of incorporation)	*	*
Issuance of share capital	2,400,000	2,400,000
At 31 December 2018	2,400,000	2,400,000

*On 1 February 2018, Maybank International Holdings Sdn Bhd. ("MIH") subscribed for 100 ordinary shares in the capital of the Bank at an issue price of S\$1 per share. On 8 August 2018, MIH transferred its entire holding of 100 ordinary shares to CMB. All ordinary shares carry one vote per share without restrictions.

On 5 November 2018, CMB, the immediate holding company, had injected additional capital of S\$2,400,000,000 to the Bank via subscription of ordinary shares. All ordinary shares carry one vote per share without restrictions.

26. Contingent liabilities

	2018 S\$'000
Direct credit substitutes	130,000
Transaction-related contingencies	96,853
Trade-related contingencies	220,788
	<hr/>
	447,641

Included in direct credit substitutes and trade-related contingencies are financial guarantees, shipping guarantees and letter of credit of S\$182,469,000 subject to ECL in which the Bank has direct exposures. The Bank has assessed that the remaining contingent liabilities are scoped out for ECL purposes as the Bank is not exposed to any contractual credit commitments on these products.

26. Contingent liabilities (cont'd)

An analysis of movements in the contingent liabilities that are subject to ECL and corresponding ECL allowances are as follows:

Gross carrying amount of contingent liabilities	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	130,625	54,878	-	185,503
Transfers to Stage 1	18,163	(18,163)	-	-
Transfers to Stage 2	(10,786)	10,786	-	-
Transfers to Stage 3	-	-	-	-
New exposures originated as at period end	62,463	29,753	-	92,216
Amount written off	-	-	-	-
Exposures derecognised or matured (excluding write offs)	(75,176)	(20,074)	-	(95,250)
At 31 December 2018	125,289	57,180	-	182,469

ECL allowances of contingent liabilities	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
At 1 February 2018 (date of incorporation)	-	-	-	-
Transfers from a related corporation	502	216	-	718
Transfers to Stage 1	59	(59)	-	-
Transfers to Stage 2	(12)	12	-	-
Transfers to Stage 3	-	-	-	-
New exposures originated as at period end	437	43	-	480
Impact on period end ECL of exposures transferred between stages during the period	(174)	48	-	(126)
Amount written off	-	-	-	-
Exposures derecognised or matured (excluding write offs)	(231)	(21)	-	(252)
At 31 December 2018	581	239	-	820

27. Commitments

	2018 S\$'000
Credit commitments:	
- Undrawn credit lines and other commitments to extend credit	7,603,367

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These balances are subject to ECL and are included in the ECL allowances of bills receivable and loans and advances to non-bank customers (Note 16), as part of the exposures at default for ECL computation purposes.

Operating lease commitments - as lessee:

The Bank has various operating lease agreements for office premises, computer and office equipment. Most leases contain renewable options. Lease terms do not contain restrictions on the Bank's activities concerning additional debt or further leasing.

Minimum lease payments recognised as an expense to profit or loss for the financial period ended 31 December 2018 amounted to S\$3,924,000.

Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

	2018 S\$'000
Not later than one year	12,719
Later than one year but not later than five years	17,883
	<u>30,602</u>
	2018 S\$'000
Forward asset purchases	<u>250,000</u>
Forward deposits placed	<u>1,034,473</u>
Forward deposits taken	<u>358</u>

28. Derivative financial instruments

The derivative financial instruments shown in the following tables are held-for-trading purposes. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative receivables) and negative (derivative payables) fair values at the end of the reporting period are analysed below.

Positive and negative fair values are the mark-to-market values of the derivative contracts. Notional principal amounts are the amounts of principal underlying the contract at the end of the reporting period.

	Notional amounts S\$'000	Assets (Note 19) S\$'000	Liabilities (Note 23) S\$'000
Foreign exchange derivatives			
Forward foreign exchange	358,273	251	427
Options	99,004	450	451
	<u>457,277</u>	<u>701</u>	<u>878</u>
Interest rate derivatives			
Swaps	3,842,149	11,826	11,924
Options	4,519,745	6,642	6,695
	<u>8,361,894</u>	<u>18,468</u>	<u>18,619</u>

Derivative assets and derivative liabilities are offset and the net amounts are reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

28. Derivative financial instruments (cont'd)

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amount of recognised financial assets S\$'000	Gross amount offset in the statement of financial position S\$'000	Amount presented in the statement of financial position S\$'000	Amount not offset in the statement of financial position		
				Financial instruments S\$'000	Financial collateral received/pledged S\$'000	Net amount S\$'000
2018						
Financial assets						
Derivative assets	20,386	1,217	19,169	11,184	-	7,985
Financial liabilities						
Derivative liabilities	20,714	1,217	19,497	11,184	-	8,313

* Master netting arrangement and similar arrangements impacting the Bank are entered into by the ultimate holding company. The relevant financial collateral received/pledged are maintained by the ultimate holding company.

The table below sets out the maturity analysis of the notional principal amounts of derivative contracts:

	Notional amount (Maturity)			
	Within 6 months S\$'000	Between 6 to 12 months S\$'000	More than 1 year S\$'000	Total S\$'000
2018				
Foreign exchange derivatives				
Forward foreign exchange	356,635	1,638	-	358,273
Options	98,158	846	-	99,004
Interest rate derivatives				
Swaps	147,833	147,881	3,546,435	3,842,149
Options	-	295,762	4,223,983	4,519,745
Total	602,626	446,127	7,770,418	8,819,171

28. Derivative financial instruments (cont'd)

Offsetting of financial assets and financial liabilities (cont'd)

Notional amounts of derivative financial instruments entered into with the ultimate holding company, other branches and subsidiaries of the ultimate holding company are as follows:

	2018 S\$'000
Foreign exchange derivatives	
Forward foreign exchange	288,994
Options	49,502
Interest rate derivatives	
Swaps	1,921,075
Options	2,259,873
Total	<u>4,519,444</u>

As at 31 December 2018, the net derivative payable from related parties amounted to S\$8,209,000.

29. Financial risk management objectives and policies

(a) *Introduction and overview*

The Bank is exposed to the following risks:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

This note discusses the above-mentioned risks as well the Bank's policies and procedures for the early identification and proactive management of these risks.

Risk management framework

The Bank's financial risks are managed by the Executive Risk Committee (ERC) and various management committees within the authority delegated by the Board of Directors.

The management groups involved in risk oversight are the Credit Committee Singapore ("CCS"), Asset Liability Management Committee Singapore ("ALCO"), Singapore Management Committee ("SMC") and Singapore Internal Audit Committee ("SIAC").

29. Financial risk management objectives and policies (cont'd)

(a) *Introduction and overview (cont'd)*

Risk management framework (cont'd)

Risk oversight by ERC, CCS, ALCO and SMC involves making sure adequate policies and procedures are in place to address their respective risks. Policies are established to identify and analyse risk while limits and controls are set and constantly monitored to keep exposures within tolerance levels. Risk management frameworks are regularly reviewed to keep them relevant with the Bank's business strategy and prevailing market conditions.

SIAC is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for independently reviewing the adequacy of the risk management frameworks.

(b) *Credit risk*

Credit risk is the potential loss from any failure in the ability or the unwillingness of the borrowers to fulfil their financial and/or contractual obligations as and when they fall due.

(i) *Management of credit risk*

Credit risk is the risk of loss of principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms.

Non-retail (commercial) credit risks are assessed by business units and evaluated and approved by an independent party within the Bank, where each customer is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including borrower's/customer's financial position, future cash flows, types of facilities and securities offered. Reviews are conducted at least once a year with updated information on borrower's/customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken when the accounts show signs of credit deterioration.

Retail credit exposures are managed on a programme basis. Credit programmes are assessed jointly between credit risk and business units. Reviews on credit programmes are conducted at least once a year to assess the performance of the portfolios.

The Bank's credit risk management framework manages the credit quality of its loan portfolio. This framework covers credit approval process, credit policies and guidelines, credit risk rating systems, credit risk mitigation process, credit administration documentation and training and credit personnel.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(i) *Management of credit risk (cont'd)*

The Bank adopts a risk-based credit approval process requiring loan approval at successively higher levels and/or committees (as delegated) according to the risk level of the application. Higher risk applications are approved at the CCS, the management group that is responsible for directing the risk appetite and underwriting activities of the Bank. Loans that exceed the authority limit of the CCS will be escalated to the Board of Directors for approval. Core credit risk policies, framework and guidelines are approved by the ERC.

The Bank practises risk diversification and has in place structures to control the appropriate limits and exposures. Limits are established and regularly monitored in the area of country exposures, industry groups, product groups, collateral types and single counterparty exposures.

In view that authority limits are directly related to the risk levels of the borrower and transaction, a Risk-Based Authority Limit structure was implemented based on the Expected Loss ("EL") principles and internally developed Credit Risk Rating System ("CRRS").

(ii) *Credit Risk Measurement*

This section should be read in conjunction with the impairment policies (Note 2.11) within the summary of significant accounting policies

Significant increase in credit risk ("SICR")

In order to determine whether an instrument is subject to 12mECL or LTECL, the Bank assesses whether there has been a SICR since initial recognition. SICR is recognised based on the change in the risk of default between initial recognition and reporting date.

For rated accounts, internal ratings are used in determining the rating deterioration. Rating deterioration will be tiered according to the current risk management practice which segregates the internal ratings according to four risk categories, i.e. very low, low, medium and high, as described in Note 29(b)(iv).

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(ii) *Credit Risk Measurement (cont'd)*

Significant increase in credit risk ("SICR") (cont'd)

For each risk category, the number of notches downgrade required to determine SICR will differ. Table below summarised the applicable tiered rating deterioration:

Retail

Risk Category	Internal rating grade	No of notches downgrades
Very Low	R1 - R2	4
Low	R3 - R5	3
Medium	R6 - R8	2
High	R9 - R11	1

Non Retail

Risk Category	Internal rating grade	No of notches downgrades
Very Low	R1 - R5	4
Low	R6 - R10	3
Medium	R11 - R15	2
High	R16 - R21	1

Other methods for triggering SICR include moving a borrower or facilities to watchlist or special mention category, time triggers e.g. accounts with above 30 days past due and missing origination rating.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(ii) *Credit Risk Measurement (cont'd)*

Definition of default and cure (cont'd)

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- (i) Rescheduling and Restructuring due to increase in credit risk.
- (ii) The borrower has ceased operation or bankruptcy or winding up.
- (iii) Material fraud, criminal act or breach of trust committed by the borrower.
- (iv) Deterioration in internal or external credit rating of the borrower from original rating.
- (v) Deterioration of financial positions of the borrower.
- (vi) A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- (vii) Loss of license and regulatory approval that affects business continuity measured by material impact of > 25% of the company's turnover.
- (viii) A covenant breach not waived by the Bank.

The Bank considers a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Grouping financial assets measured on a collective basis

The Bank's retail portfolios are under Basel II Advanced Internal Ratings-Based ("AIRB") Approach. This approach calls for more extensive reliance on the Bank's own internal experience whereby estimations for all the three components of Risk-Weighted Assets ("RWA") calculation namely Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") are based on its own historical data. Separate PD, EAD and LGD statistical models were developed at the respective retail portfolio level; each model covering borrowers with fundamentally similar risk profiles in a portfolio. Currently, the Bank retail portfolios are segregated into 4 segments, namely Housing, Cards, Equity Term Loans and Hire Purchase. The estimates derived from the models are used as input for RWA calculations.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(ii) *Credit Risk Measurement (cont'd)*

Grouping financial assets measured on a collective basis (cont'd)

For non-retail portfolios, the Bank uses internal credit models for evaluating the majority of its credit risk exposures. For Commercial Banking and Bank portfolios, the Bank has adopted the Foundation Internal Ratings-Based ("FIRB") Approach, which allows the Bank to use its internal PD estimates to determine an asset risk weighting and apply supervisory estimates for LGD and EAD. CRRS is developed to allow the Bank to identify, assess and measure corporate, commercial and small business borrowers' credit risk. CRRS is a statistical default prediction model. The model was developed and recalibrated to suit the Bank's environment using internal data. The model development process was conducted and documented in line with specific criteria for model development in accordance to Basel II. The EL principles employed in the Bank is aligned to those employed at its ultimate holding company, and enables the calculation of expected loss using PD estimates (facilitated by the CRRS), LGD and EAD.

(iii) *Maximum exposure to credit risk*

The Bank's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the maximum exposure to credit risk equals their gross carrying amount at the end of the reporting period. For off-balance sheet items, the maximum exposure to credit risk is limited to the commitments to extend credit and other credit related commitments. The maximum credit exposure to any client or any counterparty as of 31 December 2018 was S\$33,783,649,000 and S\$8,051,008 for on-balance sheet and off-balance sheet, respectively.

(iv) *Credit quality*

Credit classification for financial assets

The four (4) risks categories as set out and defined below, from very low to high, apart from impaired, describe the credit quality of the Bank's lending. These classifications encompass a range of more granular, internal gradings assigned to loans and advances whilst external gradings are applied to debt securities. There is no direct correlation between the internal and external ratings at a granular level, except to the extent that each falls within a single credit quality band.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(iv) *Credit quality (cont'd)*

Credit classification for financial assets (cont'd)

Risk Category (Non-Retail)	Probability of default ("PD") grade	External credit ratings based on S&P's ratings
Very low	1 - 5	AAA to A-
Low	6 - 10	BBB+ to BB+
Medium	11 - 15	BB+ to B+
High	16 - 21	B+ to CCC

Risk Category (Retail)	Probability of default ("PD") grade	External credit ratings based on S&P's ratings
Very low	1 - 2	AAA to BBB-
Low	3 - 5	BB+ to BB-
Medium	6 - 8	B+ to CCC
High	9 - 11	CCC to C

Risk category is as described below:

- **Very low:** Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.
- **Low:** Obligors rated in this category have a good capacity to meet financial commitments with low credit risk.
- **Medium:** Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
- **High:** Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

29. Financial risk management objectives and policies (cont'd)

(b) Credit risk (cont'd)

(iv) Credit quality (cont'd)

Credit classification for financial assets (cont'd)

The following table provides a breakdown of the bills receivable and loans and advances to non-bank customers according to the Bank's credit risk category.

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
Very Low	12,319,045	36,418	-	12,355,463
Low	4,237,515	414,264	-	4,651,779
Medium	1,161,972	1,662,868	-	2,824,840
High	116,631	372,171	-	488,802
Unrated	2,026,086	38,612	-	2,064,698
Impaired	-	-	194,286	194,286
Less: ECL	(29,964)	(50,561)	(86,683)	(167,208)
Total Carrying Amount	19,831,285	2,473,772	107,603	22,412,660

Derivative financial instruments are entered with various international financial institutions or companies. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. Derivative financial instruments include foreign exchange derivatives and interest rate derivatives. 94% of derivative exposure is entered into with counterparties of investment grade.

The Bank also classifies its credit portfolios according to the borrowers' ability to repay the credit facility from their normal source of income. There is an independent credit review process to ensure the appropriateness of loan grading and classification in accordance with MAS Notice 612. All borrowing accounts are categorised into 'Pass', 'Special Mention' or 'Non-Performing' categories. Non-Performing or Impaired accounts are further categorised as 'Substandard', 'Doubtful' or 'Loss' in accordance with Notice to Bank No. 612 "Credit Files, Grading and Provisioning" issued by the MAS. The five categories are described below:

Performing

- Pass represents credit facilities where timely repayment is not in doubt and which do not exhibit any potential weakness in repayment capability, business, cash flow or financial position of the borrower.
- Special mention represents credit facilities which require closer monitoring. These facilities exhibit potential weakness that, if not corrected in a timely manner, may adversely affect repayment at a future date.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(iv) *Credit quality (cont'd)*

Classified or Non-Performing

- Substandard represents credit facilities that require special attention. The facilities exhibit definable weakness, either in respect of the business, cash flow or financial position of the borrower, which may jeopardise repayment on existing terms.
- Doubtful represents credit facilities that demonstrate severe weaknesses, such that the prospects of full recovery of the amounts outstanding are questionable and prospects of a loss are high.
- Loss represents credit facilities that are not collectable and little or nothing can be done to recover the amounts outstanding from any collateral or from the borrower's assets generally.

The following table provides a breakdown of the gross bills receivable and loans and advances to non-bank customers' gross carrying amount according to the MAS Notice to Bank No. 612 "Credit Files, Grading and Provisioning":

	Stage 1 S\$'000	Stage 2 S\$'000	Stage 3 S\$'000	Total S\$'000
Performing				
Pass	19,859,657	2,325,016	-	22,184,673
Special Mention	1,592	199,317	-	200,909
Classified or non-performing				
Substandard	-	-	61,863	61,863
Doubtful	-	-	54,762	54,762
Loss	-	-	77,661	77,661
Total	19,861,249	2,524,333	194,286	22,579,868

Collaterals

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The Bank holds collaterals as follows:

- For loans and advances to non-bank customers and bill receivable in the form of mortgages or charges over properties, motor vehicles, listed securities, deposits, trade receivables, vessels and machinery.
- For reverse repurchase agreements in the form of Singapore and other government securities.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(iv) *Credit quality (cont'd)*

Collaterals (cont'd)

Estimates of the fair value are initially based on the value of collateral assessed at the time of borrowing and subsequently updated during the collateral valuation monitoring process (including credit reviews).

For financial assets that are credit impaired as at period end, the impairment loss considers the difference between the carrying value and the discounted cash flows. In determining discounted cash flows, the Bank would consider the repayment capacity of the borrower, including the realisation of collateral pledged with the Bank.

The following table quantifies the extent to which collateral and other credit enhancements help to mitigate the credit risk of loans and advances to non-bank customers, bills receivable and balances and placements with and loans to banks:

	Lower of fair value of collateral/other credit enhancements and carrying amount	
	Loans and advances to non-bank customers, bills receivable 2018 S\$'000	Balances and placements with and loans to banks 2018 S\$'000
Singapore and other government securities	-	1,434,113
Debt Securities	-	1,025,718
Properties	15,680,943	-
Vessels and other motor vehicles	3,533,755	-
Others	159,363	-
Total collateral	19,374,061	2,459,831
Maximum exposure to credit risk	22,412,660	2,641,754
Net exposure	3,038,599	181,923

The Bank did not repossess any of the above collaterals for sale, with which the proceeds are used to reduce or repay the outstanding indebtedness. The Bank generally does not occupy the premises repossessed for its business use.

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(iv) *Credit quality (cont'd)*

Write-off policy

The Bank writes off a loan or debt security balance, and any related allowances for impairment losses, when the management determines that the loan or securities is uncollectible. This determination is reached 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 settle the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product specific past due status.

(v) *Concentration risk*

Specifically in the area of country or industry exposure, concentration of credit risk exists when changes in geographic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Bank's total credit exposures. The tables on the following page summarise the geographic and industry sector risk concentrations in relation to balances with significant credit exposures. Derivative assets are mainly due from banks and financial institution counterparties.

Maybank Singapore Limited

Notes to the financial statements

For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

29. Financial risk management objectives and policies (cont'd)

(b) *Credit risk (cont'd)*

(v) *Concentration risk by geographic sector*

Country	Singapore government securities and treasury bills S\$'000	Other government securities and treasury bills S\$'000	Balances and placements with and to banks S\$'000	Receivables and Loans and advances to non-bank customers S\$'000	Undrawn loan commitments S\$'000	Contingent liabilities S\$'000	Total S\$'000	As % of total S\$'000
As at 31 December 2018								
Singapore	3,059,118	-	2,477,927	21,956,102	7,247,176	217,628	34,957,951	95.9
India	-	-	-	15,443	560	28,104	44,107	0.1
Malaysia	-	-	-	183,937	210,264	6,241	400,442	1.1
China	-	-	-	164,636	27,035	17,670	209,341	0.6
Hong Kong	-	-	-	47,571	7,082	17,298	71,951	0.2
Others	-	125,587	164,386	212,179	111,250	160,700	774,102	2.1
	3,059,118	125,587	2,642,313	22,579,868	7,603,367	447,641	36,457,894	100.0

Notes to the financial statements
For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

29. Financial risk management objectives and policies (cont'd)

(b) Credit risk (cont'd)

(v) Concentration by industry sector

As at 31 December 2018	Singapore government securities and treasury bills S\$'000	Other government securities and treasury bills S\$'000	Balances and placements with and loans to banks S\$'000	Bills receivable and Loans and advances to non-bank customers S\$'000	Undrawn loan commitments S\$'000	Contingent liabilities S\$'000	Total S\$'000	As % of total S\$'000
Building and construction	-	-	-	800,782	418,985	76,881	1,296,648	3.6
Financial institutions	-	-	2,642,313	1,998,873	495,662	7,388	5,144,236	14.1
Manufacturing	-	-	-	804,648	323,319	28,926	1,156,893	3.2
Transport, storage and communication	-	-	-	591,909	99,071	20,302	711,282	1.9
Government and public sector	3,059,118	125,587	-	-	-	-	3,184,705	8.7
Housing and bridging loans	-	-	-	-	-	-	-	-
General commerce	-	-	-	1,788,227	1,137,066	273,545	3,198,838	8.8
Professional and private individuals	-	-	-	16,364,638	4,861,966	10,845	21,237,449	58.3
Others	-	-	-	230,791	267,298	29,754	527,843	1.4
	3,059,118	125,587	2,642,313	22,579,868	7,603,367	447,641	36,457,894	100.0

29. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk*

Liquidity risk arises when the Bank is unable to make a payment on any of its financial obligations to customers or counterparties in any currency when they come due. This may be due to the Bank's inability to liquidate assets or to obtain funding to meet its liquidity needs in a timely manner.

Liquidity risk may be broadly classified into:

- Inherent statement of financial position risk due to maturity transformation of individual positions;
- Contingency risk in the maintenance of sufficient fund to meet sudden and short-term obligation; and
- Price risk in the ability to sell assets at or near fair value to raise fund when need arises.

Liquidity risk can also arise as a consequence of other risk such as interest rate risk, credit risk and reputation risk.

(i) *Management of liquidity risk*

The ALCO oversees the Bank's liquidity management initiatives. The Global Market department centrally manages day-to-day funding and regulatory reserve requirements. In addition, the Market Risk Management department functions as an independent unit responsible for reviewing policies and limits.

The Bank's liquidity management objective is to ensure that there are sufficient funds to meet contractual and regulatory financial obligations when they are due. Liquidity risk is managed by a combination of cash flow monitoring, static ratios and stress tests. Projected cash flow movements are closely monitored and cumulative outflow limits are set. Under the MAS bank-specific liquidity framework, the Bank maintains liquid assets based on historical cash flow requirements and volatility. Static ratios monitor and control the dependency on particular sources of funds and exposure to any particular group of lenders. Stress tests are conducted regularly to ensure the Bank's ability to withstand sudden and heavy cash outflows.

The Contingency Funding Plan ("CFP") addresses the possibility or prolonged liquidity disruption. The plan enables the Bank to respond swiftly and systematically to a liquidity crisis by covering critical areas such as the identification of crisis triggers, action plans for different scenarios, reporting requirements, lines of communications and testing plans.

29. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk (cont'd)*

(ii) *Exposure to liquidity risk*

The following tables show the undiscounted cash flows on the Bank's financial liabilities including issued financial guarantees and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in a marked-to-market gain or loss position. The receive leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

The Bank anticipates and manages liquidity gaps using behavioural assumptions. These assumptions are regularly reviewed by the Market Risk Management department and approved by ALCO.

Notes to the financial statements
For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

29. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk (cont'd)*

(iii) *Residual contractual maturities of financial liabilities*

As at 31 December 2018	Note	Carrying amount S\$'000	Gross nominal outflow S\$'000	Less than 1 month S\$'000	1 month to 3 months S\$'000	3 to 6 months S\$'000	6 months to 1 year S\$'000	1 year to 5 years S\$'000	After 5 years S\$'000
<i>Non-derivative liabilities</i>									
Deposits of non-bank customers	22	31,183,221	31,559,161	12,598,167	3,056,757	5,415,724	7,329,250	3,140,405	18,858
Bills payable		72,996	72,996	72,996	-	-	-	-	-
Amounts due to a related corporation		4,062	4,062	4,062	-	-	-	-	-
		31,260,279	31,636,219	12,675,225	3,056,757	5,415,724	7,329,250	3,140,405	18,858
Undrawn loan commitments	27	7,603,367	7,603,367	7,603,367	-	-	-	-	-
Contingent liabilities	26	447,641	447,641	174,142	94,916	59,827	61,743	56,555	458
		8,051,008	8,051,008	7,777,509	94,916	59,827	61,743	56,555	458

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For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

29. Financial risk management objectives and policies (cont'd)

(c) Liquidity risk (cont'd)

(iii) Residual contractual maturities of financial liabilities (cont'd)

As at 31 December 2018	Gross nominal inflow/ (outflow) S\$'000	Less than 1 month S\$'000	1 month to 3 months S\$'000	3 months to 6 months S\$'000	6 months to 1 year S\$'000	1 year to 5 years S\$'000	After 5 years S\$'000	Total S\$'000
Derivatives								
Net settled derivatives:								
Interest rate derivatives*	-	-	-	-	-	-	-	-
Foreign rate derivatives*	-	-	-	-	-	-	-	-
Net inflow/(outflow)	-	-	-	-	-	-	-	-
Gross settled derivatives:								
Interest rate derivatives:								
- Inflow	-	-	-	-	-	-	-	-
- Outflow	-	-	-	-	-	-	-	-
Foreign exchange derivatives:								
- Inflow	358,194	138,639	126,415	91,498	1,642	-	-	358,194
- Outflow	(358,273)	(138,574)	(126,627)	(91,434)	(1,638)	-	-	(358,273)
Net inflow/(outflow)	(79)	65	(212)	64	4	-	-	(79)

* Nil amount due to back to back derivative transactions with a related corporation.

Maybank Singapore Limited

Notes to the financial statements
For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

29. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk (cont'd)*

(iv) *Maturity analysis of non-derivative financial assets and liabilities*

As at 31 December 2018	Note	Up to 7 days S\$'000	Over 7 days to 1 month S\$'000	Over 1 to 3 months S\$'000	Over 3 to 12 months S\$'000	Over 1 to 3 year S\$'000	Over 3 years S\$'000	No specific maturity S\$'000	Total S\$'000
Assets									
Cash and balance with a central bank		1,316,742	-	-	-	-	-	-	1,316,742
Singapore government securities and treasury bills		299,995	998,938	1,611,253	148,932	-	-	-	3,059,118
Other government treasury bills and securities		22	82,335	43,230	-	-	-	-	125,587
Balances and placements with and loans to banks		1,932,124	710,189	-	-	-	-	-	2,642,313
Amounts due from related corporations		40,853	-	-	2,000,000	2,000,000	-	-	4,040,853
Bills receivable		6,349	6,481	10,829	11,807	-	-	-	35,466
Loans and advances to non-bank customers		1,071,928	659,515	418,462	754,559	1,337,320	18,302,618	-	22,544,402
		4,668,013	2,457,458	2,083,774	2,915,298	3,337,320	18,302,618	-	33,764,481
Liabilities									
Deposits of non-bank customers	22	11,120,203	1,465,323	3,030,706	12,636,140	1,695,287	1,235,562	-	31,183,221
Amounts due to related corporations		4,062	-	-	-	-	-	-	4,062
Bills payable		72,996	-	-	-	-	-	-	72,996
		11,197,261	1,465,323	3,030,706	12,636,140	1,695,287	1,235,562	-	31,260,279

29. Financial risk management objectives and policies (cont'd)

(d) *Market risk*

Market risk stems from changes in market prices, such as interest rates, equity prices, and currency exchanges rates that adversely affect income or position value. The Bank is primarily exposed to interest rate and currency risk based on the nature of its trading and banking operations.

(i) *Management of market risk*

The ALCO performs market risk oversight for the Bank. The Market Risk management department on the other hand proposes and reviews policies, limits and models; and are also responsible for day-to-day monitoring of the Bank's market risk exposures. Being the primary market risk-taking unit, the Global Market department manages the exposures and ensures that they are kept within limits.

The objective of market risk management is to keep market risk exposures under acceptable parameters while optimising returns. In order to achieve this objective, a set of limits are used based on the Bank's tolerance for risk. Limits are multi-tiered with different escalation paths depending on the severity. These limits, along with the related policies and procedures, are reviewed regularly in order to stay relevant and effective.

For the trading book, the Bank utilises the appropriate position and size and sensitivity limits for each product type to control potential losses. Stop loss limits on the other hand are used to control realised trading losses. Consistent with the ultimate holding company's policies, Bank-wide (trading and banking book) interest rate risk is measured and controlled via earnings and economic value perspectives.

(ii) *Exposure to interest rate risk*

Interest rate risk is the exposure to movements in interest rates arising from differences between the timing of rate changes and cash flows of the Bank's positions. Interest rate risk can also stem from imperfect correlation of rate earned and aid on different instruments with similar re-pricing characteristics, changes in slope and shape of the yield curve, and embedded options in banking products. The main sources of interest rate risk are the Bank's loan and deposit portfolios. The Bank engages in interest rate swaps to ensure that exposures are within tolerable levels.

Earnings-at-Risk ("EaR") is a measure of the potential change in the Bank's annual net interest income ("NII") when interest rates are parallel-shifted by 200 basis points (2%). The interest rate shift is applied to the projected re-pricing mismatch of the Bank's interest sensitive assets, liabilities and off-balance sheet items over the next 12 months. This method is considered short-term as it only captures risk within one year horizon.

The ultimate holding company has allocated EaR limits to the Bank. Exposures are monitored by the Market Risk Management department and reported to ALCO and the ultimate holding company on a monthly basis.

29. Financial risk management objectives and policies (cont'd)

(d) *Market risk (cont'd)*

(ii) *Exposure to interest rate risk (cont'd)*

At 31 December 2018, an upward 100 basis point parallel shift in yield curve for all currencies the Bank transacts would result in an increase of S\$6,000,000 on EaR. A downward parallel shift would have an equal but opposite effect.

These sensitivity measures are based on statement of financial position and cover both trading and banking exposures. The calculation methodology for EaR assumes that rates for all tenors move in the same direction. In addition, rates for all products and currencies also move by the same amount. The net interest rate gap based on the earlier of contractual re-pricing or maturity dates of interest bearing assets and liabilities within one year from the financial period end amounts to a net negative gap of S\$879,172,000. As of 31 December 2018, all of the off balance sheet exposures of the Bank are non-interest bearing.

(iii) *Exposure to foreign currency risk*

Foreign currency risk arises from the movements in exchange rates that adversely affect the revaluation of Bank's foreign currency positions. The Bank's foreign exchange exposure is managed centrally by the Global Market department. Forward foreign exchange contracts are primarily used to mitigate the Bank's foreign exchange risk.

The Bank implemented a set of intra-day, overnight, dealer's position and stop loss trading limits to manage foreign exchange exposures. Exposures are monitored by the Risk Management department on a daily basis and those in excess of authorised limits are reported to senior management for ratification.

The following summarises the Bank's sensitivity to a 10% change in currency rates against S\$:

	Change in currency rate %	Impact to current period profit before tax S\$'000
USD	+/- 10	+/- 119
GBP	+/- 10	+/- 11
AUD	+/- 10	+/- 10
HKD	+/- 10	+/- 10
EUR	+/- 10	+/- 8
CNY	+/- 10	-/+ 1
Others	+/- 10	-/+ 11

29. Financial risk management objectives and policies (cont'd)

(d) *Market risk (cont'd)*

(iii) *Exposure to foreign currency risk (cont'd)*

Sensitivity is calculated using the net position in each currency, including off-balance sheet. This methodology does not consider option pay-offs as the Bank has a nominal open position in foreign exchange options. The largest net open position of the Bank as at 31 December 2018 is denominated in USD, with S\$ equivalent, S\$1,192,000.

(e) *Operational risks*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.

Management of operational risk

The day-to-day operational risk management lies with the business and support units. The Operational Risk Management department is responsible for implementing the Operational Risk Management Framework (the "Framework") in partnership with the business and support units. The SMC endorses the operational risk profile, approves operational risk policies and reviews related reports.

The Framework is implemented to ensure that operational risks are properly identified, monitored, managed and reported in a structured, systematic and consistent manner. To manage and control operational risk, the Framework is supplemented with various tools including, control self-assessment, incident data collection, key risk indicator monitoring and Opvantage System. Business Continuity Management and insurance are also key operational risk mitigation measures.

30. Fair value of assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-balance sheet derivative instruments. The fair value of a financial instrument is the amount for which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

Although management has employed its best judgement in the estimation of fair values, there is inevitably a significant element of subjectivity involved in the calculations. Therefore, the fair value estimates are not necessarily indicative of the amounts that the Bank could have realised in a sales transaction as at the end of the reporting period.

30. Fair value of assets and liabilities (cont'd)

(a) *Fair value methodologies*

The following methods and assumptions are used to estimate the fair value of each class of financial instrument and depend on the terms and risk characteristics of the various instruments:

(i) *Financial instruments for which carrying value approximate fair value*

The carrying values of certain financial instruments on the statement of financial position, approximate fair values. These include cash and balances with central banks, bills receivable/payable, balances and placements with and loans to banks and other assets and liabilities. These financial instruments are either short-term in nature or are receivable/payable on demand or carried at market value.

(ii) *Government securities and treasury bills*

Fair values of government securities and treasury bills that are traded in active markets are based on the quoted market price or dealer price quotation at the end of the reporting period.

(iii) *Loans and advances to non-bank customers*

Fair values for loans that are subject to variable interest rates which re-price within one year have not been recalculated. Their carrying amounts are considered to be not materially different from their fair values.

For fixed interest rate loans, the Bank has estimated the fair values by taking into account the relevant market interest rates and credit spread and noted that the fair value is not materially different from the carrying amount at period end.

(iv) *Due from related corporations*

The fair value of amounts due from related corporations that mature or re-price within one year is assumed to approximate the carrying value.

For balances which mature or re-price after one year, fair value is principally estimated by discounting contractual cash flows based on market rates.

30. Fair value of assets and liabilities (cont'd)

(a) *Fair value methodologies (cont'd)*

(v) *Due to related corporations and deposits of non-bank customers*

The fair values of non-interest bearing, call and variable rate deposits and fixed rate deposits maturing or re-pricing within one year is assumed to approximate the carrying value.

For deposits of related corporations which mature or re-price after one year, fair value is estimated using discounted cash flow models, whereby contractual cash flows are discounted based on market rates.

For deposits of non-bank customers which mature or re-price after one year, fair value is estimated using discounted cash flow models, whereby contractual cash flows are discounted using current market fixed deposit rates.

(vi) *Contingent liabilities and commitments*

These financial instruments are generally not sold nor traded and estimated fair values are not readily ascertainable. Fair values of these items were not calculated for the following reasons. Firstly, very few of the commitments extending beyond six months would commit the Bank to a predetermined rate of interest. Secondly, the fees attached to these commitments are the same as those currently charged to enter into similar arrangements. Finally, the quantum of fees collected under these arrangements, upon which a fair value would be based, is not material.

(vii) *Derivatives financial instruments (notional)*

The fair values of foreign exchange contracts, interest rate swaps and options are obtained from quoted market prices, pricing model or discounted cash flow models as appropriate. The fair values of these instruments are disclosed in Note 28.

(b) *Summary*

The Bank has estimated the fair values of these financial instruments using the methodologies above and noted that the fair values are not materially different from their carrying values.

Valuation adjustment is also an integral part of the valuation process. The Bank makes valuation adjustments such as bid-ask spread adjustment and credit valuation adjustment to adjust mid-market valuations to the appropriate bid or offer valuation and to reflect the risk of counterparty default.

30. Fair value of assets and liabilities (cont'd)

(c) *Fair value hierarchy*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

There has been no transfer between Level 1 and Level 2 fair value measurement during the financial period ended 31 December 2018.

2018	Level 1 S\$'000	Level 2 S\$'000	Level 3 S\$'000	Total S\$'000
Financial assets measured at fair value on a recurring basis				
Singapore government securities and treasury bills	3,059,118	-	-	3,059,118
Other government securities and treasury bills	125,587	-	-	125,587
Derivative financial instruments	-	19,169	-	19,169
	<u>3,184,705</u>	<u>19,169</u>	<u>-</u>	<u>3,203,874</u>
Financial liabilities measured at fair value on a recurring basis				
Derivative financial instruments	-	19,497	-	19,497
	<u>-</u>	<u>19,497</u>	<u>-</u>	<u>19,497</u>

30. Fair value of assets and liabilities (cont'd)

(d) *Financial instruments classification*

The Bank's classification of its principal financial assets and liabilities is summarised in the table below:

2018	Financial assets at fair value			Financial assets at amortised cost S\$'000	Carrying amount S\$'000
	Held-for-trading S\$'000	Designated at fair value through profit or loss S\$'000	Other comprehensive Income ("FVOCI") S\$'000		
Financial assets					
Cash and balances with central banks	-	-	-	1,316,742	1,316,742
Singapore government securities and treasury bills	-	-	3,059,118	-	3,059,118
Other government securities and treasury bills	-	-	125,587	-	125,587
Balances and placements with and loans to banks	-	-	-	2,641,754	2,641,754
Bills receivable	-	-	-	35,466	35,466
Loans and advances to non-bank customers	-	-	-	22,377,194	22,377,194
Amounts due from a related corporation	-	-	-	4,040,853	4,040,853
Other assets	19,169	-	-	94,881	114,050
Total as at 31 December 2018	19,169	-	3,184,705	30,506,890	33,710,764

30. Fair value of assets and liabilities (cont'd)

(d) *Financial instruments classification (cont'd)*

2018	Financial liabilities at fair value		Financial liabilities at amortised cost S\$'000	Carrying amount S\$'000
	Held-for-trading S\$'000	Designated at fair value through profit or loss S\$'000		
Financial liabilities				
Deposits of non-bank customers	-	-	31,183,221	31,183,221
Bills payable	-	-	72,996	72,996
Amounts due to related corporations	-	-	4,062	4,062
Other liabilities	19,497	-	90,799	110,296
Total as at 31 December 2018	19,497	-	31,351,078	31,370,575

31. Non-current assets and liabilities

Non-current assets and liabilities of the Bank are set out below. Assets and liabilities other than those disclosed below are current:

	2018 S\$'000
Liabilities	
Deposits of non-bank customers	2,930,849
Deferred tax liabilities	7,915
	<u>2,938,764</u>
Assets	
Loans and advances to non-bank customers	19,494,272
Amount due from related corporations	2,000,000
Intangible assets	88,138
Property, plant and equipment	19,646
	<u>21,602,056</u>

32. Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents are short-term liquid assets which are readily convertible into cash. Cash and cash equivalents comprise the following:

	2018 S\$'000
Cash and non-restricted balances with central bank	324,631
Balances and placements with and loans to banks maturing within 3 months	2,642,313
Money market balances with related corporations maturing within 3 months	40,853
	<hr/>
Total cash and cash equivalents	3,007,797
Expected credit loss on cash and cash equivalents	(559)
	<hr/>
	3,007,238

33. Capital management

The Bank's capital management strategy is based on guidelines set out in the Capital Management Framework, Capital Contingency Plan and Annual Capital Plan, all of which are formally approved by the Board. The capital requirements are mapped out on an annual basis via the Annual Capital Plan with the key objective to optimise and to maintain a strong capital position to meet the expectation of various stakeholders.

	2018 S\$'000
Share capital	2,400,000
Retained profits	18,916
	<hr/>
	2,418,916

The Board maintains oversight of the regulatory capital of the Bank in line with regulatory requirements under the Monetary Authority of Singapore Notice to Banks No. 637 "Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore" and expectations of various stakeholders such as regulators. In accordance with 637, the Bank is required to comply with leverage ratio requirements based on its standalone capital strength. This would include minimum Common Equity Tier 1 Capital Adequacy Ratio ("CAR") of 6.5%, minimum Tier 1 CAR of 8% and total CAR of 10%.

The Bank has complied with all externally-imposed regulatory capital requirements throughout the financial period.

The information in this note has been updated on 14 May 2019.

Notes to the financial statements
For the financial period from 1 February 2018 (date of incorporation) to 31 December 2018

34. Related party transactions

In the normal course of banking business, the Bank has carried out transactions with its related corporations on terms as agreed between the parties.

In addition to the related parties transactions disclosed elsewhere in the financial statements, the Bank had the following significant related party transactions, on terms agreed and determined by the parties:

Key management remuneration

The remuneration of key management personnel comprises short-term employee benefits of S\$738,000 and post-employment benefits of S\$17,000.

There is S\$174,000 of credit facilities provided to key management personnel as of 31 December 2018. These credit facilities are also made available to other employees of the Bank.

35. Geographical Segments

The following geographical segment information is based on the location where the transactions and assets are booked, which approximates that based on the location of the customers and assets.

	Total income S\$'000	Total assets S\$'000
Singapore	91,535	33,040,649
Malaysia	226	182,850
China	878	164,480
Hong Kong	78	53,602
Indonesia	274	52,332
India	27	15,419
Thailand	21	11,527
Others	5,202	440,970
	<hr/> 98,241	<hr/> 33,961,829 <hr/>

36. Comparatives

There is no comparative as this is the first set of the Bank's financial statements since the date of incorporation on 1 February 2018.

37. Authorisation of financial statements

The financial statements were authorised for issue by the Board of Directors on 15 February 2019.

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Company Registration No. 201804195C

Maybank Singapore Limited

The following supplementary information does not form part of the financial statement of the Bank

Period from 1 February 2018 (date of incorporation) to 31 December 2018

Maybank Singapore Limited

Supplementary information
For the financial period ended 31 December 2018

Capital adequacy ratios

The capital adequacy ratio and capital components of the Bank are:

There are three categories of regulatory capital:

- CET 1 Capital comprises paid-up ordinary share capital.
- Additional Tier 1 Capital - Nil in FY2018.
- Tier 2 Capital comprises accounting provisions in excess of MAS Notice 637 expected loss.

	2018
	%
CET1 capital ratio	16.898
Tier 1 capital ratio	16.898
Total capital ratio	17.159
	<hr/>
	2018
	S\$'000
Share capital	2,400,000
Retained profits	18,916
Regulatory adjustments	(14,000)
Common Equity Tier 1 capital ("CET1")	2,404,916
Tier 1 capital	2,404,916
Tier 2 capital	
Provisions	37,000
Eligible total capital	2,441,916
	<hr/>
	2018
	S\$'000
Total RWA after floor adjustments	14,233,000
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