

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPT 2019

	<u>Note</u>	30 Sept 2019 RM'000	31 Dec 2018 RM'000
ASSETS			
Cash and short-term funds	4	63,770	84,469
Deposits and placements with banks and other financial institutions	5	376,374	227,371
Financial investments at amortised cost	6	75,585	91,253
Loans, advances and financing	7	49,451	55,692
Derivative assets	8	-	13
Other assets	9	1,333	2,610
Deferred taxation	10	240	171
Statutory deposits with Bank Negara Malaysia	11	100	100
Plant and equipment		137	197
Intangible assets		208	255
TOTAL ASSETS		<u><u>567,198</u></u>	<u><u>462,131</u></u>
LIABILITIES AND EQUITY			
Deposits from customers	12	239,888	137,444
Derivative liabilities	13	3	2
Other liabilities	14	925	930
Provision for taxation		433	400
TOTAL LIABILITIES		<u><u>241,249</u></u>	<u><u>138,776</u></u>
Share capital	15	330,000	330,000
Regulatory reserves		2,404	1,711
Accumulated losses		(6,455)	(8,356)
TOTAL EQUITY OF SHAREHOLDERS		<u><u>325,949</u></u>	<u><u>323,355</u></u>
TOTAL LIABILITIES AND EQUITY		<u><u>567,198</u></u>	<u><u>462,131</u></u>
COMMITMENTS AND CONTIGENCIES	24	<u><u>43,414</u></u>	<u><u>52,482</u></u>

The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2018.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019

	<u>Note</u>	3rd Quarter Ended		Nine Months Ended	
		30 Sept 2019	30 Sept 2018	30 Sept 2019	30 Sept 2018
		RM'000	RM'000	RM'000	RM'000
Interest income	16	5,630	4,537	15,625	12,628
Interest expense	17	(1,831)	(917)	(4,118)	(2,502)
		<hr/>	<hr/>	<hr/>	<hr/>
Net interest income		3,799	3,620	11,507	10,126
Other operating income	18	336	475	1,178	1,216
		<hr/>	<hr/>	<hr/>	<hr/>
Net income		4,135	4,095	12,685	11,342
Other operating expenses	19	(2,883)	(3,266)	(9,518)	(10,304)
		<hr/>	<hr/>	<hr/>	<hr/>
		1,252	829	3,167	1,038
Write back/(Provision) of impairment loss on loans, advances and financing	20	(2)	(24)	40	54
Write back /(Provision) of expected credit losses for loan/financing, commitment and financial guarantee	21	-	-	18	(10)
Write back/(Provision) for expected credit losses for other financial investments	22	(102)	-	(31)	(19)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit before taxation		1,148	805	3,194	1,063
Taxation	23	(295)	-	(600)	-
		<hr/>	<hr/>	<hr/>	<hr/>
PROFIT FOR THE FINANCIAL PERIOD / TOTAL COMPREHENSIVE PROFIT FOR THE FINANCIAL PERIOD		853	805	2,594	1,063
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The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2018.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019

	<u>Note</u>	<u>Share capital</u> RM'000	<u>Regulatory reserves</u> RM'000	<u>Accumulated losses</u> RM'000	<u>Total</u> RM'000
Balance as at 1 January 2019		330,000	1,711	(8,356)	323,355
Transfer to regulatory reserves		-	693	(693)	-
Total comprehensive profit for the financial period		-	-	2,594	2,594
Balance as at 30 Sept 2019	15	<u>330,000</u>	<u>2,404</u>	<u>(6,455)</u>	<u>325,949</u>
Balance as at 1 January 2018		330,000	-	(10,389)	319,611
Changes on initial application of MFRS 9	2(A)(a)(i)	-	-	543	543
Transfer to regulatory reserves	2(A)(a)	-	1,466	(1,466)	-
Restated balance as at 1 January 2018		330,000	1,466	(11,312)	320,154
Transfer to regulatory reserves		-	-	-	-
Total comprehensive profit for the financial period		-	-	1,063	1,063
Balance as at 30 Sept 2018		<u>330,000</u>	<u>1,466</u>	<u>(10,249)</u>	<u>321,217</u>

The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2018.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019

	Nine Months Ended	
	30 Sept 2019	30 Sept 2018
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	3,194	1,063
Adjustments for:		
Depreciation of plant and equipment	73	124
Amortisation of intangible assets	47	30
Write-off of intangible assets	-	40
Unrealised loss/(gain) on revaluation of derivative instruments	15	(2)
Interest income for financial investment at amortised cost	(2,617)	(2,589)
Amortisation of discount/ (Accretion of premium paid) for financial investment	45	(68)
Interest income for money at call and deposit placement with financial institution	(10,231)	(7,966)
Write back of expected credit losses for other financial assets	31	-
(Write back of) /expected credit losses for loan/financing commitment and financial guarantee	(18)	3
Write back of expected credit losses for loans, advances and financing	(40)	(44)
Operating loss before working capital changes	(9,501)	(9,409)
Increase in deposits and placements with financial institution	(146,291)	(56,438)
Increase in financial investments at amortised cost	(10,344)	(24,752)
Decrease/(Increase) in other assets	1,277	(367)
Decrease in derivative assets	13	5
Decrease/(increase) in loans, advances and financing	6,281	(5,131)
Increase /(Decrease) in deposits from customers	102,444	(2,646)
Increase in deposits and placements of bank and other financial institution	-	3,012
Decrease in derivative liabilities	(14)	(1)
Increase in other liabilities	13	429
Cash flows used in operations	(56,122)	(95,298)
Taxation paid	(636)	-
Net cash used in operating activities	(56,758)	(95,298)

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

	Nine Months Ended	
	30 Sept 2019 RM'000	30 Sept 2018 RM'000
Net cash used in operating activities	(56,758)	(95,298)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(13)	(76)
Purchase of intangible assets	-	(80)
Interest income received for financial investments at amortised cost	3,412	2,666
Interest income received for money at call and deposit placement with financial institution	7,484	6,506
Purchase of financial assets at amortised cost	5,176	-
Proceeds of matured financial assets at amortised cost	20,000	10,000
Net cash generated from investing activities	<u>36,059</u>	<u>19,016</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL PERIOD	(20,699)	(76,282)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	<u>84,469</u>	<u>194,533</u>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	4 <u><u>63,770</u></u>	<u><u>118,251</u></u>

The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2018.

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019**

1 CORPORATE INFORMATION

India International Bank (Malaysia) Berhad (“the Bank”) commenced commercial banking business on 11 July 2012. The principal activities of the Bank are banking and related financial services.

The address of the registered office and principal place of operation of the Bank is at 15, Jalan Raja Chulan, Bangunan Yee Seng, 50200 Kuala Lumpur.

The Bank is a company limited by shares and is a licensed Bank, incorporated and domiciled in Malaysia.

2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

A BASIS OF PREPARATION

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

The financial statements have been prepared under the historical cost convention unless otherwise indicated in this summary of the significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards, amendments to published standards and interpretations that are effective

The Bank has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2018:

- MFRS 9 “Financial Instruments”
- MFRS 15 “Revenue from Contracts with Customers”

The Bank has adopted MFRS 9 and MFRS 15 for the first time in the 2018 financial statements, which resulted in changes in accounting policies. The detailed impact of change in accounting policies are set out in Note 2(A)(a)(i).

(a) Change in accounting policies – adoption of MFRS 9 “Financial Instruments”

The Bank has adopted MFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amount previously recognised in the financial statements. The Bank did not early adopt of MFRS 9 in previous year.

As permitted by the transitional provision of MFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities were recognised in the opening retained earnings and other reserves of the current year.

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

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

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 accounting policies applied in the comparative period) as described in more details in Note 2(B) and 2(Q).

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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)**

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A **BASIS OF PREPARATION (CONTINUED)**

(a) **Change in accounting policies – adoption of MFRS 9 “Financial Instruments” (continued)**

- (i) **Classification of financial assets and financial liabilities on the date of initial application of MFRS 9**

The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 for the Bank’s financial assets and financial liabilities as at 1 January 2018.

	Measurement category		Carrying amount			
	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM'000	Reclassifications RM'000	Remeasur-ments* RM'000	New (MFRS 9) RM'000
Financial Assets						
Cash and short-term funds	Amortised cost (Loans and receivables)	Amortised cost	194,533	-	(5)	194,528
Deposits and placements with banks and other financial institutions	Amortised cost (Loans and receivables)	Amortised cost	121,636	-	-	121,636
Financial investments	Held to maturity	-	75,814	(75,814)		-
Financial investments	-	Amortised cost	-	75,814	(11)	75,803
Loans, advances and financing	Amortised cost (Loans and receivables)	Amortised cost	51,745	-	741	52,486
Derivative assets	FVTPL	FVTPL	8	-	-	8
Other assets	Amortised cost	Amortised cost	1,267	-	-	1,267
Financial Liabilities						
Deposits from customers	Amortised cost	Amortised cost	120,625	-	-	120,625
Deposits and placement of banks and other financial institutions	Amortised cost	Amortised cost	4,063	-	-	4,063
Derivative liabilities	FVTPL	FVTPL	4	-	-	4
Other liabilities	Amortised cost	Amortised cost	1,188	-	11	1,199
Provision for taxation [^]	-	-	-	-	171	171

*All the remeasurement are due to expected credit loss reinstated as at 1 January 2018

[^]Provision for taxation is not a financial liabilities

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

(a) Change in accounting policies – adoption of MFRS 9 "Financial Instruments" (continued)

<u>Retained Earning</u>	RM'000
As previously reported at 31 December 2017	(10,389)
<u>Effect of adoption of MFRS 9</u>	
Reversal of Expected Credit Loss	543
Transfer to Regulatory Reserves	(1,466)
As restated at 1 January 2018	<u>(11,312)</u>
<u>Regulatory Reserves</u>	RM'000
As previously reported at 31 December 2017	-
Transfer from Retained Earnings	1,466
As restated at 1 January 2018	<u>1,466</u>

For the Bank's business portfolio, the individually assessed allowances for impaired instruments recognised under MFRS 139 have generally been replaced by stage 3 allowances under MFRS 9, while the collective allowances for non-impaired financial instruments have generally been replaced by either stage 1 or stage 2 allowances under MFRS 9.

The following table reconciles the closing allowance for credit losses in accordance with MFRS 139 as at 31 December 2017 to the opening ECL allowance determined in accordance with MFRS 9 as at 1 January 2018:

	MFRS 139 (as at <u>31 December 2017</u>) RM'000	<u>Remeasurement</u> RM'000	MFRS 9 (as at <u>1 January 2018</u>) RM'000
Loans, advances and financing	2,053	(741)	1,312
Loans, advances and financing and financial guarantee	-	11	11
Financial investments measured at amortised cost	-	11	11
Cash and short-term funds	-	5	5
Total	<u>2,053</u>	<u>(714)</u>	<u>1,339</u>

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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

(b) Adoption of MFRS 15 “Revenue from Contracts with Customers”

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

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

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

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

Key provisions of the new standard are as follows:

- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcomes etc.) minimum amounts of revenue must be recognised if they are not at significant risk of reversal;
- There are new specific rules on licenses, warranties, non-refundable upfront fees and consignment arrangements, to name a few;
- The point at which revenue is able to recognised may shift some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice-verse; and
- As with any new Standard, there are also increased disclosures

The Bank has applied MFRS 15 with the date of initial application of 1 January 2018 by using modified retrospective transition method. Under the modified transition method, the Bank applied the new policy retrospectively only to contracts that are not completed contracts at the date of initial application.

Accordingly, the 2017 comparative information was not restated and the cumulative effect of initial application of MFRS 15 were not recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018 as the financial impact is not material to the Bank. The comparative information continued to be reported under the practiced accounting policies governed under MFRS 118.

There was no material impact from the adoption of MFRS 15.

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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

(c) Standards and amendments that have been issued but not yet effective

There are new standards and amendments to standard and interpretations are effective for financial year beginning after 1 January 2019. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

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

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

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

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

B FINANCIAL ASSETS

(a) Classification

Beginning 1 January 2018, the Bank classifies its financial assets in the following manner

- Those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- Those to be measured at amortised costs

(b) Recognition and de-recognition

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

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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(c) Measurement

At initial recognition, the Bank measures financial assets at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expenses in profit or loss.

Debt instruments

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

There are three measurement categories into which the Bank classifies its debt instruments:

(i) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortised cost. Interest income from these financial assets is included in profit and loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the income statement.

(ii) Fair value through other comprehensive income ("FVOCI")

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

(iii) Fair value through profit or loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Bank may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes are recognised in profit or loss in the period which it arises.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(c) Measurement (continued)

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objectives are solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified under the "other" business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified under the "other" business model and measured at FVTPL.

Solely payments of principal and interest ("SPPI")

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Equity instruments

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in FVOCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "net gains and losses on financial instruments" in the income statement.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment

Impairment for debt instruments and financial guarantee contracts

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

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

The measurement of ECL reflects:

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

General 3-stage approach

At each reporting date, the Bank measures ECL through loss allowance at an amount equal to 12 months ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. Note 34 sets out the measurement details of ECL. The Bank applies 3-stage approach on debt instruments measured at amortised cost, except for those that are under simplified approach, as explained below.

Simplified approach

The Bank applies MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for other assets.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Significant increase in credit risk

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

The following indicators are incorporated:

- Significant changes in internal price indicators of credit risk as a result of changes in credit risk.
- Changes in the rates or terms of an existing instrument if it is assessed as a newly originated instrument (e.g. more stringent covenants, increased amounts of collateral or guarantees, or higher income coverage) because of changes in the credit risk
- Significant changes in external market indicators of credit risk for a financial instrument.
- Actual or expected significant change in the financial instrument's external credit rating.
- Actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally.
- Existing or forecasted adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations (e.g. increase in interest rates, significant increase in unemployment rates).
- An actual or expected significant change in the operating performance of the borrower (e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure).
- Significant increases in credit risk on other financial instruments of the same borrower (e.g. CCRIS rating).
- Actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that may result in a significant change in the borrower's ability to meet its debt obligations, (e.g. decreasing sales).
- Actual or expected significant changes in the value of the collateral supporting the obligation.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Significant increase in credit risk (continued)

- Actual or expected significant changes in the quality of the third-party guarantee provided.
- Actual or expected significant changes such as reductions in financial support from a parent entity/other affiliate, or in the quality of credit enhancement.
- Expected changes in the loan documentation (eg an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees) or other changes to the contractual framework of the instrument.
- Significant changes in the expected behaviour of the borrower, including changes in the payment status of borrowers in the group of similar instruments.
- Payment delays and past due information.

Definition of default and credit-impaired financial assets

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

- Failure to make contractual payment more than 90 days or 3 months of when they fall due.
- Bankruptcy or winding up petition.
- Rescheduled and/or restructured (R&R) for impaired accounts.

The Bank first assesses whether objective evidence of impairment exists for financial assets which are individually significant. If the Bank determines that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised.

Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, customer types and other relevant factors) for collective assessment.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Write off policy

The Bank write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Indicators that there is no reasonable expectation of recovery include

- ceasing enforcement activity; and
- where the Bank's recoveries method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full

Modification of financing

The Bank sometime renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the financing is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit-adjusted effective profit rate for purchased or originated credit-impaired financial assets).

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

De-recognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either: -

- (i) the Bank transfers substantially all the risks and rewards of ownership, or
- (ii) the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Bank has not retained control.

(e) Regulatory reserve requirements

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

C CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 1 month or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

D PLANT AND EQUIPMENT

Plant and equipment are initially stated at cost. Subsequent to initial recognition, all plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost of an item of plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

All repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Plant and equipment are depreciated using the straight-line method to allocate costs to their residual values over their estimated useful lives, summarised as follows:

Office equipment and computers	20%
Motor vehicles	20%
Office renovations	20%

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at the end of each reporting period.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets of the Bank comprise computer software and are amortised over their finite useful lives estimated at 5 years on a straight-line basis.

Cost associated with maintaining computer software are recognised as an expense as incurred.

F IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss unless it reverses a previous revaluation, in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus reserve.

G PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H FINANCIAL LIABILITIES

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

The Bank's other financial liabilities include deposits from customers and other liabilities.

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

I FINANCIAL GUARANTEE CONTRACTS AND FINANCING COMMITMENTS

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

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The expected credit losses model under MFRS 9
- The premium received on initial recognition less income recognised in accordance with the principles of MFRS 15.

Financing commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide financing/advances at a below-market interest rate, or one that can be settled net in cash or by delivering or issuing another financial instrument. The loss allowance is recognized as expected credit losses for loan/financing commitment and financial guarantee.

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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J RECOGNITION OF INTEREST INCOME, EXPENSES AND FEE AND OTHER INCOME

(i) Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest method applies the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments to the net carrying amount of the financial assets or liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and other income

Fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees which are material are recognised as income based on a time apportionment method.

Brokerage fees are recognised as income based on inception of such transactions.

Dividends are recognised when the right to receive payment is established.

K EMPLOYEE BENEFITS

(i) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are recognised as an expense in the period in which the associated services are rendered by employees of the Bank.

(ii) Defined contribution plans

The Bank's contributions to defined contribution plans are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L OPERATING LEASE PAYMENT

Leases where the Bank does not assume substantially all the risk and rewards of the ownership are classified as operating leases, and the leased assets are not recognised on the Bank's financial statements.

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the lease period.

M FOREIGN CURRENCIES

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). These financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional and presentation currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(ii) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'other income'. All other foreign exchange gains and losses are recognised in the income statement within the same line item as the underlying that gives rise to the translation difference.

N CURRENT AND DEFERRED TAX

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N CURRENT AND DEFERRED TAX (CONTINUED)

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit and loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences or unused tax losses can be utilised.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome. Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

O DERIVATIVES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting period.

P OTHER ASSETS

Other assets generally arise from transactions outside the usual operating activities of the Bank.

After recognition, other assets are subsequently measured at amortised cost using the effective interest method, less provision for impairment. See accounting policy Note B on impairment of financial assets.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPT 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q ACCOUNTING POLICIES APPLICABLE UNTIL 30 SEPT 2019

(a) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classified as at initial recognition and, in the case of assets held-to-maturity, re-evaluates this designation at the end of each reporting period.

Financial assets at fair value through profit or loss

The Bank classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading.

(b) Subsequent measurement – Impairment

Assets carried at amortised cost

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans, advances and financing' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q ACCOUNTING POLICIES APPLICABLE UNTIL 30 SEPT 2019 (CONTINUED)

(a) Subsequent measurement – Impairment (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(b) De-recognition

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

(c) Loans, advances and financing

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

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

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

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q ACCOUNTING POLICIES APPLICABLE UNTIL 30 SEPT 2019 (CONTINUED)

(c) Loans, advances and financing (continued)

For the purposes of a collective evaluation of impairment, loans, advances and financing are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors.

These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

(d) Financial Guarantee Contracts

In the ordinary course of business, the Bank gives financial guarantee, consisting letters of credits, guarantees and acceptances. Financial guarantee contracts 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 original or modified terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

In determining the carrying amounts of some assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the date of the statement of financial position. The Bank estimates and assumptions are based on historical experiences and expectations of future events and are reviewed periodically. Revision to accounting estimates are recognised in the period in which the estimates is revised and in any future periods affected.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 34, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4 CASH AND SHORT-TERM FUNDS

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Cash and balances with banks and other financial institutions	20,974	57,254
Money at call and deposit placements maturing within one month	42,806	27,221
Less: Expected Credit Losses -Stage 1	(10)	(6)
	<u>63,770</u>	<u>84,469</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Deposits and placements with banks and other financial institutions

	<u>30.9.2019</u> RM'000	<u>31.12.2018</u> RM'000
Licensed banks	376,466	227,432
Less: Expected Credit Losses		
- Stage 1	(92)	(61)
	<u>376,374</u>	<u>227,371</u>

(b) Movements in expected credit losses for deposits and placements with banks and other financial institutions are as following:

	<u>Stage 1</u> RM'000	<u>Total</u> RM'000
At 1 January 2019	61	61
Changes due to changes in credit risk	31	31
	<u>92</u>	<u>92</u>
At 30 September 2019	<u>92</u>	<u>92</u>

(c) Movement in the carrying amount of deposits and placements with banks and other financial institutions that contributed to changes in the expected credit losses are as follows:-

	<u>Stage 1</u> RM'000	<u>Total</u> RM'000
At 1 January 2019	29,046	29,046
Changes due to changes in credit risk	85,843	85,843
	<u>114,889</u>	<u>114,889</u>
At 30 September 2019	<u>114,889</u>	<u>114,889</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
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6 FINANCIAL INVESTMENTS AT AMORTISED COST

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Money market instruments:		
Malaysian Government Securities	19,932	30,220
Cagamas Bond	30,266	30,425
Private Debt Securities	25,455	30,680
Less: Expected Credit Losses		
- Stage 1	(68)	(72)
	<u>75,585</u>	<u>91,253</u>

(i) Movements in expected credit losses for financial investment at amortised cost are as following:

	<u>Stage 1</u> RM'000	<u>Total</u> RM'000
At 1 January 2019	72	72
Changes due to changes in credit risk	(4)	(4)
At 30 September 2019	<u>68</u>	<u>68</u>

(ii) Movement in the carrying amount of financial investment at amortised cost that contributed to changes in the expected credit losses are as follows:-

	<u>Stage 1</u> RM'000	<u>Total</u> RM'000
At 1 January 2019	61,105	61,105
Changes due to changes in credit risk	(5,384)	(5,384)
At 30 September 2019	<u>55,721</u>	<u>55,721</u>

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7 LOANS, ADVANCES AND FINANCING

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
(i) By type		
Overdrafts	28,288	30,338
Term loans/financing		
- Other term loans/financing	10,315	10,537
Bills receivable	6,100	8,785
Trust receipt	5,345	6,675
Less: Unearned interest and income	(15)	(21)
	<u>50,033</u>	<u>56,314</u>
Less: Allowance for impairment losses		
- Expected credit losses	(582)	(622)
	<u>49,451</u>	<u>55,692</u>
Net loans, advances and financing	<u><u>49,451</u></u>	<u><u>55,692</u></u>
(ii) By classification		
Gross loan, advances and financing		
12 Months ECL (Stage 1)	49,468	53,431
Lifetime ECL credit-impaired (Stage 3)	565	2,883
	<u>50,033</u>	<u>56,314</u>
Less: Allowance for impairment losses		
- 12- month ECL (Stage 1)	(17)	(57)
- Lifetime ECL credit-impaired (Stage 3)	(565)	(565)
	<u>49,451</u>	<u>55,692</u>
Net loans, advances and financing	<u><u>49,451</u></u>	<u><u>55,692</u></u>
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	49,058	56,314
- Others	975	-
	<u>50,033</u>	<u>56,314</u>
Gross loans, advances and financing	<u><u>50,033</u></u>	<u><u>56,314</u></u>

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7 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
(iv) By interest rate sensitivity		
Variable rate		
- BLR plus/minus	44,943	50,786
- Other variable rates	5,090	5,528
	<u>50,033</u>	<u>56,314</u>
Gross loans, advances and financing	<u>50,033</u>	<u>56,314</u>
(v) By residual contractual maturity		
Maturity within one year	39,718	45,777
More than five years	10,315	10,537
	<u>50,033</u>	<u>56,314</u>
Gross loans, advances and financing	<u>50,033</u>	<u>56,314</u>
(vi) By geographical distribution		
Malaysia		
- Kuala Lumpur	25,018	34,858
- Selangor	10,103	5,809
- Perak	3,138	3,719
- Kedah	6,684	5,841
- Terengganu	4,115	2,667
- Melaka	975	3,420
	<u>50,033</u>	<u>56,314</u>
Gross loans, advances and financing	<u>50,033</u>	<u>56,314</u>
(vii) By sector		
Manufacturing	20,528	17,139
Construction	1,069	969
Wholesale and retail trade, and restaurants and hotels	21,812	31,554
Finance, insurance, real estate and business activities	3,730	3,538
Education, health and others	2,894	3,114
	<u>50,033</u>	<u>56,314</u>
Gross loans, advances and financing	<u>50,033</u>	<u>56,314</u>

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7 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
(viii) Impaired loans, advances and financing analysed by geographical distribution		
Malaysia		
- Kuala Lumpur	565	2,883
Gross loans, advances and financing	<u>565</u>	<u>2,883</u>
(ix) Impaired loans, advances and financing analysed by sector		
Wholesale and retail trade, and restaurants and hotels	565	2,883
Gross loans, advances and financing	<u>565</u>	<u>2,883</u>
(x) Movements in impaired loans, advances and financing (Stage 3) are as follows:		
	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
At the beginning of the financial period	2,883	3,537
Classified as impaired during the financial period	348	42
Amount recovered	(2,666)	(696)
At the end of the financial period	565	2,883
Lifetime ECL credit-impaired (Stage 3)	(565)	(565)
Net impaired loans and advances	<u>-</u>	<u>2,318</u>
Ratio of net impaired loans and advances to gross loans and advances less lifetime ECL credit-impaired (Stage 3)	<u>0.00%</u>	<u>4.16%</u>

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7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(xi) Movements in expected credit losses for loans, advances and financing are as following:

	<u>Stage 1</u> RM'000	<u>Stage 2</u> RM'000	<u>Stage 3</u> RM'000	<u>Total</u> RM'000
At 1 January 2019	57	-	565	622
<i>Changes due to changes in credit risk due to transferred within stages</i>				
- Transfer to 12-month ECL (Stage 1)	-	-	-	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	-	-	-	-
Loans/financing derecognised during the period (other than write-offs)	(39)	-	-	(39)
Write back in respect of full recoveries	-	-	-	-
New loans/financing originated or purchased	5	-	-	5
Changes due to changes in credit risk	(6)	-	-	(6)
At 30 September 2019	17	-	565	582

(xiii) Movements in gross carrying amount of loans, advances and financing that contributed to changes in the expected credit losses are as following:

	<u>Stage 1</u> RM'000	<u>Stage 2</u> RM'000	<u>Stage 3</u> RM'000	Gross loan, advances and financing RM'000	<u>Total</u> RM'000
At the beginning of the financial year	53,431	-	2,883	-	56,314
<i>Transfer between stages</i>					
<i>Changes due to changes in credit risk</i>					
- Transfer to 12-month ECL (Stage 1)	-	-	-	-	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	-	-	-	-	-
Loans/financing derecognised during the period (other than write-offs)	(8,575)	-	-	-	(8,575)
Write back in respect of full recoveries	-	-	(2,666)	-	(2,666)
New loans/financing originated or purchased	7,565	-	348	-	7,913
Changes due to changes in credit risk	(2,953)	-	-	-	(2,953)
At the end of financial period	49,468	-	565	-	50,033

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8 DERIVATIVE ASSETS

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Derivative assets:		
Foreign exchange forwards and spots	-	13
	<u> </u>	<u> </u>
	Contract or underlying <u>principal amount</u> RM'000	Year end positive <u>fair value</u> RM'000
<u>30 September 2019</u>		
Foreign exchange forwards and spots	-	-
	<u> </u>	<u> </u>
<u>31 December 2018</u>		
Foreign exchange forwards and spots	1,440	13
	<u> </u>	<u> </u>

9 OTHER ASSETS

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Deposits	206	310
Prepayments	1,117	2,187
Other receivables	10	113
	<u> </u>	<u> </u>
	<u>1,333</u>	<u>2,610</u>

10 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

(a) The following amounts are shown in the statements of financial position after offsetting:

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Deferred tax assets	242	219
Deferred tax liabilities	(2)	(48)
	<u> </u>	<u> </u>
	<u>240</u>	<u>171</u>

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10 DEFERRED TAXATION (CONTINUED)

(b) The gross movement on the deferred taxation account are as follows:

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
<u>Deferred tax assets (before offsetting)</u>		
Expected credit losses	52	18
Provision for expenses	190	201
	<u>242</u>	<u>219</u>
Property, plant and equipment and intangible assets	(2)	(48)
Deferred tax assets (after offsetting)	<u>240</u>	<u>171</u>
<u>Deferred tax liabilities (before offsetting)</u>		
Property, plant and equipment and intangible assets	(2)	(48)
Deferred tax liabilities (after offsetting)	<u>(2)</u>	<u>(48)</u>

	<u>Expected credit losses</u> RM'000	<u>Provision for expenses</u> RM'000	<u>Accelerated tax depreciation and amortisation</u> RM'000	<u>Total</u> RM'000
<u>Deferred tax assets/(liabilities)</u>				
At 1 January 2019	18	201	(48)	171
Credited to statement of income (Note 23)	(34)	(11)	(46)	(91)
At 30 September 2019	<u>52</u>	<u>190</u>	<u>(2)</u>	<u>240</u>
<u>Deferred tax assets/(liabilities)</u>				
At 1 January 2018	-	-	-	-
Credited to statement of income (Note 23)	18	201	(48)	171
At 31 December 2018	<u>18</u>	<u>201</u>	<u>(48)</u>	<u>171</u>

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11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 26(2) (c) of the Central Bank of Malaysia Act, 2009. The amount is determined at set percentages of total eligible liabilities.

12 DEPOSITS FROM CUSTOMERS

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
(i) By type of deposits		
Demand deposits	13,541	17,373
Savings deposits	646	741
Fixed deposits	225,701	119,330
	<u>239,888</u>	<u>137,444</u>
(ii) Maturity structure of fixed deposits is as follows:		
Due within six months	106,105	40,092
Six months to one year	115,177	79,081
One year to three years	4,069	157
Three years to five years	350	-
	<u>225,701</u>	<u>119,330</u>
(iii) The deposits are sourced from the following types of customers:		
Business enterprises	34,875	31,728
Individuals	868	1,027
Foreign entities	200,274	99,053
Non-Bank Financial Institutes	3,470	5,252
Other Entity	401	384
	<u>239,888</u>	<u>137,444</u>

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13 DERIVATIVE LIABILITIES

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Derivative liabilities:		
Foreign exchange forwards and spots	3	2
	<u> </u>	<u> </u>
	<u>Contract or</u> <u>underlying</u> <u>principal amount</u> RM'000	<u>Year end</u> <u>negative</u> <u>fair value</u> RM'000
<u>30.09.2019</u>		
Foreign exchange forwards and spots	3,839	3
	<u> </u>	<u> </u>
<u>31.12.2018</u>		
Foreign exchange forwards and spots	1,796	2
	<u> </u>	<u> </u>

14 OTHER LIABILITIES

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Accruals	808	858
Banker's cheque	-	7
Other payables	117	47
Expected credit loss for loan/financing commitment and financial guarantee - Note (i)	-	18
	<u> </u>	<u> </u>
	<u>925</u>	<u>930</u>

(i) Movements in expected credit losses for loan/financing commitment and financial guarantee are as following:

	<u>Stage 1</u> RM'000	<u>Total</u> RM'000
At 1 January 2019	18	18
New loan/financing commitment and financial guarantee		
Changes due to changes in credit risk	(18)	(18)
	<u> </u>	<u> </u>
At 30 September 2019	<u>-</u>	<u>-</u>

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15 SHARE CAPITAL

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
<u>Authorised:</u>		
50,000,000 ordinary shares of RM10 each	500,000	500,000
<u>Issued and fully paid:</u>		
Balance as at beginning/end of the financial year	330,000	330,000

There were no issue of shares in the Bank during the financial period.

16 INTEREST INCOME

	3 rd Quarter Ended		Nine Months Ended	
	30 Sept 2019 RM'000	30 Sept 2018 RM'000	30 Sept 2019 RM'000	30 Sept 2018 RM'000
Loans and advances	880	804	2,822	2,142
Money at call and deposit placements with financial institutions	3,934	2,898	10,231	7,966
Financial Investments – Held-for-maturity	816	835	2,572	2,520
Total Interest Income	<u>5,630</u>	<u>4,537</u>	<u>15,625</u>	<u>12,628</u>

17 INTEREST EXPENSE

	3 rd Quarter Ended		Nine Months Ended	
	30 Sept 2019 RM'000	30 Sept 2018 RM'000	30 Sept 2019 RM'000	30 Sept 2018 RM'000
Deposits and placements of banks and other financial institutions	18	25	25	77
Deposits from customers	1,813	892	4,093	2,425
	<u>1,831</u>	<u>917</u>	<u>4,118</u>	<u>2,502</u>

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18 OTHER OPERATING INCOME

	3 rd Quarter Ended		Nine Months Ended	
	30 Sept 2019	30 Sept 2018	30 Sept 2019	30 Sept 2018
	RM'000	RM'000	RM'000	RM'000
<u>Commission and fee income:</u>				
Commission	51	73	231	216
Service charges and fees	107	78	334	269
Other income	-	36	2	95
	<u>158</u>	<u>187</u>	<u>567</u>	<u>580</u>
<u>Other income:</u>				
Foreign exchange gain/(loss)	180	279	626	638
Unrealised gain (loss) on revaluation of derivative instruments	(2)	9	(15)	(2)
	<u>336</u>	<u>475</u>	<u>1,178</u>	<u>1,216</u>

19 OTHER OPERATING EXPENSES

	3 rd Quarter Ended		Nine Months Ended	
	30 Sept 2019	30 Sept 2018	30 Sept 2019	30 Sept 2018
	RM'000	RM'000	RM'000	RM'000
Personnel costs (Note a)	1,167	1,220	3,858	4,017
Marketing expenses (Note b)	(4)	-	23	29
Establishments costs (Note c)	1,296	1,455	3,963	4,426
Administration and general expenses (Note d)	424	591	1,674	1,832
	<u>2,883</u>	<u>3,266</u>	<u>9,518</u>	<u>10,304</u>
(a) <u>Personnel costs:</u>				
- Salaries and allowances	917	900	2,791	2,798
- Pension fund contributions	121	124	376	380
- Other staff costs	129	196	691	839
	<u>1,167</u>	<u>1,220</u>	<u>3,858</u>	<u>4,017</u>
b) <u>Marketing expenses:</u>				
- Advertising and promotion	(4)	-	23	29
	<u>(4)</u>	<u>-</u>	<u>23</u>	<u>29</u>

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19 OTHER OPERATING EXPENSES (continued)

	3 rd Quarter Ended		Nine Months Ended	
	30 Sept 2019 RM'000	30 Sept 2018 RM'000	30 Sept 2019 RM'000	30 Sept 2018 RM'000
(c) <u>Establishments costs:</u>				
- Depreciation of plant and equipment	25	41	74	124
- Amortisation of intangible assets	15	7	47	30
- Rental - Office premises	109	117	350	351
- Rental - Data centre and data recovery sites	80	76	240	227
- Repair and maintenance	8	17	26	43
- Information technology expenses	889	1,026	2,692	3,112
- Telecommunication charges	134	143	453	458
- Others	36	28	81	81
	<u>1,296</u>	<u>1,455</u>	<u>3,963</u>	<u>4,426</u>
(d) <u>Administration and general expenses:</u>				
- Legal and professional fees	8	51	152	227
- Auditor's fees	45	54	164	162
- Licencing fees	48	47	143	136
- Directors' fees	43	43	136	139
- Subscriptions	85	160	417	416
- Transport and travelling	2	4	13	22
- Postage and stamps	38	36	127	124
- Security services	27	34	91	93
- General insurance	16	15	50	50
- Swift and Rentas charges	63	61	178	189
- Others	49	86	203	274
	<u>424</u>	<u>591</u>	<u>1,674</u>	<u>1,832</u>

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20 WRITE-BACK /(PROVISION) OF IMPAIRMENT LOSS ON LOANS, ADVANCES AND FINANCING

	<u>30.9.2019</u> RM'000	<u>30.9.2018</u> RM'000
Expected credit losses / collective and impairment loss on loans and advances		
12- month ECL (Stage 1):		
- Provision made during the financial period	(2)	(2)
- Written back during the financial period	42	29
Lifetime ECL not credit-impaired (Stage 2):		
- Made during the financial period	-	(12)
- Written back during the financial period	-	-
Lifetime ECL credit-impaired (Stage 3):		
- Made during the financial period	-	-
- Written back during the financial period	-	39
	<u>40</u>	<u>54</u>

21 EXPECTED CREDIT LOSSES FOR LOAN/FINANCING COMMITMENT AND FINANCIAL GUARANTEE

	<u>30.9.2019</u> RM'000	<u>30.9.2018</u> RM'000
Expected credit loss on commitment and contingency		
12- month ECL (Stage 1):		
- Provision made during the financial period	-	(10)
- Written back during the financial period	18	-
	<u>18</u>	<u>(10)</u>

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22 EXPECTED CREDIT LOSS FOR OTHER FINANCIAL INVESTMENTS

	<u>30.9.2019</u> RM'000	<u>30.9.2018</u> RM'000
Expected credit loss on cash and short-term funds		
12- month ECL (Stage 1):		
- Provision made during the financial period	(4)	-
- Written back during the financial year	-	-
Expected credit loss on deposits and placements with financial institution		
12- month ECL (Stage 1):		
- Provision made during the financial period	(31)	-
- Written back during the financial year	-	-
Expected credit loss on financial investments		
12- month ECL (Stage 1):		
- Provision made during the financial period	-	(19)
- Written back during the financial year	4	-
	<u>(31)</u>	<u>(19)</u>

23 TAXATION

	<u>30.9.2019</u> RM'000	<u>30.9.2018</u> RM'000
Malaysian income tax:		
Current year	670	-
Deferred tax	(70)	-
Tax charge for the financial year	<u>600</u>	<u>-</u>

Reconciliation between tax charge and the Malaysian tax rate is as follows:

	<u>30.9.2019</u> RM'000	<u>30.9.2018</u> RM'000
Profit before taxation	<u>3,194</u>	<u>1,063</u>
Malaysian income tax:		
Tax charge at applicable tax rate of 24% (2018: 24%)	767	255
Non-deductible expenses	(76)	(255)
Other temporary differences not recognised in prior years	(91)	-
Tax charge for the financial year	<u>600</u>	<u>-</u>

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24 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers.

The commitments and contingencies constitute the following:

	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk- weighted assets RM'000
<u>30 September 2019</u>				
Direct credit substitutes	3,653	-	3,653	2,101
Transaction-related contingent items	762	-	381	178
Short-term self-liquidating trade-related contingencies	1,560	-	312	93
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	278	-	139	139
- Not exceeding one year	33,322	-	6,664	2,390
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	3,839	-	3	1
Total	43,414	-	11,152	4,902

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24 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk- weighted assets RM'000
<u>31 December 2018</u>				
Direct credit substitutes	12,450	-	12,437	10,890
Transaction-related contingent items	25	-	12	2
Short-term self-liquidating trade-related contingencies	2,934	-	583	537
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	278	-	139	138
- Not exceeding one year	33,559	-	6,712	4,885
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	3,236	13	18	4
Total	<u>52,482</u>	<u>13</u>	<u>19,901</u>	<u>16,456</u>

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25 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

<u>Related parties</u>	<u>Relationship</u>
Bank of Baroda	Shareholder
Indian Overseas Bank	Shareholder
Andhra Bank	Shareholder
Bank of Baroda - New York Branch	Branch of the Shareholder
Bank of Baroda - Mumbai Branch	Branch of the Shareholder
Bank of Baroda - Brussels Branch	Branch of the Shareholder
Bank of Baroda - London Branch	Branch of the Shareholder
Bank of Baroda – Singapore Branch	Branch of the Shareholder
Bank of Baroda – Sydney Branch	Branch of the Shareholder
Indian Overseas Bank - Chennai Branch	Branch of the Shareholder
Indian Overseas Bank - Singapore Branch	Branch of the Shareholder
Andhra Bank - Mumbai Branch	Branch of the Shareholder

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel include all the Directors of the Bank and certain senior management personnel of the Bank.

(b) Significant related party balances

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
<u>Amounts due from/(due to):</u>		
Cash and short-term funds with:		
- Bank of Baroda	4,121	2,586
- Indian Overseas Bank	30	7
- Andhra Bank	1	1
Deposits and placements with banks and other financial institutions		
- Bank of Baroda	114,889	29,046
Total	<u>119,041</u>	<u>31,640</u>

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26 CAPITAL MANAGEMENT

The objective of the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory requirements and market expectations.

The Bank's capital management process involves a careful analysis of the capital requirements to support business growth. The Bank regularly assesses its capital adequacy under various scenarios on a forward looking perspective for the purpose of capital planning and management to ensure that the capital is at the level suitable for the prevailing business conditions.

The Bank's capital requirements and capital adequacy ratios, in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework ("RWCAF"): Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk are disclosed in Note 28.

27 CAPITAL ADEQUACY

Bank Negara Malaysia ("BNM") issued revised guidelines on the capital adequacy framework on 13 October 2015, of which took effect beginning 1 January 2016. The revised guidelines set out the regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance with Basel III.

The risk-weighted assets of the Bank is computed in accordance with the Capital Adequacy Framework ("Basel II - Risk-Weighted Assets"). The Standardised Approach is applied for Credit and Market Risk, whilst the Basic Indicator Approach is applied for Operational Risk ("Basel II").

The comparative capital adequacy ratios as at 30 Sept 2019 were based on BNM's Risk-Weighted Capital Adequacy Framework ("RWCAF") which has regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance.

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27 CAPITAL ADEQUACY (CONTINUED)

The capital adequacy ratio of the Bank are as follows:

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
<u>Common Equity Tier 1 Capital</u>		
Paid-up share capital	330,000	330,000
Accumulated losses	(9,049)	(8,356)
Total Common Equity Tier 1 Capital	<u>320,951</u>	<u>321,644</u>
<u>Tier 2 capital</u>		
Stage 1 and 2 ECL	188	214
Regulatory reserves	2,404	1,711
Total Tier 2 capital	<u>2,592</u>	<u>1,925</u>
Total capital base	<u><u>323,543</u></u>	<u><u>323,569</u></u>
Capital ratios		
Common Equity Tier 1 Capital Ratio	181.421%	189.747%
Total Capital Ratio	182.886%	190.883%

The Bank does not have any innovative, non-innovative, complex or hybrid capital instruments.
The breakdown of risk-weighted assets by major category is as follows:

	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000
Credit risk	144,053	139,904
Market risk	3,935	1,851
Operational risk	28,922	27,757
Total risk-weighted assets	<u><u>176,910</u></u>	<u><u>169,512</u></u>

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27 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 30 September 2019:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) Credit Risk				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	20,479	20,479	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	438,904	438,904	87,780	7,022
Corporates	105,105	87,728	49,453	3,956
Other assets	2,710	2,710	1,918	154
Defaulted exposures	-	-	-	-
Total on-balance sheet Exposures	<u>567,198</u>	<u>549,821</u>	<u>139,151</u>	<u>11,132</u>
<i>Off-balance sheet exposures</i>				
<i>Over-the-counter ("OTC")</i>				
Derivatives	3	3	1	-
Credit derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	11,149	11,149	4,901	392
Total off-balance sheet exposures	<u>11,152</u>	<u>11,152</u>	<u>4,902</u>	<u>392</u>
Total on and off-balance sheet Exposures	<u>578,350</u>	<u>560,973</u>	<u>144,053</u>	<u>11,524</u>
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Foreign currency risk	3,935	-	3,935	315
(c) Operational risk			28,922	2,314
Total risk weighted assets and capital requirements			<u>176,910</u>	<u>14,153</u>

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27 CAPITAL ADEQUACY (CONTINUED)

The breakdown of the Bank's credit risk exposures by risk weights is as follows:

	Exposures after netting and credit risk mitigation (RM'000)									
	Sovereigns/ Central banks	Public sector entities	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Higher risk assets	Other assets	Equity	Total exposures after netting and credit risk mitigation	Total risk weighted assets
<u>30.09.2019</u>										
<u>Risk weighted</u>										
0%	20,479	-	-	-	-	-	792	-	21,271	-
20%	-	-	438,907	55,653	-	-	-	-	494,560	98,911
50%	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	43,224	-	-	1,918	-	45,142	45,142
150%	-	-	-	-	-	-	-	-	-	-
Total exposures	20,479	-	438,907	98,877	-	-	2,710	-	560,973	144,053
Risk weighted assets by exposure	-	-	87,781	54,354	-	-	1,918	-	-	144,053
Average risk weight	-	-	20.00%	54.97%	-	-	70.77%	-	-	-
Deduction from capital base	-	-	-	-	-	-	-	-	-	-

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27 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2018:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) Credit Risk				
On-balance sheet exposures				
Sovereigns/central banks	31,122	31,122	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	310,598	310,598	62,120	4,970
Corporates	114,407	103,445	54,618	4,370
Other assets	3,686	3,686	3,233	259
Defaulted exposures	2,318	2,318	3,477	278
Total on-balance sheet Exposures	462,131	451,169	123,448	9,877
<u>Off-balance sheet exposures</u>				
Over-the-counter ("OTC")				
Derivatives	18	18	4	-
Credit derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	19,883	16,452	16,452	1,316
Total off-balance sheet exposures	19,901	16,470	16,456	1,316
Total on and off-balance sheet Exposures	482,032	467,639	139,904	11,193
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Foreign currency risk	1,851	-	1,851	148
(c) Operational risk			27,757	2,221
Total risk weighted assets and capital requirements			169,512	13,562

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27 CAPITAL ADEQUACY (CONTINUED)

The breakdown of the Bank's credit risk exposures by risk weights is as follows:

	Exposures after netting and credit risk mitigation (RM'000)								Total risk weighted assets	
	Sovereigns/ Central banks	Public sector entities	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Higher risk assets	Other assets	Equity		Total exposures after netting and credit risk mitigation
<u>31.12.2018</u>										
<u>Risk weighted</u>										
0%	31,122	-	-	-	-	-	453	-	31,575	-
20%	-	-	310,616	61,034	-	-	-	-	371,650	74,331
50%	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	58,863	-	-	3,233	-	62,096	62,096
150%	-	-	-	2,318	-	-	-	-	2,318	3,477
Total exposures	31,122	-	310,616	122,215	-	-	3,686	-	467,639	139,904
Risk weighted assets by exposure	-	-	62,124	74,547	-	-	3,233	-	-	139,904
Average risk weight	-	-	20.00%	60.99%	-	-	87.71%	-	-	-
Deduction from capital base	-	-	-	-	-	-	-	-	-	-

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28 FINANCIAL RISK MANAGEMENT

A Liquidity riskContractual maturity of assets and liabilities

The table below analyses assets and liabilities (including non-financial instruments) of the Bank based on the remaining period to the contractual maturity date in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions:

	Up to 1 week RM'000	>1 week to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
<u>30 September 2019</u>								
<u>Assets</u>								
Cash and short-term funds	20,974	42,796	-	-	-	-	-	63,770
Deposits and placements								
with banks and other financial institutions	-	-	180,074	196,300	-	-	-	376,374
Financial investments at amortised cost	-	-	-	20,100	55,485	-	-	75,585
Loans, advances and financing	2,489	7,029	9,718	9,277	10,623	10,315	-	49,451
Derivative assets	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	1,333	1,333
Deferred taxation	-	-	-	-	-	-	240	240
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	100	100
Plant and equipment	-	-	-	-	-	-	137	137
Intangible assets	-	-	-	-	-	-	208	208
	<u>23,463</u>	<u>49,825</u>	<u>189,792</u>	<u>225,677</u>	<u>66,108</u>	<u>10,315</u>	<u>2,018</u>	<u>567,198</u>

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Liquidity risk (continued)

Contractual maturity of assets and liabilities (continued)

The table below analyses assets and liabilities (including non-financial instruments) of the Bank based on the remaining period to the contractual maturity date in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions: (continued)

	Up to <u>1 week</u> RM'000	>1 week to <u>1 month</u> RM'000	>1 - 3 <u>months</u> RM'000	>3 - 6 <u>months</u> RM'000	>6 - 12 <u>months</u> RM'000	Over 1 <u>year</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>30 September 2019</u>								
<u>Liabilities</u>								
Deposits from customers	20,141	14,639	60,981	24,332	115,376	4,419	-	239,888
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-
Derivative liabilities	3	-	-	-	-	-	-	3
Other liabilities	192	724	3	6	-	-	-	925
Provision for taxation	-	-	-	-	433	-	-	433
	<u>20,336</u>	<u>15,363</u>	<u>60,984</u>	<u>24,338</u>	<u>115,809</u>	<u>4,419</u>	<u>-</u>	<u>241,249</u>
Net liquidity gap	<u>3,127</u>	<u>34,462</u>	<u>128,808</u>	<u>201,339</u>	<u>(49,701)</u>	<u>5,896</u>	<u>2,018</u>	<u>325,949</u>

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Liquidity risk (continued)

Contractual maturity of assets and liabilities (continued)

The table below analyses assets and liabilities (including non-financial instruments) of the Bank based on the remaining period to the contractual maturity date in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions: (continued)

	Up to <u>1 week</u> RM'000	>1 week to <u>1 month</u> RM'000	>1 - 3 <u>months</u> RM'000	>3 - 6 <u>months</u> RM'000	>6 - 12 <u>months</u> RM'000	Over 1 <u>year</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>31 December 2018</u>								
<u>Assets</u>								
Cash and short-term funds	57,254	27,215	-	-	-	-	-	84,469
Deposits and placements								
with banks and other financial institutions	-	-	20,115	207,256	-	-	-	227,371
Financial investments at amortised cost	-	-	10,120	10,172	70,961	-	-	91,253
Loans, advances and financing	9,743	5,695	6,964	16,376	6,379	10,535	-	55,692
Derivative assets	1	10	2	-	-	-	-	13
Other assets	-	-	-	-	-	-	2,610	2,610
Deferred taxation	-	-	-	-	-	-	171	171
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	100	100
Plant and equipment	-	-	-	-	-	-	197	197
Intangible assets	-	-	-	-	-	-	255	255
	<u>66,998</u>	<u>32,920</u>	<u>37,201</u>	<u>233,804</u>	<u>77,340</u>	<u>10,535</u>	<u>3,333</u>	<u>462,131</u>

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Liquidity risk (continued)Contractual maturity of assets and liabilities (continued)

The table below analyses assets and liabilities (including non-financial instruments) of the Bank based on the remaining period to the contractual maturity date in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions: (continued)

	Up to <u>1 week</u> RM'000	>1 week to <u>1 month</u> RM'000	>1 - 3 <u>months</u> RM'000	>3 - 6 <u>months</u> RM'000	>6 - 12 <u>months</u> RM'000	Over 1 <u>year</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>31 December 2018</u>								
<u>Liabilities</u>								
Deposits from customers	21,587	5,894	14,833	15,892	79,081	157	-	137,444
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-
Derivative liabilities	2	-	-	-	-	-	-	2
Other liabilities	-	638	128	146	18	-	-	930
Provision for taxation	400	-	-	-	-	-	-	400
	<u>21,989</u>	<u>6,532</u>	<u>14,961</u>	<u>16,038</u>	<u>79,099</u>	<u>157</u>	<u>-</u>	<u>138,776</u>
Net liquidity gap	<u>45,009</u>	<u>26,388</u>	<u>22,240</u>	<u>217,766</u>	<u>(1,761)</u>	<u>10,380</u>	<u>3,333</u>	<u>323,355</u>

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Interest rate risk

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 30 Sept 2019:

	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<u>30 September 2019</u>									
<u>Assets</u>									
Cash and balances with banks and other financial institutions	14,704	-	-	-	-	6,260	-	20,964	3.00
Money at call and deposit placements maturing within one month	42,806	-	-	-	-	-	-	42,806	3.32
Deposits and placements with banks and other financial institutions	-	180,074	196,300	-	-	-	-	376,374	3.75
Financial investments at amortised cost	-	-	20,100	55,485	-	-	-	75,585	4.37
Loans, advances and financing	9,518	9,718	19,900	3,805	6,510	-	-	49,451	6.37
Derivative assets	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	1,333	-	1,333	-
Deferred taxation	-	-	-	-	-	240	-	240	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	100	-	100	-
Plant and equipment	-	-	-	-	-	137	-	137	-
Intangible assets	-	-	-	-	-	208	-	208	-
Total assets	67,028	189,792	236,300	59,290	6,510	8,278	-	567,198	

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Interest rate risk (continued)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 30 Sept 2019: (Continue)

	Non-trading book						Trading book	Total	Effective interest rate
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest sensitive			
<u>30 September 2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<u>Liabilities</u>									
Deposits from customers	34,780	60,981	139,708	4,419	-	-	-	239,888	3.15
Derivative liabilities	-	-	-	-	-	-	3	3	
Other liabilities	-	-	-	-	-	433	-	433	
Provision for taxation	-	-	-	-	-	925	-	925	
Total liabilities	<u>34,780</u>	<u>60,981</u>	<u>139,708</u>	<u>4,419</u>	<u>-</u>	<u>1,358</u>	<u>3</u>	<u>226,110</u>	
On balance sheet-interest rate gap	<u>32,248</u>	<u>128,811</u>	<u>96,592</u>	<u>54,871</u>	<u>6,510</u>	<u>6,920</u>	<u>(3)</u>	<u>325,949</u>	

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Interest rate risk (continued)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2018:

	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<u>31 December 2018</u>									
<u>Assets</u>									
Cash and balances with banks and other financial institutions	53,310	-	-	-	-	3,938	-	57,248	3.25
Money at call and deposit placements maturing within one month	27,221	-	-	-	-	-	-	27,221	4.01
Deposits and placements with banks and other financial institutions	-	20,115	207,256	-	-	-	-	227,371	4.14
Financial investments at amortised cost	-	10,120	10,172	70,961	-	-	-	91,253	4.24
Loans, advances and financing	15,438	6,964	22,753	3,734	6,803	-	-	55,692	6.37
Derivative assets	-	-	-	-	-	-	13	13	-
Other assets	-	-	-	-	-	2,610	-	2,610	-
Deferred taxation	-	-	-	-	-	171	-	171	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	100	-	100	-
Plant and equipment	-	-	-	-	-	197	-	197	-
Intangible assets	-	-	-	-	-	255	-	255	-
Total assets	95,969	37,199	240,181	74,695	6,803	7,271	13	462,131	

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Interest rate risk (continued)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2018: (Continue)

	Non-trading book						Trading book	Total	Effective interest rate
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest sensitive			
<u>31 December 2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
<u>Liabilities</u>									
Deposits from customers	27,481	14,833	94,973	157	-	-	-	137,444	3.22
Derivative liabilities	-	-	-	-	-	-	2	2	-
Other liabilities	-	-	-	-	-	930	-	930	-
Provision for taxation	-	-	-	-	-	400	-	400	-
Total liabilities	<u>27,481</u>	<u>14,833</u>	<u>94,973</u>	<u>157</u>	<u>-</u>	<u>1,330</u>	<u>2</u>	<u>138,776</u>	
On balance sheet-interest rate gap	<u>68,488</u>	<u>22,366</u>	<u>145,208</u>	<u>74,538</u>	<u>6,803</u>	<u>5,941</u>	<u>11</u>	<u>323,355</u>	

