

Registration No.

201001027747 (911666-D)

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

**REPORTS AND STATUTORY FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

0927A1/lh

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**REPORTS AND STATUTORY FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

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**DIRECTORS' REPORT**

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2020.

**DIRECTORS**

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Santhanam Vangal Jagannathan  
Datuk Bhupatrai a/l Mansukhlal Premji  
Goh Ching Chee

**PRINCIPAL ACTIVITIES**

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

There have been no significant changes in the nature of the principal activities during the financial year.

**FINANCIAL RESULTS**

The financial results of the Bank for the financial year are as follows:

	RM'000
Profit before taxation	1,103
Taxation	(448)
Net profit for the financial year	<u>655</u>

**DIRECTORS' INTERESTS IN SHARES AND DEBENTURES**

According to the register of Directors' Shareholdings maintained by the Bank in accordance with Section 59 of the Companies Act, 2016, none of the Directors in office at the end of the financial year held any interests in shares in or debentures of the Bank or any of its related corporations.

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than Directors' remuneration as disclosed in Note 24 of the financial statements) by reason of a contract made by the Bank or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangements to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

**DIRECTORS' REMUNERATION**

Details of Directors' remuneration are set out in Note 24 to the financial statements.

**INDEMNITY AND INSURANCE FOR DIRECTORS**

The Bank maintains a Directors' and Officers' Liability Insurance up to an aggregate of RM 2,000,000 and RM 500,000 for each Director against any legal liability incurred by the Directors in the discharge of their duties while holding office in the Bank.

The total amount of premium paid for the Directors' and Officers' Liability Insurance by the Bank was RM 8,930 for the year (2019: RM 8,930).

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves and provisions during the financial year other than those disclosed in the financial statements and notes to the financial statements.

**DIVIDENDS**

No dividend was paid or declared by the Bank since the end of the last financial year. The Directors do not recommend any dividend to be paid for the financial year ended 31 December 2020.

**ISSUE OF SHARES AND DEBENTURES**

No new shares or debentures were issued during the financial year ended 31 December 2020.

**EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

Event subsequent to the balance sheet date is disclosed in Note 37 in the financial statements.

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**DIRECTORS' REPORT (CONTINUED)**

**OTHER STATUTORY INFORMATION**

- (a) Before the financial statements of the Bank were prepared, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provisions had been made for doubtful debts; and
  - (ii) to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances:
- (i) which would render the amounts written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; or
  - (ii) which would render the values attributed to current assets in the financial statements of the Bank misleading; or
  - (iii) which have arisen which would render adherence to the existing method of valuation of assets and liabilities of the Bank misleading or inappropriate.
- (c) At the date of this report:
- (i) there are no changes on the assets of the Bank which have arisen since the end of the financial year which secures the liabilities of any person,
  - (ii) there are no contingent liabilities in the Bank which have arisen since the end of the financial year other than in the ordinary course of the banking business; and
  - (iii) there are no charges on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person and, if so, giving particulars of any such charge and, so far as practicable, of the amount secured.
- (d) No contingent or other liability of the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet its obligation when they fall due.
- (e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the respective financial statements misleading.
- (f) In the opinion of the Directors:
- (i) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

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**DIRECTORS' REPORT (CONTINUED)**

**OTHER STATUTORY INFORMATION (CONTINUED)**

(f) In the opinion of the Directors: (continued)

- (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

**AUDITORS' REMUNERATION**

Details of auditors' remuneration are set out in Note 23 to the financial statements.

**BUSINESS REVIEW**

2020 Results

The Bank's net income for financial year ("FY") 2020 decreased by RM3.562 million to RM13.101 million as compared to FY 2019 (2019: RM16.663 million). The decrease is due to lower net interest income which decreased by RM2.907 million.

The Bank's operating expenses decreased from RM12.243 million in FY 2019 to RM11.877 million in FY 2020 (decrease of RM0.366 million).

The Bank records an operating profit before loan loss impairment of RM1.224 million in FY 2020 compared to an operating profit of RM 4.420 million in FY 2019. There is a loan loss impairment charges made of RM0.121 million in FY 2020. As the result, the Bank recorded a profit before tax of RM 1.103 million in FY 2020 against profit of RM3.951 million in FY 2019.

Loans and advances as at 31 December 2020 are RM32.561 million or decreases by RM16.560 million as compared to 31 December 2019. Deposits from customers are RM149.666 million lower than the previous year and stood at RM101.430 million as at end of December 2020.

Business Outlook for FY 2021

Malaysia's economic recovery in 2021 will be underpinned by the effective roll-out of a COVID-19 vaccine, which the growth will be partly driven by a low-base effect in 2020. The World Bank has forecasted Malaysia's economy to grow by 6.7% in 2021 after contracting 5.8% in 2020 with gradual re-opening of the economy, the improvement is expected to be broad-based.

Malaysian Government has taken efforts to revive the economy to be effective by ensuring timely response in imposing the MCO to flatten the curve, complemented by swift stimulus packages, which has cushioned the impact of the crisis.

Putting aside the current pandemic situation, the Board has maintained and believe that the Bank's potential growth and expansion plan will still be the ultimate vision with the support of the shareholders. The Board has addressed the necessary element and factor for the future of the Bank to the shareholders and the next course of action will be catalysed within next 1 to 2 years' time.

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**DIRECTORS' REPORT (CONTINUED)**

**STATEMENT OF CORPORATE GOVERNANCE**

The Bank is committed to high standards of corporate governance and strives to continually improve the governance process and structures and in compliance with Bank Negara Malaysia ("BNM") revised guidelines on Corporate Governance for Licensed Institutions issued by BNM in August 2016. The Board is pleased to set out below how the Bank has adhered to the BNM guidelines for the financial year ended 31 December 2020.

**THE BOARD OF DIRECTORS**

Board's Duties and Responsibilities

The Board of Directors ("the Board") is led by the Chairman, who is an Independent Non-Executive Director.

The role of the Chairman and Chief Executive Officer ("CEO") are separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decisions.

There are matters specifically reserved for the Board's decision to ensure that the direction and control of the Bank are firmly in hand. The day-to-day conduct of the Bank's business is delegated to the CEO and the fulltime employees of the Bank subject to the authority given.

The objective of the Board is to plan, supervise, identify/manage risks and provide direction and guidance to the management of the Bank to successfully achieve the Bank's goal.

Duties and responsibilities of the Board include:

- (i) Review and adopt long-term and short-term strategic plans for the Bank;
- (ii) Oversee the conduct of the Bank's business to evaluate whether the business is being properly managed;
- (iii) Establish comprehensive risk management policies, processes and infrastructure to manage the various types of risks; and
- (iv) Review the adequacy and the integrity of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board also assumes various functions and responsibilities that are required of them by BNM, as specified in guidelines and directives issued by BNM from time to time.

Board Composition

The Board of the Bank consists of seven (7) members. As at 31 December 2020, due to vacancies in the position of four (4) Directors, the board composition was made up of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

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**DIRECTORS' REPORT (CONTINUED)**

**THE BOARD OF DIRECTORS (CONTINUED)**

Board Composition (continued)

The Board consists of individuals of calibre, with credibility, integrity and the necessary skills, experiences as well as qualification to supervise the management of the business and affairs of the Bank. The Board, as a whole, provides a mixture of core competencies including banking, finance, accounting, economics and business management for effective functioning and discharging of the responsibilities of the Board.

The presence of the two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director provides the necessary checks and balances in the functioning of the Board and facilitates the Board in exercising objective judgement in decision making.

Appointment to the Board

The appointment and re-appointment of Directors to the Bank's Board had been approved by BNM pursuant to the Financial Services Act, 2013 and in compliance with the guidelines issued by BNM.

In accordance with the Bank's Articles of Association, all newly appointed Directors are subjected to re-election by shareholders at the next Annual General Meeting. The Articles of Association further provides for one-third of the remaining Directors to retire from office by rotation and be subjected to re-election at the Annual General Meeting of the Bank. As guided by BNM's guidelines, re-appointment or re-election of Directors are made with the prior approval from BNM.

**PROFILE OF DIRECTORS**

A brief profile of each of the Directors is as follows:

(i) **Santhanam Vangal Jagannathan**

Mr. Santhanam Vangal Jagannathan is an Indian citizen. He was appointed an Independent Non-Executive Director since 2 June 2015. Mr. Santhanam Vangal Jagannathan is a professionally qualified Chartered accountant with 36 years of experience in banking. His banking experiences cover corporate credit, project funding, international banking and commercial banking operations across various assignments in India. His exposure includes holding key positions with Bank of Baroda including that of Chief Executive Officer of Bank of Baroda in United Arab Emirates and Oman. His other notable overseas assignment was in Nairobi, Kenya where he was in in-charge of Credit, for the Kenya territory of Bank of Baroda covering 6 branches. He had also served as a Nominee Director on the Board of The Nainital Bank Limited in India, an associate of Bank of Baroda with 120 branches across India, from 1999 to 2002. He also served as a member of Audit and Human Resource Committees of the Board during this period.

Mr. Santhanam Vangal Jagannathan conducted Head Office inspection of the United Kingdom and Brussels branches of Bank of Baroda in addition to performing management audit of Group Control Office of the Bank of Baroda in London. He is currently a partner in D. Rangaswamy & Co., a leading Chartered Accountants firm in Chennai, India, which is an established firm with a 64 years history and handles statutory audits of leading banking institutions like Reserve Bank of India and State Bank of India.



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**DIRECTORS' REPORT (CONTINUED)**

**THE BOARD OF DIRECTORS (CONTINUED)**

**PROFILE OF DIRECTORS (CONTINUED)**

(ii) **Datuk Bhupatrai a/l Mansukhlal Premji**

Datuk Bhupatrai a/l Mansukhlal Premji is a Malaysian citizen and was re-appointed to the Board of the Bank as a Non-Independent Non-Executive Director effective 9 November 2020.

He started his career with the Malaysian Administrative and Diplomatic Service in 1975, initially serving as Assistant Director in the Ministry of Trade and Industry after which he served as Principal Assistant Secretary of the Ministry of Finance from 1978 to 1987. He then joined the United Asian Bank in 1988. He has 19 years of experience in Banking particularly in credit, banking operations, risk management, human resources and corporate services and has served as Assistant General Manager in Branch Operations Division and as Deputy General Manager in Human Resources and Branch Operations with the United Asian Bank. Following the merger of United Asian Bank with Bank of Commerce, he served as Senior Vice President in charge of various portfolios. His last position before his retirement in February 2005 was as the Senior Vice President of Corporate Services at Bumiputra Commerce Bank (now CIMB Bank).

He is a graduate with a Bachelor of Economics (Honours) degree from the University of Malaya. Datuk Bhupatrai is also the president of Gujarati Association of Malaysia.

(iii) **Goh Ching Chee**

Mr. Goh Ching Chee is a Malaysian citizen. He was appointed to the Board as an Independent Non-Executive Director of the Bank on 2 October 2017. Mr. Goh is also the Chairman of the Board Risk Management Committee, Audit Committee and Nomination and Remuneration Committee of the Bank. He has more than 30 years of experience in banking covering audit, operations, IT, sales and marketing. He started his career in banking with Malayan Banking and moved to Citibank in 1985. He was promoted to Mortgage Business Director in 2008.

Mr. Goh's last position with Citibank was Executive Vice President and the Managing Director for the Mortgage Business for Citibank Malaysia before he left in February 2012. He was also responsible for overseeing the Mortgage Business for Citibank Thailand. He was the longest serving head of Mortgage Business in the Malaysian banking industry as well as the longest serving senior management team member for Citibank Malaysia at the point of his departure.

With more than 30 years in the banking industry, Mr. Goh has built the Citibank's mortgage business into a sizable portfolio. Mr. Goh led a very successful sales force team focusing on Citibank's core value of providing unrivalled products and services to consumers. He was also responsible for many products and service innovation in the Mortgage and Share Financing business for the banking industry.

Mr. Goh is a Chartered member of Institute of Bankers Malaysia and has completed the Computer Programming & Information Processing course from City & Guilds of London Institute.

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**DIRECTORS' REPORT (CONTINUED)**

**THE BOARD OF DIRECTORS (CONTINUED)**

**FREQUENCY AND CONDUCT OF MEETING**

The Board meets on a scheduled basis, at least once in every two (2) months, to review the performance and managements reports and to deliberate various matters which require guidance and approval.

During the financial year ended 31 December 2020, the Board held seven (7) meetings. Details of each Director's attendance at Board Meetings during the financial year are as follows:

<u>No.</u>	<u>Name of Directors</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr. Santhanam Vangal Jagannathan (Chairman)	Independent Non- Executive Director	7/7*
2	Datuk Bhupatrai a/l Mansukhlal Premji	Non-Independent Non-Executive Director	7/7
3	Mr. Goh Ching Chee	Independent Non- Executive Director	7/7

*\*Due to restriction of movement, the Board Chairman, Mr. V J Santhanam has been attending the meeting via video conference.*

**BOARD COMMITTEES**

The Board has established specialised Board Committees to assist to carry out its responsibilities more effectively and provide oversight over the Bank's operations. These committees are:

- (i) \*Nomination and Remuneration Committee;
- (ii) Board Risk Management Committee; and
- (iii) Audit Committee.

*\*On 26 October 2020 at the Board meeting, it was apprised and concluded that effective 9 November 2020, Datuk Bhupatrai a/l Mansukhlal Premji's re-appointment has changed to Non-Independent Non-Executive Director, as per approval from Bank Negara Malaysia (BNM). As per BNM's Corporate Governance 2016, all the sub-committees must be chaired by an Independent Director other than the Chairman of the Board. Thus, the Board has approved to appoint Mr. Goh Ching Chee, Independent Director, as Chairman of various sub-committees effective 9 November 2020.*

These committees operate under clearly defined terms of reference approved by the Board and the Board receives reports of their proceedings and deliberations. These committees have the authority to examine certain issues and report back to the Board with their recommendations. Ultimately, the Board is responsible for making the final decision.

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**DIRECTORS' REPORT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

(i) Nomination and Remuneration Committee

On 26 October 2020 at Board meeting, it was apprised and concluded that effective 9 November 2020, the Board has approved to appoint Mr. Goh Ching Chee, Independent Director, as Chairman of various sub-committees effective 9 November 2020 as enumerated below:

<b>Existing Structure of Board Sub Committee within the existing strength of 3 members</b>	<b>Revised Structure of Board Sub Committee within the existing strength of 3 members</b>
1. Audit Committee (AC) 2. Nomination Committee (NC)  Chairman – Datuk Bhupatrai (INED) Member – Mr. V J Santhanam (INED) Member – Mr. Goh Ching Chee (INED)	1. Audit Committee (AC) 2. Board Risk Management Committee (BRMC) 3. Nomination and Remuneration Committee (NRC)  Chairman – Mr. Goh Ching Chee (INED) Member – Mr. V J Santhanam (INED) Member – Datuk Bhupatrai (INED)
3. Board Risk Management Committee (BRMC) 4. Remuneration Committee (RC)  Chairman – Mr. Goh Ching Chee (INED) Member – Mr. V J Santhanam (INED) Member – Datuk Bhupatrai (INED)	Note: NC and RC merged for operational convenience.

During the financial year, the Nomination Committee held two (2) meetings. The composition of the Nomination Committee and attendance of the members at the meeting held during the financial year are as follows:

<u>No.</u>	<u>Committee Member</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr. Goh Ching Chee (Chairman)	Independent Non-Executive Director	2/2
2	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	2/2*
3	Datuk Bhupatrai a/l Mansukhlal Premji	Non-Independent Non-Executive Director	2/2

*\*Due to restriction of movement, the Board Chairman, Mr. V J Santhanam has been attending the meeting via video conference.*

Terms of reference

The Nomination Committee is established to provide a formal and transparent procedure for the appointment of Directors and CEO, as well as the assessment of effectiveness of individual Directors, the Board as a whole and performance of CEO and key senior management officers.

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**DIRECTORS' REPORT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

(i) Nomination and Remuneration Committee (continued)

Terms of reference (continued)

The primary functions of the Nomination Committee include the following:

- (a) Establish the minimum requirements for the Board in terms of required mix of skills, experience, qualification and other core competencies;
- (b) Establish minimum requirements for the CEO;
- (c) Recommend and assess the nominees for directorship, Board Committee members and the CEO;
- (d) Oversee through an annual review of overall composition of the Board in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors, Independent Directors and Non- Independent Directors;
- (e) Establish a mechanism for the annual assessment on the effectiveness of the Board as a whole and the contribution of each Directors to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers; and
- (f) Assess on an annual basis that individual Directors and key senior management officers are not disqualified under Section 59 of the Financial Services Act, 2013 and continue to comply with the standard for "fit and proper" criteria as approved by the Board.

During the financial year, Remuneration Committee was done via circular resolution dated 20 May 2020.

Terms of reference

The Remuneration Committee is established to provide a formal and transparent procedure for developing a remuneration policy for the Directors, CEO and key senior management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The primary functions of the Remuneration Committee include the following:

- (a) Recommend a framework of remuneration for Directors, the CEO and other key senior management officers for the Board's approval;
- (b) Review the remuneration package of the Directors, CEO and key senior management officers; and
- (c) Recommend to the Board the proposed overall salary increments and overall annual bonus of the staff.

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**DIRECTORS' REPORT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

(ii) Board Risk Management Committee

During the financial year, the Board Risk Management Committee held four (4) meetings. The composition of Board Risk Management Committee and attendance of the members at the meetings held during financial year are as follows:

<u>No.</u>	<u>Committee Member</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr. Goh Ching Chee (Chairman)	Independent Non-Executive Director	4/4
2	Datuk Bhupatrai a/l Mansukhlal Premji	Non-Independent Non-Executive Director	4/4
3	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	4/4*

*\*Due to restriction of movement, the Board Chairman, Mr. V J Santhanam has been attending the meeting via video conference.*

Terms of reference

The Board Risk Management Committee is established to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

The primary functions of the Board Risk Management Committee include the following:

- (a) Review and recommend risk management strategies, policies and risk tolerance for the Board's approval;
- (b) Review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and extent to which these are operating effectively; and
- (c) Review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

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**DIRECTORS' REPORT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

(ii) Board Risk Management Committee (continued)

Risk Management Framework

The Bank recognises that risk management is a vital part of the Bank's operations and is critical to achieve continuous growth, profitability and sustainability. The Bank has in place a Risk Management Framework that oversees the management of different risk areas, and the key business risks are credit risk, operational risk, liquidity risk and market risk.

The Board has established Board Risk Management Committee with the primary objective of overseeing risk management activities of the Bank and recommending appropriate risk management policies and risk measurement parameters.

The guiding risk management principles with which the Bank operates are as follows:

- (a) Clear separation of risk-taking business lines and risk supervising unit.
- (b) Identification and coverage of all relevant risk types in risk management.
- (c) Measure risk in order to monitor and control them thereby enabling the implementation of more effective risk-based strategy and aid in decision making and management of portfolio.
- (d) Development of strong risk culture and continuous improvement of risk management skills throughout the Bank.

Three Lines of Defence concept is used as the primary means to establish and construct roles, responsibilities and accountabilities for decision making, risk and control to achieve effective risk management.

*1<sup>st</sup> Line of Defence:* Risk owner or business units, being responsible for day-to-day risk management.

*2<sup>nd</sup> Line of Defence:* Risk Management Department, being responsible to provide an oversight over process and risk by implementing policies and procedures.

*3<sup>rd</sup> Line of Defence:* Internal Audit Department, being responsible to provide independent, objective assurance and consulting activities in an effort to evaluate and improve the effectiveness of risk management, control and governance.

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**DIRECTORS' REPORT (CONTINUED)**

**BOARD COMMITTEES (CONTINUED)**

(iii) Audit Committee

During the financial year, the Audit Committee held four (4) meetings.

The composition of Audit Committee and attendance of the members at the meetings held during financial year are as follows:

<u>No.</u>	<u>Committee Member</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr. Goh Ching Chee (Chairman)	Independent Non-Executive Director	4/4
2	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	4/4*
3	Datuk Bhupatrai a/l Mansukhlal Premji	Non-Independent Non-Executive Director	4/4

*\*Due to restriction of movement, the Board Chairman, Mr. V J Santhanam has been attending the meeting via video conference.*

Terms of reference

The Audit Committee is established to assist the Board in fulfilling its oversight responsibilities for the financial reporting process and the system of internal control. Their roles and responsibilities include:

- (a) Review of the effectiveness of the Bank's internal control system and risk management processes;
- (b) Oversight of the functions of the Internal Audit Department to ensure it complies with BNM guidelines on Internal Audit Function of Licensed Institutions;
- (c) Review the adequacy of the annual audit plan and all major changes to the plan to ensure that there are no unjustified restrictions or limitations made;
- (d) Review of the scope of the internal audit program, internal audit findings and recommend actions to be taken by management;
- (e) Review of significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements;

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DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iii) Audit Committee (continued)

Terms of reference (continued)

The Audit Committee is established to assist the Board in fulfilling its oversight responsibilities for the financial reporting process and the system of internal control. Their roles and responsibilities include:

- (f) Review of interim financial reports, the annual financial statements and consider whether they are complete, consistent with information known to Committee members and reflect appropriate accounting principles;
- (g) Selection of external auditors for appointment by the Board;
- (h) Assessment of objectivity, performance and independence of external auditors;
- (i) Review of the external auditors' proposed audit scope and approach;
- (j) Review of the external auditors' management letter and managements' response;
- (k) Approval of the provision of non-audit service by the external auditors; and
- (l) Review any related party transactions that may arise within the Bank.

Audit functions

The Internal Audit Department ("IAD") plays a key role in assisting the Audit Committee to oversee that the management has in place a sound system of risk management, internal controls and governance processes. This is achieved through the review of the recommendations for improvements to the current risk management, internal control systems and governance processes to provide reasonable assurance that such systems continue to operate satisfactorily and effectively. In addition, reviews on compliance with established policies, procedures, guidelines and statutory requirements are also carried out.

The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the CEO. The scope of the internal audit covers the audit of all units and operations. It is the responsibility of the IAD to provide the Audit Committee with independent and objective reports on the state of risk management, internal controls and governance processes. The audit reports which provide the results of audits conducted in terms of the risk management of the units, effectiveness of internal controls, compliance with internal and regulatory requirements and overall management of the units are submitted to the Audit Committee for their review.

The Audit Committee reviews and approves the IAD's annual audit plan and human resources requirements to ensure that the function is adequately resourced with competent and proficient internal auditors. The internal audit functions were performed in accordance with the Audit Charter and BNM Guidelines on Internal Audit Function of Licensed Institutions.



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

**DIRECTORS' REPORT (CONTINUED)**

**MANAGEMENT INFORMATION**

All the Directors have reviewed the Board reports prior to the Board Meetings. Information and materials duly endorsed by the CEO and the relevant functional heads that are important to the Directors understanding of the agenda items and related topics are distributed in advance prior to the meeting. The Board reports include among others, the monthly performance of the Bank, minutes of the various Board and Management Committees, compliance reports and other prevailing regulatory developments as well as economic and business environment updates.

These reports are issued timely to enable the Directors to obtain further explanation, where necessary, in order to be briefed properly before the meeting.

**RELATED PARTY TRANSACTIONS**

During the financial year ended 31 December 2020, the Bank entered into transactions with the Bank's shareholders namely Bank of Baroda, Indian Overseas Bank and Union Bank of India\* in the normal course of business. The details and nature of the transactions are disclosed in Note 30 of the financial statements.

\*During the year, Andhra Bank along with Corporation Bank was amalgamated with Union Bank of India by way of Vesting Order thru the Gazette of India: Extraordinary, Part II, Section 3(i) effective 1 April 2020.

**BANK RATINGS**

The Bank has not been rated by any external rating agencies.

**OPTIONS GRANTED OVER UNISSUED SHARES**

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

**AUDITORS**

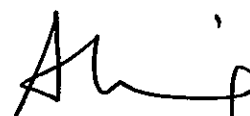
The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 9 April 2021.

Signed on behalf of the Board of Directors in accordance with their resolution dated 9 April 2021.



GOH CHING CHEE  
DIRECTOR



DATUK BHUPATRAI M PREMJI  
DIRECTOR

Kuala Lumpur  
9 April 2021

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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

	<u>Note</u>	<u>2020</u> RM'000	<u>2019</u> RM'000
<b>ASSETS</b>			
Cash and short-term funds	4	39,927	69,387
Deposits and placements with banks and other financial institutions	5	284,148	372,484
Financial investments at amortised cost	6	70,176	85,927
Loans and advances	7	32,561	49,121
Derivative assets	8	3	3
Other assets	9	1,239	922
Deferred taxation	18	334	294
Tax recoverable		379	-
Statutory deposits with Bank Negara Malaysia	10	100	100
Plant and equipment	11	163	107
Intangible assets	12	140	193
Right-of-use assets	13	1,727	1,891
<b>TOTAL ASSETS</b>		<b>430,897</b>	<b>580,429</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits from customers	14	101,430	251,096
Derivative liabilities	15	-	2
Other liabilities	16	779	870
Lease liabilities	17	1,635	1,718
Provision for taxation		-	345
<b>TOTAL LIABILITIES</b>		<b>103,844</b>	<b>254,031</b>
Share capital	19	330,000	330,000
Regulatory reserves		217	2,043
Accumulated losses		(3,164)	(5,645)
<b>TOTAL EQUITY OF SHAREHOLDERS</b>		<b>327,053</b>	<b>326,398</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>430,897</b>	<b>580,429</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	29	<b>31,048</b>	<b>38,332</b>

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

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**INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD**  
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**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

	<u>Note</u>	<u>2020</u> RM'000	<u>2019</u> RM'000
Interest income	20	16,293	21,253
Interest expense	21	(4,049)	(6,102)
Net interest income		12,244	15,151
Other operating income	22	857	1,512
Net income		13,101	16,663
Other operating expenses	23	(11,877)	(12,243)
		1,224	4,420
(Allowance for) / write-back of impairment losses of loans and advances	25	(78)	30
Allowance for impairment losses on loans commitments and financial guarantees	26	(74)	(1)
Write-back of / (allowance for) impairment losses on other financial investments	27	31	(498)
Profit before taxation		1,103	3,951
Taxation	28	(448)	(908)
<b>PROFIT FOR THE FINANCIAL YEAR/ TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>		<b>655</b>	<b>3,043</b>

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

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	<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 2020	330,000	2,043	(5,645)	326,398
Transfer from regulatory reserves	-	(1,826)	1,826	-
Total comprehensive income for the financial year	-	-	655	655
Balance as at 31 December 2020	<u>330,000</u>	<u>217</u>	<u>(3,164)</u>	<u>327,053</u>
Balance as at 1 January 2019	330,000	1,711	(8,356)	323,355
Transfer to regulatory reserves	-	332	(332)	-
Total comprehensive income for the financial year	-	-	3,043	3,043
Balance as at 31 December 2019	<u>330,000</u>	<u>2,043</u>	<u>(5,645)</u>	<u>326,398</u>

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

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	<u>Note</u>	<u>2020</u> RM'000	<u>2019</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		1,103	3,951
Adjustments for:			
Depreciation of plant and equipment	11	121	95
Amortisation of intangible assets	12	163	62
Depreciation of right of use assets	13	907	858
Loss on disposal of assets		-	6
Unrealised gain on modification of right-of-use assets		(30)	-
Unrealised (gain) / loss on revaluation of derivative instruments	22	(2)	10
Interest expense on lease liability	21	89	100
Interest income for financial investment at amortised cost	20	(3,301)	(3,460)
Net amortisation of discount for the financial investment at amortised cost	20	93	72
Interest income for money at call and deposit placements with financial institutions	20	(10,763)	(14,231)
(Write-back of) / allowance for impairment losses on other financial investments	27	(3)	498
Allowance for impairment losses on loans commitments and financial guarantees	26	74	1
Allowance for / (write-back of) impairment losses of loans and advances	25	78	(30)
Operating loss before working capital changes		<u>(11,471)</u>	<u>(12,068)</u>
Decrease / (Increase) in operating assets			
Deposits and placements with financial institutions		87,145	(143,975)
Financial investments at amortised cost		-	35
Other assets		(317)	1,688
Derivative assets		-	-
Loans and advances		16,482	6,601
Increase / (Decrease) in operating liabilities			
Deposits from customers		(149,666)	113,652
Other liabilities		(170)	(272)
Cash flows used in operations		<u>(57,997)</u>	<u>(34,339)</u>
Taxation paid		(1,212)	(1,086)
Net cash used in operating activities		<u>(59,209)</u>	<u>(35,425)</u>

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	<u>Note</u>	<u>2020</u> RM'000	<u>2019</u> RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment	11	(177)	(11)
Purchase of intangible assets	12	(110)	-
Interest income received for financial investments at amortised cost		3,569	3,720
Interest income received for money at call and deposit placements with financial institutions		12,348	12,761
Purchase of financial assets at amortised cost		(25,000)	(15,184)
Proceeds of matured financial assets at amortised cost		40,000	20,000
Net cash generated from investing activities		<u>30,630</u>	<u>21,286</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of principal lease liabilities		(881)	(920)
Net cash used in financing activities		<u>(881)</u>	<u>(920)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		(29,460)	(15,059)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR EXPECTED CREDIT LOSSES		69,387 -	84,469 (23)
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	4	<u>39,927</u>	<u>69,387</u>

(i) An analysis of changes in liabilities arising from financing activity is as follows:

	<u>2020</u> RM'000	<u>2019</u> RM'000
At 1 January	1,718	2,538
- Repayment of lease liability	(881)	(920)
- Finance cost	89	100
- Lease modifications	709	-
At 31 December	<u>1,635</u>	<u>1,718</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**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.

The financial statements were authorised for issue by the Board of Directors in accordance with their resolution on 9 April 2021.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

**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  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

The Bank has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2020:

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 "Definition of Material"
- Amendments to MFRS 9, MFRS 139 and MFRS 7 "Interest Rate Benchmark Reform"

The adoption of these new standards, amendments to published standards and new interpretation did not have any material impact on the financial statements of the Bank in prior periods and are not expected to significantly affect the current or future periods.

The nature of the new standards are described below:

(i) The Conceptual Framework for Financial Reporting (Revised 2018)

The International Accounting Standard Board ("IASB") issued an update to the Conceptual Framework in April 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concept, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The main changes in the Conceptual Framework are as follows:

- Reintroduces the concept of stewardship and the information needed to assess management's stewardship;
- Reintroduces the concept of prudence;
- Defines concept of measurement uncertainty;
- Reinstates an explicit reference to the need to "faithfully represent the substance of the phenomena that it purports to represent"; and
- Made changes to the definitions of an Asset and a Liability.

The adoption of the framework is not anticipated to have significant impact on the Bank's financial statements.



INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

(ii) Amendments to MFRS 101 and MFRS 108 "Definition of Material"

Amendments clarify that materiality will depend on the nature of magnitude of information, or both. The Bank will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments also explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information.

These amendments, if any, are not expected to have any impact on the Bank's financial statements.

(iii) Amendments to MFRS 9, MFRS 139 and MFRS 7 "Interest Rate Benchmark Reform"

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by inter-bank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the statement of comprehensive income. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present.

In accordance with the transition provisions, the Branch has adopted the amendments to MFRS 9 and MFRS 7 to retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date. These amendments had no impact on the amounts recognised in the current or prior period.

(b) Standards, amendments to published standards and interpretations that have been issued but not yet effective and applicable to the Bank

A number of new standards and amendments to standards and interpretations are effective for financial year beginning or after 1 January 2020. None of these is expected to have a significant effect on the financial statements of the Bank.

(i) Amendments to MFRS 16 COVID-19 'Related Rent Concessions'

The amendments grant an optional exemption for lessees to account for a rent concession related to COVID-19 in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendments, however, do not make any changes to lessor accounting.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments to published standards and interpretations that have been issued but not yet effective and applicable to the Bank (continued)

(i) Amendments to MFRS 16 COVID-19 'Related Rent Concessions' (continued)

The exemption only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

The amendments shall be applied retrospectively.

Lessees are not required to restate comparative information or to provide the disclosure under paragraph 28(f) of MFRS 108.

(ii) Amendments to MFRS 116 'Property, Plant and Equipment': Proceeds before Intended Use - effective 1 January 2022

The amendments prohibit an entity from deducting from the cost of a property, plant and equipment ('PPE') the proceeds received from selling items produced by the PPE before it is ready for its intended use. The sales proceeds would have met the revenue definition and therefore should be recognised in income statements.

The amendments also clarify that 'testing' in MFRS 116 refers to assessing the technical and physical performance of the PPE rather than its financial performance.

The amendments shall be applied retrospectively to PPE that became available for use on or after the beginning of the earliest period presented in the financial statements when an entity first applies the amendments.

(iii) Annual Improvements to MFRS 9 'Fees in the 10% test for derecognition of financial liabilities' - effective 1 January 2022

It clarifies that only fees paid or received between the borrower and the lender, including the fees paid or received on each other's behalf, are included in the cash flow of the new loan when performing the 10% test.

The Bank shall apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the Bank first applies the amendments.

**INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A **BASIS OF PREPARATION (CONTINUED)**

(b) Standards, amendments to published standards and interpretations that have been issued but not yet effective and applicable to the Bank (continued)

- (iv) Amendments to MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets': 'Onerous Contracts - Cost of Fulfilling a Contract' - effective 1 January 2022

The amendments clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, impairment loss that has occurred on assets used in fulfilling the contract should be recognised.

The amendments shall be applied retrospectively.

- (v) Amendments to MFRS 101 "Classification of liabilities as current or non-current" - effective 1 January 2023

The MFRS 101 classification principle requires an assessment of whether an entity has the substantive right to defer settlement of a liability at the end of the reporting period.

The amendments clarify that when the right to defer settlement is subject to complying with specified conditions, the right only exists at the end of the reporting period if the entity complies with those conditions at that date. The entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

Also, classification is unaffected by the expectations of the entity or events after the reporting date (e.g. waiver obtained or breach of loan covenant).

A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.

In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option that is not an equity instrument as defined in MFRS 132 'Financial Instruments: Presentation' is considered in the current or non-current classification of the convertible instrument.

The amendments shall be applied retrospectively.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS

(a) Classification

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 settles 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.

(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 Statement of Comprehensive Income.

**INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B **FINANCIAL ASSETS (CONTINUED)**

(c) **Measurement (continued)**

Debt instruments (continued)

(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 operating income and impairment expenses are presented as a separate line item in the Statement of Comprehensive Income.

(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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(c) Measurement (continued)

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 Statement of Comprehensive Income.

(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.

**INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

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 33 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.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Significant increase in credit risk (continued)

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 (example 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 (example increase in interest rates, significant increase in unemployment rates).
- An actual or expected significant change in the operating performance of the borrower (example 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 (example 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 (example decreasing sales).
- Actual or expected significant changes in the value of the collateral supporting the obligation.



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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 (example 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.
- Borrowers who have ceased business operations.
- Borrowers who have defaulted on the credit facilities with other financial institutions with 3 months or more overdue.

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

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 assessed 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 2019, effective 1 January 2020, 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.

Pursuant to BNM's Letter dated 24 March 2020 on "Additional Measures to Assist Borrowers/Customers Affected by the COVID-19 Outbreak", banking institutions are allowed to drawdown prudential buffers; temporarily reducing the regulatory reserves held against expected loss to 0% and to gradually reinstate the buffer by 30 September 2021. Presently, the Bank is still maintaining its regulatory reserves buffer of 1%.

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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D PLANT AND EQUIPMENT (CONTINUED)**

During the year, management has revised the useful life for several classes of assets, summarised as follows:

	<u>2020</u>	<u>2019</u>
Office equipment and furniture & fittings	7 years	5 years
Motor vehicles	5 years	5 years
Computers	3 years	5 years
Office renovations	7 years	5 years

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at the end of each reporting period. The impact arising from the above is RM 45,092.

**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.

During the year, management has revised the useful life of Intangible assets of the Bank comprise computer software and are amortised over their finite useful lives estimated at 3 – 10 years (2019: 5 years) on a straight-line basis.

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

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at the end of each reporting period. The impact arising from the above is RM 86,562.

**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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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. The only financial liabilities at fair value through profit or loss are derivative liabilities, see accounting policy O.

Financial liabilities are de-recognised when extinguished.

The Bank's other financial liabilities include deposits from customers, lease liabilities 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 ACCOUNTING BY LESSEE**

Leases are recognised as right-of-use ('ROU') asset and a corresponding liability at the date on which the leased asset is available for use by the Bank (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I ACCOUNTING BY LESSEE (CONTINUED)**

Lease term

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Bank reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank and affects whether the Bank is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease.

The Bank reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank and affects whether the Bank is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

ROU assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Bank under residual value guarantees;
- The exercise price of a purchase and extension options if the Bank is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I ACCOUNTING BY LESSEE (CONTINUED)**

Lease liabilities (continued)

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Bank presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the interest expenses in Statement of Comprehensive Income.

Reassessment of lease liabilities

The Bank is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

Short-term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in Statement of Comprehensive Income.

**J FINANCIAL GUARANTEE CONTRACTS AND LOAN 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.

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

**J FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS (CONTINUED)**

Financing commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans/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 commitments and financial guarantees.

**K 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 Statement of Comprehensive Income 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 liabilities.

For the credit impaired financial assets, the effective Interest rate is applied to the net carrying amount of the financial assets (after deduction of the expected credit losses).

**(ii) Fee and other income**

Fees and commissions are recognised as income when all condition precedents are fulfilled.

Guarantee fees are recognised as income based on performance obligations satisfied.

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

**L 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)**

**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.

The principal exchange rates for every unit of foreign currency ruling at reporting date used are as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Indian Rupees	0.0548	0.0574
Singapore Dollars	3.0354	3.0387
United States Dollars	4.0130	4.0925
Hong Kong Dollars	0.5177	0.5257
British Pounds	5.4653	5.3722
Euro	4.9324	4.5852

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

**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.

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 values on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values at the end of each reporting period. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flows models. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O DERIVATIVES (CONTINUED)**

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

As at reporting date, the Bank has not designated any derivative as hedging instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**P OFFSETTING FINANCIAL INSTRUMENTS**

Financial assets and liabilities are offset and the net amount is presented in the statements of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

**Q SHARE CAPITAL**

Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the substance of the contractual arrangement of the particular instrument.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax, from the proceeds.

Dividend distribution

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

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

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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.

Expected credit losses (ECL)

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 (example 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 33, 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.

The forward-looking inputs used in the ECL model have been updated from those as of 31 December 2019 to 31 December 2020.

The impact of the COVID-19 pandemic remains uncertain and has directly and indirectly impacted the global economy, markets and the Bank's borrowers and customers. In arriving at the estimated ECL, management judgement and estimation are applied in, amongst others, identifying impaired exposures, estimating the related recoverable cash flows and where applicable, determining the collateral values and timing of realisation. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)**

Expected credit losses (ECL) (continued)

In particular, the Bank has incorporated the following estimates, assumptions and judgements arising from the COVID-19 pandemic and the associated payment support packages in the measurement of ECL:

- Forward looking macroeconomic assumptions and probability-weighted scenarios relating to the COVID-19 pandemic have been considered, including potential impacts of the COVID-19 pandemic, recognising uncertainty still exists in relation to the duration of the COVID-19 pandemic related restrictions, the anticipated impact of government stimulus and regulatory actions.
- Consistent with the industry guidance, the Bank's borrowers and customers who have received repayment supports, including restructuring and rescheduling of repayment terms and payments moratorium remain in their existing stages, unless they have been individually identified as not viable or with subsequent triggers of significant increase in credit risk from their pre-COVID-19 status.

The sensitivity effect on the macroeconomic variable is further disclosed in Note 33B to the financial statements.

**4 CASH AND SHORT-TERM FUNDS**

	<u>2020</u> RM'000	<u>2019</u> RM'000
Cash and balances with banks and other financial institutions	2,856	18,672
Money at call and deposit placements maturing within one month	37,072	50,744
Less: Expected Credit Losses -Stage 1	(1)	(29)
	<u>39,927</u>	<u>69,387</u>

(i) Movements in expected credit losses for cash and short-term funds are as follows:

	<u>2020</u> <u>Stage 1</u> 12 Months ECL RM'000	<u>2019</u> <u>Stage 1</u> 12 Months ECL RM'000
At 1 January	29	6
Financial assets derecognised (other than write-offs)	(29)	(123)
New financial assets originated or purchased	1	146
At 31 December	<u>1</u>	<u>29</u>

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5 **DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>2020</u> RM'000	<u>2019</u> RM'000
Licensed banks	284,148	372,878
Less: Expected Credit Losses - Stage 1	-	(394)
	<u>284,148</u>	<u>372,484</u>

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

	<u>2020</u> <u>Stage 1</u> 12 Months ECL RM'000	<u>2019</u> <u>Stage 1</u> 12 Months ECL RM'000
At 1 January	394	61
Financial assets derecognised (other than write-offs)	(394)	(61)
New financial assets originated or purchased	-	394
At 31 December	<u>-</u>	<u>394</u>

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**6 FINANCIAL INVESTMENTS AT AMORTISED COST**

	<u>2020</u> RM'000	<u>2019</u> RM'000
Money market instruments:		
Malaysian Government Securities	20,154	20,126
Cagamas Bond	-	30,364
Private Debt Securities	25,553	35,651
Negotiable Instrument of Deposits	25,074	-
Less: Expected Credit Losses		
- Stage 1	(605)	(214)
	<u>70,176</u>	<u>85,927</u>

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

	<u>2020</u> <u>Stage 1</u> 12 Months ECL RM'000	<u>2019</u> <u>Stage 1</u> 12 Months ECL RM'000
At 1 January	214	72
Financial assets derecognised (other than write-offs)	(30)	(2)
New financial assets originated or purchased	-	26
Changes due to changes in credit risk	421	118
At 31 December	<u>605</u>	<u>214</u>

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**7 LOANS AND ADVANCES**

	<u>2020</u> RM'000	<u>2019</u> RM'000
(i) By type		
Overdrafts	18,330	31,173
Term loans	6,193	8,776
Bills receivable	4,920	4,626
Trust receipt	3,237	4,586
Less: Unearned interest and income	(14)	(13)
	<u>32,666</u>	<u>49,148</u>
Gross loan and advances	32,666	49,148
Less: Allowance for impairment losses - Expected credit losses	(105)	(27)
	<u>32,561</u>	<u>49,121</u>
Net loans and advances	<u>32,561</u>	<u>49,121</u>
(ii) The loans and advances are disbursed to the following types of customers:		
Domestic business enterprises - Small medium enterprises	32,666	49,148
	<u>32,666</u>	<u>49,148</u>
Gross loans and advances	<u>32,666</u>	<u>49,148</u>
(iii) Loans and advances analysed by interest rate/profit rate sensitivity are as follows:		
Variable rate		
- BLR plus/minus	27,841	44,535
- Other variable rates	4,825	4,613
	<u>32,666</u>	<u>49,148</u>
Gross loans and advances	<u>32,666</u>	<u>49,148</u>



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7 LOANS AND ADVANCES (CONTINUED)

	<u>2020</u> RM'000	<u>2019</u> RM'000
(iv) The maturity structure of the loans and advances is as follows:		
Maturity within		
- One to five years	29,649	40,372
- More than five years	3,017	8,776
	<u>32,666</u>	<u>49,148</u>
Gross loans and advances	<u>32,666</u>	<u>49,148</u>
(v) Loans and advances analysed by their geographical distribution are as follows:		
Malaysia		
- Kuala Lumpur	14,414	28,508
- Selangor	6,230	8,892
- Perak	2,583	2,933
- Kedah	4,614	4,201
- Terengganu	4,825	4,001
- Melaka	-	613
	<u>32,666</u>	<u>49,148</u>
Gross loans and advances	<u>32,666</u>	<u>49,148</u>
(vi) Loans and advances analysed by their sector are as follows:		
Manufacturing	16,370	17,223
Construction	1,363	1,125
Wholesale and retail trade, and restaurants and hotels	11,722	24,082
Finance, insurance, real estate and business activities	1,620	3,555
Education, health and others	1,591	3,163
	<u>32,666</u>	<u>49,148</u>
Gross loans and advances	<u>32,666</u>	<u>49,148</u>

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7 LOANS AND ADVANCES (CONTINUED)

	<u>2020</u> RM'000	<u>2019</u> RM'000
(vii) Impaired loans and advances analysed by geographical distribution		
Malaysia		
- Kuala Lumpur	-	-
	<hr/>	<hr/>
Gross loans and advances	-	-
	<hr/> <hr/>	<hr/> <hr/>
(viii) Impaired loans and advances analysed by sector		
Wholesale and retail trade, and restaurants and hotels	-	-
	<hr/>	<hr/>
Gross loans and advances	-	-
	<hr/> <hr/>	<hr/> <hr/>

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7 **LOANS AND ADVANCES (CONTINUED)**

(ix) Movements in expected credit losses for loans and advances are as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12	Lifetime	Lifetime	
	Months	ECL not	ECL	
	ECL	credit	credit	
	RM'000	impaired	impaired	ECL Total
		RM'000	RM'000	RM'000
At 1 January 2020	27	-	-	27
<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)	-	-	-	-
Bad debt written off	-	-	-	-
New financial assets originated	-	-	-	-
Changes due to changes in credit risk	78	-	-	78
At 31 December 2020	<u>105</u>	<u>-</u>	<u>-</u>	<u>105</u>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12	Lifetime	Lifetime	
	Months	ECL not	ECL	
	ECL	credit	credit	
	RM'000	impaired	impaired	ECL Total
		RM'000	RM'000	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)	-	-	-	-
Bad debt written off	-	-	(565)	(565)
New financial assets originated	10	-	-	10
Changes due to changes in credit risk	(40)	-	-	(40)
At 31 December 2019	<u>27</u>	<u>-</u>	<u>-</u>	<u>27</u>

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7 LOANS AND ADVANCES (CONTINUED)

(x) Movements in gross carrying amount of loans and advances that contributed to changes in the expected credit losses are as follows:

	<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 2020	49,148	-	-	49,148
Changes due to changes in credit risk due to transferred within stages				
- Transfer to 12-month ECL (Stage 1)	-	-	-	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(1,363)	1,363	-	-
Financial assets derecognised	(6,398)	-	-	(6,398)
Write back in respect of full recoveries	-	-	-	-
Bad debt written off	-	-	-	-
New financial assets originated	81	-	-	81
Changes due to changes in credit risk	(10,165)	-	-	(10,165)
At 31 December 2020	<u>31,303</u>	<u>1,363</u>	<u>-</u>	<u>32,666</u>
	<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	53,431	-	2,883	56,314
Changes due to changes in credit risk due to transferred within stages				
- Transfer to 12-month ECL (Stage 1)	-	-	-	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	-	-	-	-
Financial assets derecognised	(2,968)	-	-	(2,968)
Write back in respect of full Recoveries	-	-	(2,666)	(2,666)
Bad debt written off	-	-	(565)	(565)
New financial assets originated	4,646	-	348	4,994
Changes due to changes in credit Risk	(5,961)	-	-	(5,961)
At 31 December 2019	<u>49,148</u>	<u>-</u>	<u>-</u>	<u>49,148</u>

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8 DERIVATIVE ASSETS

	<u>2020</u> RM'000	<u>2019</u> RM'000
Derivative assets:		
Foreign exchange forwards and spots	<u>3</u>	<u>3</u>
	Contract or underlying principal amount RM'000	Year end positive fair value RM'000
<u>2020</u>		
Foreign exchange forwards and spots	<u>686</u>	<u>3</u>
<u>2019</u>		
Foreign exchange forwards and spots	<u>699</u>	<u>3</u>

9 OTHER ASSETS

	<u>2020</u> RM'000	<u>2019</u> RM'000
Deposits	205	199
Prepayments	1,030	713
Other receivables	4	10
	<u>1,239</u>	<u>922</u>

There are no expected credit losses made on other financial assets during the financial year (2019: NIL).

10 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.

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11 PLANT AND EQUIPMENT

	<u>Office equipment</u> RM'000	<u>Computers</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office renovations</u> RM'000	<u>Total</u> RM'000
<u>2020</u>					
<u>Cost</u>					
At 1 January	352	4,960	170	1,633	7,115
Additions	3	174	-	-	177
Disposals	-	(80)	-	-	(80)
At 31 December	<u>355</u>	<u>5,054</u>	<u>170</u>	<u>1,633</u>	<u>7,212</u>
<u>Accumulated depreciation</u>					
At 1 January	330	4,877	170	1,631	7,008
Charge for the financial year	5	116	-	-	121
Disposals	-	(80)	-	-	(80)
At 31 December	<u>335</u>	<u>4,913</u>	<u>170</u>	<u>1,631</u>	<u>7,049</u>
Net book value at 31 December 2020	<u>20</u>	<u>141</u>	<u>-</u>	<u>2</u>	<u>163</u>
<u>2019</u>					
<u>Cost</u>					
At 1 January	374	4,980	170	1,633	7,157
Additions	5	6	-	-	11
Disposals	(27)	(26)	-	-	(53)
At 31 December	<u>352</u>	<u>4,960</u>	<u>170</u>	<u>1,633</u>	<u>7,115</u>
<u>Accumulated depreciation</u>					
At 1 January	345	4,866	129	1,620	6,960
Charge for the financial year	12	31	41	11	95
Disposals	(27)	(20)	-	-	(47)
At 31 December	<u>330</u>	<u>4,877</u>	<u>170</u>	<u>1,631</u>	<u>7,008</u>
Net book value at 31 December 2019	<u>22</u>	<u>83</u>	<u>-</u>	<u>2</u>	<u>107</u>

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12 INTANGIBLE ASSETS

	<u>Computer software</u> RM'000	<u>Total</u> RM'000
<u>2020</u>		
<u>Cost</u>		
At 1 January	12,571	12,571
Additions	110	110
At 31 December	<u>12,681</u>	<u>12,681</u>
<u>Accumulated amortisation</u>		
At 1 January	12,378	12,378
Amortisation for the financial year	163	163
At 31 December	<u>12,541</u>	<u>12,541</u>
Net book value at 31 December 2020	<u>140</u>	<u>140</u>
<u>2019</u>		
<u>Cost</u>		
At 1 January /31 December	<u>12,571</u>	<u>12,571</u>
<u>Accumulated amortisation</u>		
At 1 January	12,316	12,316
Amortisation for the financial year	62	62
At 31 December	<u>12,378</u>	<u>12,378</u>
Net book value at 31 December 2019	<u>193</u>	<u>193</u>

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13 RIGHT-OF-USE ASSETS

	<u>2020</u> RM'000	<u>2019</u> RM'000
At 1 January	1,891	2,749
Lease modifications	743	-
Depreciation charge for the financial year	(907)	(858)
At 31 December	<u>1,727</u>	<u>1,891</u>

14 DEPOSITS FROM CUSTOMERS

	<u>2020</u> RM'000	<u>2019</u> RM'000
(i) By type of deposits		
Demand deposits	23,600	22,907
Savings deposits	493	577
Fixed deposits	77,337	227,612
	<u>101,430</u>	<u>251,096</u>
(ii) Maturity structure of fixed deposits is as follows:		
Due within six months	29,079	144,567
Six months to one year	47,911	78,800
One year to three years	347	3,900
Three years to five years	-	345
	<u>77,337</u>	<u>227,612</u>



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14 DEPOSITS FROM CUSTOMERS (CONTINUED)

	<u>2020</u> RM'000	<u>2019</u> RM'000
(iii) The deposits are sourced from the following types of customers:		
Business enterprises	7,312	39,108
Individuals	1,199	933
Foreign entities	88,929	207,154
Non-Bank Financial Institutions	3,575	3,497
Other entities	415	404
	<u>101,430</u>	<u>251,096</u>

15 DERIVATIVE LIABILITIES

	<u>2020</u> RM'000	<u>2019</u> RM'000
Derivative liabilities:		
Foreign exchange forwards and spots	-	2
	<u>          </u>	<u>          </u>
	<u>Contract or underlying principal amount</u> RM'000	<u>Year end negative fair value</u> RM'000
<u>2020</u>		
Foreign exchange forwards and spots	401	-
	<u>          </u>	<u>          </u>
<u>2019</u>		
Foreign exchange forwards and spots	3,437	2
	<u>          </u>	<u>          </u>

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## 16 OTHER LIABILITIES

	2020 RM'000	2019 RM'000
Accruals	457	631
Other payables	229	220
Expected credit loss for loan commitments and financial guarantees - Note (i)	93	19
	<u>779</u>	<u>870</u>

(i) Movements in expected credit losses for loan commitments and financial guarantees are as follows:

	<u>Stage 1</u> 12 Months ECL RM'000	<u>Stage 2</u> Lifetime ECL not credit impaired RM'000	<u>Stage 3</u> Lifetime ECL credit impaired RM'000	ECL Total RM'000
At 1 January 2020	19	-	-	19
<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)	-	-	-	-
Changes due to changes in credit risk	74	-	-	74
At 31 December 2020	<u>93</u>	<u>-</u>	<u>-</u>	<u>93</u>
	<u>Stage 1</u> 12 Months ECL RM'000	<u>Stage 2</u> Lifetime ECL not credit impaired RM'000	<u>Stage 3</u> Lifetime ECL credit impaired RM'000	ECL Total RM'000
At 1 January 2019	18	-	-	18
<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)	-	-	-	-
Changes due to changes in credit risk	1	-	-	1
At 31 December 2019	<u>19</u>	<u>-</u>	<u>-</u>	<u>19</u>

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**17 LEASE LIABILITIES**

	<u>2020</u> RM'000	<u>2019</u> RM'000
Lease liabilities	1,635	1,718
Scheduled repayment of lease liabilities:		
- Within one year	553	729
- One year to three years	828	914
- More than three years	254	75
	<u>1,635</u>	<u>1,718</u>

At 31 December 2020, the short term and low-value leases expenses that are not included in lease liabilities amounted to RM104,400 (2019: RM108,290) and RM4,200 (2019: RM4,020) respectively.

**18 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>2020</u> RM'000	<u>2019</u> RM'000
Deferred tax assets	752	770
Deferred tax liabilities	(418)	(476)
	<u>334</u>	<u>294</u>

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

	<u>2020</u> RM'000	<u>2019</u> RM'000
<u>Deferred tax assets (before offsetting)</u>		
Expected credit losses	190	158
Lease liabilities	392	412
Provision for expenses	170	200
	<u>752</u>	<u>770</u>
Plant and equipment and intangible assets	(3)	(22)
Right-of-use assets	(415)	(454)
	<u>334</u>	<u>294</u>
<u>Deferred tax liabilities (before offsetting)</u>		
Plant and equipment and intangible assets	(3)	(22)
Right-of-use assets	(415)	(454)
	<u>(418)</u>	<u>(476)</u>



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20 INTEREST INCOME

	<u>2020</u> RM'000	<u>2019</u> RM'000
Loans and advances	2,322	3,634
Money at call and deposit placements with financial institutions	10,763	14,231
Financial investments at amortised cost	3,301	3,460
Net amortisation of discount for financial investments at amortised cost	(93)	(72)
Total interest income	<u>16,293</u>	<u>21,253</u>

21 INTEREST EXPENSE

	<u>2020</u> RM'000	<u>2019</u> RM'000
Deposits and placements of banks and other financial institutions	78	26
Deposits from customers	3,882	5,976
Lease liabilities	89	100
Total interest expenses	<u>4,049</u>	<u>6,102</u>

22 OTHER OPERATING INCOME

	<u>2020</u> RM'000	<u>2019</u> RM'000
<u>Commission, fee and other income:</u>		
Commission	142	275
Service charges and fees	226	442
Other Income	32	3
	<u>400</u>	<u>720</u>
<u>Foreign exchange related income:</u>		
Foreign exchange gain	455	802
Unrealised gain/(loss) on revaluation of derivative instruments	2	(10)
Total	<u>857</u>	<u>1,512</u>

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## 23 OTHER OPERATING EXPENSES

	<u>2020</u> RM'000	<u>2019</u> RM'000
Personnel costs (Note a)	4,842	4,982
Marketing expenses (Note b)	17	24
Establishments costs (Note c)	4,975	5,028
Administration and general expenses (Note d)	2,043	2,209
	<u>11,877</u>	<u>12,243</u>
(a) <u>Personnel costs:</u>		
- Salaries and allowances	3,571	3,744
- Pension fund contributions	496	503
- Other staff costs	775	735
	<u>4,842</u>	<u>4,982</u>
(b) <u>Marketing expenses:</u>		
- Advertising and promotion	17	24
	<u>17</u>	<u>24</u>
(c) <u>Establishments costs:</u>		
- Depreciation of plant and equipment	121	95
- Amortisation of intangible assets	163	62
- Depreciation of right of use assets	907	858
- Rental - Office premises	-	43
- Rental - Data centre and recovery sites and other service agreements	124	-
- Repair and maintenance	49	42
- Information technology expenses	3,036	3,180
- Telecommunication charges	472	622
- Others	103	126
	<u>4,975</u>	<u>5,028</u>
(d) <u>Administration and general expenses:</u>		
- Legal and professional fees	60	93
- Auditor's remuneration	234	245
- Licensing fees	188	189
- Directors' remuneration	188	186
- Subscriptions	694	587
- Transport and travelling	4	22
- Postage and stamps	77	157
- Security services	125	134
- General insurance	66	67
- Swift and Rentas charges	244	238
- Others	163	291
	<u>2,043</u>	<u>2,209</u>

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23 OTHER OPERATING EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosure:

	<u>2020</u> RM'000	<u>2019</u> RM'000
Directors' remuneration including benefits-in-kind	188	186
Auditors' remuneration		
- Statutory audit	234	245
- Other audit related	5	5
- Non-audit related	15	59
	<u>          </u>	<u>          </u>

24 REMUNERATION OF CHIEF EXECUTIVE OFFICER ("CEO") AND DIRECTORS

Aggregate remuneration of the CEO and all Directors during the financial year is as follows:

	<u>2020</u> RM'000	<u>2019</u> RM'000
<u>Non-Executive Directors</u>		
<u>Fees</u>		
- Santhanam Vangal Jagannathan	63	62
- Datuk Bhupatrai a/l Mansukhlal Premji	63	62
- Goh Ching Chee	62	62
	<u>          </u>	<u>          </u>
	188	186
<u>Chief Executive Officer</u>		
Jauhari Rajesh Mohan		
- Salary	125	123
- Allowance	83	74
- Defined contribution plan	5	5
- Benefit-in-kind	68	64
	<u>          </u>	<u>          </u>
	281	266
Total remuneration	<u>          </u>	<u>          </u>
	469	452

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25 (ALLOWANCE FOR) / WRITE-BACK OF EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES

	<u>2020</u> RM'000	<u>2019</u> RM'000
12- month ECL (Stage 1):		
- Made during the financial year	(78)	(10)
- Written back during the financial year	-	40
	<u>(78)</u>	<u>30</u>

26 ALLOWANCE FOR EXPECTED CREDIT LOSSES ON LOAN COMMITMENTS AND FINANCIAL GUARANTEES

	<u>2020</u> RM'000	<u>2019</u> RM'000
Expected credit loss on loans commitments and financial guarantees		
12- month ECL (Stage 1):		
- Made during the financial year	(74)	(1)
- Written back during the financial year	-	-
	<u>(74)</u>	<u>(1)</u>

27 (ALLOWANCE FOR) / WRITE-BACK OF EXPECTED CREDIT LOSSES ON OTHER FINANCIAL INVESTMENTS

	<u>2020</u> RM'000	<u>2019</u> RM'000
Expected credit loss on cash and short-term funds		
12- month ECL (Stage 1):		
- Made during the financial year	(1)	(146)
- Written back during the financial year	29	123
Expected credit loss on deposits and placements with financial institutions		
12- month ECL (Stage 1):		
- Made during the financial year	-	(394)
- Written back during the financial year	394	61
Expected credit loss on financial investments at amortised cost		
12- month ECL (Stage 1):		
- Made during the financial year	(421)	(144)
- Written back during the financial year	30	2
	<u>31</u>	<u>(498)</u>



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28 TAXATION

	<u>2020</u> RM'000	<u>2019</u> RM'000
Malaysian income tax:		
Current year	375	1,121
Deferred tax	(40)	(123)
Under/(Over) provision in prior years	113	(90)
Tax charge for the financial year	<u>448</u>	<u>908</u>

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

	<u>2020</u> RM'000	<u>2019</u> RM'000
Profit before taxation	<u>1,103</u>	<u>3,951</u>
Malaysian income tax:		
Tax charge at applicable tax rate of 24% (2019: 24%)	265	948
Non-deductible expenses	70	50
Under/(Over)provision in prior years	113	(90)
Tax charge for the financial year	<u>448</u>	<u>908</u>

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**29 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:

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk- weighted assets</u> RM'000
<u>2020</u>			
Direct credit substitutes	1,971	1,959	1,868
Transaction-related contingent items	757	378	184
Short-term self-liquidating trade-related contingencies	536	106	102
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-			
- Exceeding one year	223	111	111
- Not exceeding one year	26,474	5,295	4,564
<u>Derivative financial contracts</u>			
Foreign exchange related contracts:			
- Less than one year	1,087	1	-
Total	<u>31,048</u>	<u>7,850</u>	<u>6,829</u>

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29 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	<u>Principal amount</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk- weighted assets</u> RM'000
<u>2019</u>			
Direct credit substitutes	3,526	3,526	2,097
Transaction-related contingent items	753	376	176
Short-term self-liquidating trade-related contingencies	1,250	250	109
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	28,389	5,659	1,934
<u>Derivative financial contracts</u>			
Foreign exchange related contracts:			
- Less than one year	4,136	-	-
Total	<u>38,332</u>	<u>9,950</u>	<u>4,454</u>

30 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
Union Bank of India*	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
Union Bank of India* - Mumbai Branch	Branch of the Shareholder

\*During the year, Andhra Bank along with Corporation Bank was amalgamated with Union Bank of India by way of Vesting Order thru the Gazette of India: Extraordinary, Part II, Section 3(i) effective 1 April 2020.

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30 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Related parties and relationships (continued)

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

	2020 RM'000	2019 RM'000
<u>Amounts due from:</u>		
Cash and short-term funds with:		
- Bank of Baroda	221	3,970
- Indian Overseas Bank	33	27
- Union Bank of India	1	1
Deposits and placements with banks and other financial institutions		
- Bank of Baroda	20,065	124,398
Total	<u>20,320</u>	<u>128,396</u>

(c) Interest income earned from/paid to related parties.

Interest income earned

Deposits and placements with banks and other financial institutions

- Bank of Baroda	2,037	2,699
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Interest expense paid

Deposits and placements from banks and other financial institutions

- Bank of Baroda	<u>10</u>	<u>8</u>
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30 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(d) Key management personnel

The remuneration of certain management personnel who are part of key management personnel included in the income statement was as follows:

	<u>2020</u> RM'000	<u>2019</u> RM'000
Directors' remuneration	188	186
<u>Short-term employment benefits:</u>		
Salary and other remuneration	568	652
Defined contribution plan	55	54
Benefits-in-kind	72	112
Allowance	44	58
	<u>927</u>	<u>1,062</u>

31 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 32.

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32 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 31 December 2020 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.

The capital adequacy ratio of the Bank are as follows:

	<u>2020</u> RM'000	<u>2019</u> RM'000
<u>Common Equity Tier 1 Capital</u>		
Paid-up share capital	330,000	330,000
Accumulated losses	(3,164)	(5,645)
Total Common Equity Tier 1 Capital	<u>326,836</u>	<u>324,355</u>
<u>Tier 2 capital</u>		
Stage 1 and 2 ECL	804	683
Regulatory reserves	217	2,043
Total Tier 2 capital	<u>1,021</u>	<u>2,726</u>
Total capital base	<u><u>327,857</u></u>	<u><u>327,081</u></u>
Capital ratios		
Common Equity Tier 1 Capital Ratio	227.133%	179.929%
Total Capital Ratio	<u><u>227.843%</u></u>	<u><u>181.443%</u></u>

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>2020</u> RM'000	<u>2019</u> RM'000
Credit risk	114,486	147,251
Market risk	1,106	3,846
Operational risk	28,304	29,170
Total risk-weighted assets	<u><u>143,896</u></u>	<u><u>180,267</u></u>

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32 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2020:

<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><u>On-balance sheet exposures</u></i>				
Sovereigns/central banks	21,349	21,349	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	347,754	347,754	69,551	5,564
Corporates	57,509	54,083	34,124	2,730
Other assets	4,285	4,285	3,982	319
Total on-balance sheet Exposures	<u>430,897</u>	<u>427,471</u>	<u>107,657</u>	<u>8,613</u>
<i><u>Off-balance sheet exposures</u></i>				
Over-the-counter ("OTC")				
Derivatives	1	-	-	-
Credit derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	7,849	6,829	6,829	546
Total off-balance sheet exposures	<u>7,850</u>	<u>6,829</u>	<u>6,829</u>	<u>546</u>
Total on and off-balance sheet Exposures	<u>438,747</u>	<u>434,300</u>	<u>114,486</u>	<u>9,159</u>
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Foreign currency risk	1,106	-	1,106	89
(c) Operational risk			28,304	2,264
Total risk weighted assets and capital requirements			<u>143,896</u>	<u>11,512</u>

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**32 CAPITAL ADEQUACY (CONTINUED)**

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

	<u>Exposures after netting and credit risk mitigation (RM'000)</u>										
	<u>Sovereigns/ Central banks</u>	<u>Public sector entities</u>	<u>Development Financial Institutions and MDBs</u>	<u>Corporates</u>	<u>Residential mortgages</u>	<u>Higher risk assets</u>	<u>Other assets</u>				
							<u>Equity</u>	<u>netting and credit risk mitigation</u>	<u>Total</u>	<u>exposures after netting and credit risk mitigation</u>	<u>Total risk weighted assets</u>
<u>31.12.2020</u>											
<u>Risk weighted</u>											
0%	21,349	-	-	-	-	-	303	-	21,652	-	-
20%	-	-	347,754	24,948	-	-	-	-	372,702	-	74,540
50%	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	35,964	-	-	3,982	-	39,946	-	39,946
150%	-	-	-	-	-	-	-	-	-	-	-
<b>Total exposures</b>	<b>21,349</b>	<b>-</b>	<b>347,754</b>	<b>60,912</b>	<b>-</b>	<b>-</b>	<b>4,285</b>	<b>-</b>	<b>434,300</b>	<b>-</b>	<b>114,486</b>
<b>Risk weighted assets by exposure</b>	<b>-</b>	<b>-</b>	<b>69,551</b>	<b>40,953</b>	<b>-</b>	<b>-</b>	<b>3,982</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114,486</b>
<b>Average risk weight</b>	<b>-</b>	<b>-</b>	<b>20.00%</b>	<b>67.23%</b>	<b>-</b>	<b>-</b>	<b>92.93%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



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32 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 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><u>On-balance sheet exposures</u></i>				
Sovereigns/central banks	20,839	20,839	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	440,844	440,844	88,169	7,053
Corporates	114,922	103,862	51,221	4,098
Other assets	3,824	3,824	3,407	273
Defaulted exposures	-	-	-	-
Total on-balance sheet Exposures	<u>580,429</u>	<u>569,369</u>	<u>142,797</u>	<u>11,424</u>
<i><u>Off-balance sheet exposures</u></i>				
Over-the-counter ("OTC")				
Derivatives	-	-	-	-
Credit derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	9,950	4,454	4,454	356
Total off-balance sheet exposures	<u>9,950</u>	<u>4,454</u>	<u>4,454</u>	<u>356</u>
Total on and off-balance sheet Exposures	<u>590,379</u>	<u>573,823</u>	<u>147,251</u>	<u>11,780</u>
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Foreign currency risk	3,846	-	3,846	308
(c) Operational risk			29,170	2,334
Total risk weighted assets and capital requirements			<u>180,267</u>	<u>14,422</u>

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32 **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			
	Sovereigns/ Central banks	Public sector entities and MDBs	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Higher risk assets	Other assets		Equity	netting and credit risk mitigation	Total exposures after netting and credit risk mitigation
<b>31.12.2019</b>											
<b>Risk weighted</b>											
0%	20,839	-	-	-	-	-	417	-	21,256	-	-
20%	-	-	440,844	65,801	-	-	-	-	506,645	101,329	101,329
50%	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	42,515	-	-	3,407	-	45,922	45,922	45,922
150%	-	-	-	-	-	-	-	-	-	-	-
<b>Total exposures</b>	<b>20,839</b>	<b>-</b>	<b>440,844</b>	<b>108,316</b>	<b>-</b>	<b>-</b>	<b>3,824</b>	<b>-</b>	<b>573,823</b>	<b>147,251</b>	<b>147,251</b>
<b>Risk weighted assets by exposure</b>	<b>-</b>	<b>-</b>	<b>88,169</b>	<b>55,675</b>	<b>-</b>	<b>-</b>	<b>3,407</b>	<b>-</b>	<b>-</b>	<b>147,251</b>	<b>147,251</b>
<b>Average risk weight</b>	<b>-</b>	<b>-</b>	<b>20.00%</b>	<b>51.40%</b>	<b>-</b>	<b>-</b>	<b>89.10%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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33 FINANCIAL RISK MANAGEMENT

A Financial risk management objectives and policies

The primary goal of risk management is to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's strategies and risk appetite, and there is an appropriate balance between risk and reward in order to maximise shareholder returns.

The Bank's risk management policies define the Bank's risk appetite, set the limits and controls within which the Bank can operate, and reflect the requirements of regulatory authorities.

Credit risk management

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises both in the Bank's direct lending operations and in its funding, investment and trading activities, where counterparties have repayment or other obligations of the Bank.

Policies for managing credit risk are as per the Bank's Credit Policy are reviewed and approved by the Board on an annual basis. Specific procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals including an internal grading system. Credit analysis includes review of facility details, financial and risk analysis.

The credit policy sets out, among other things, the credit risk rating system and associated parameter estimates and the delegation of authority for granting credit. It forms an integral part of enterprise-wide policies and procedures that encompass governance, risk management and control structure. The Bank's credit risk rating system is designed to support the determination of key credit risk parameter estimates which ensure credit and transaction risk.

(i) Credit quality of non-retail exposures

Credit decisions are made based upon an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; and geopolitical risk. The Bank also reviews the credit quality of the credit portfolio across the organisation on a regular basis to assess whether economic trends or specific events may affect the performance of the portfolio.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Liquidity risk management

Liquidity refers to the ability to meet financial obligations and to fund the growth of assets. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as and when they fall due.

The primary tool used for monitoring liquidity is the Bank Negara Malaysia's Liquidity Coverage Ratio Framework ("LCR") with the effective date from 25 August 2016. The LCR is further supplemented with the internal liquidity risk management policies. These policies ensure that the liquidity surplus is within the limit.

The key elements of the Bank's liquidity risk management framework include:

- (i) Sufficient holdings of liquidity assets to support its operations, which can generally be sold or pledged to meet the Bank's obligations; and
- (ii) Liquidity contingency planning.

Market risk management

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates, market prices and volatilities that arise from the Bank's funding, investment and trading activities.

Market risk arising from trading activities is controlled by marking-to-market the trading positions against their predetermined market risk limits.

The primary categories of market risk for the bank are:

(i) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate exposures in individual currencies are controlled by gap limits. The potential reduction in net interest income from an unfavourable interest rate movement of +/- 100 basis points is prepared and reviewed regularly.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Market risk management (continued)

(i) Interest rate risk (continued)

The effect of interest rate changes on the market value of investments are monitored closely and mark-to-market valuations are regularly reported to management.

The Bank actively manages interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved policies and limits, which are designed to control the risk to income and economic value of shareholder's equity. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures of individual currencies are also controlled by gap limits.

Sensitivity analysis assesses the effect of changes in interest rates on current earning and on the economic value of assets and liabilities.

Gap analysis is used to assess the interest rate sensitivity of the Bank's operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the earlier of contractual repricing or maturity dates.

(ii) Foreign currency exchange risk

Foreign currency exchange risk refers to adverse exchange rate movements on foreign currency positions taken from time to time. Open positions in foreign currency transactions are monitored against predetermined position limits and cut-loss limits.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems, or from external events. Operational risk is inherent in each of the Bank's business and key support activities can manifest itself in various ways. These include breakdowns, error, business interruptions and inappropriate behavior of employees, and can potentially result in financial losses and other damage to the Bank.

Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risk have been developed as an important part of the Bank's risk management culture. They include established policies and procedures, internal controls and procedures as well as maintaining back-up procedures for key activities, undertaking contingency planning, regular organisation review and through enforcement of the Bank's guidelines for Business Conduct. These are supported by an independent review by Internal Audit.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments.

The maximum exposure is shown gross, without taking account of any collateral held or other credit enhancements.

	<u>Note</u>	<u>2020</u> RM'000	<u>2019</u> RM'000
<u>Assets</u>			
Cash and short-term funds	4	39,624	68,970
Deposits and placements with banks and other financial institutions	5	284,148	372,484
Financial investments at amortised cost	6	70,176	85,927
Loans and advances <sup>^</sup>	7	32,561	49,121
Derivative assets	8	3	3
Other assets	9	209	209
Total assets*		<u>426,721</u>	<u>576,714</u>
Commitments and contingencies	29	<u>31,048</u>	<u>38,332</u>
Total credit exposure		<u>457,769</u>	<u>615,046</u>

<sup>^</sup> Net of Stage 1, Stage 2 and Stage 3 ECL of RM105,474 (2019: RM26,889).

\* Excludes cash in hand and prepayments.

Where financial instruments are recorded by fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Collaterals

The main types of collaterals obtained by the Bank are as follows:

- (a) Fixed deposits
- (b) Residential properties
- (c) Commercial properties

The Bank also accepts non-tangible securities such as support, guarantees from corporate and institutions which are subject to internal guidelines on eligibility.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically takes into consideration a number of relevant factors when identifying and analysing of counterparty credit risk. These factors determine the credit rating under the Credit Risk Grading Policy, which considers factors such as competitive position, operating performance, cash flow strength and management strength.

Generating the term structure of probability of default

Due to insufficient internal historical data, and a portion of the Bank's customers are closely related to international trading business, the internal ratings of IIBM and its respective Probability-of-Default (PD) rates are derived by benchmarking them to S&P's "Default, Transition, and Recovery: 2019 Annual Global Corporate Default Study and Rating Transition".

Regression analyses were conducted to examine how macroeconomic variables affect the Overall Default Rates (ODR) of the Bank. The methodology took the form of an experimental research design that attempts to establish cause-effect relationships among the variables. It was quantitative in nature and based on both internal and external data. The sampling period of the analyses covers a total of 12 years, starting from year 2007 to 2019.

Lifetime PD estimates cumulative probability of default over the life of an exposure. In order to comply with MFRS 9 requirements, the lifetime PD is calculated based on the PiT PD rates. A transition matrix expresses the probability of remaining in the existing rating class, and the migration to other rating classes.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Generating the term structure of probability of default (continued)

The choice of drivers in the rating system leads to two stylised approaches to PD modelling. The nature of the model is usually determined by the degree of cyclicity in the underlying model drivers.

- A point in time (PIT) probability of default (PD) assesses the likelihood of default at that point in time. As it assesses risk at a point in time, the borrower will move up or down rating grades through the economic cycle.
- Through the cycle (TTC) PDs, in contrast, predict average default rate performance for a particular customer over an economic cycle and ignore short run changes to a customer's PD.

The Bank also has adopted a conservative approach for the computation of lifetime PD, i.e. a constant increase in marginal PD. It is assumed that the cumulative PD is unconditional of the prior year marginal PD, which would eventually escalate the ECL.

The 12-month and lifetime Exposures at Default ("EADs") are determined based on exposure to a counterparty in the event of a default and at the time of the counterparty's default. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors include: GDP growth, benchmark interest rates, unemployment rates and others.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then use these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly are based on the overdue account, internal rating process and any potential detection of early warnings.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal ratings drops by 2 notches or account is overdue more than 30 days.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than one month in arrears.



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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Definition of defaults

The Bank consider a financial asset to be in default when:

- The principal or interest is past due for more than 90 days or 3 months.
- For revolving credit (e.g. overdraft facilities), the facility shall be classified as impaired when the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months.
- Borrowers who have ceased business operations.
- Borrowers who have defaulted on the credit facilities with other financial institutions with 3 months or more overdue.

In assessing whether a borrower is in default, the Bank consider indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank uses an equal weightage for three different potential future economic scenarios i.e. Good, Bad, and Base. For the development of the PD model, the Bank implements a 2-Sigma Rule which is an empirical rule stating that, for many reasonably symmetric unimodal distributions, approximately 95% of the population lies within two standard deviations (STD) of the mean.

Understanding the risk or probability of a credit loss when incorporating the possibility that a scenario uses weighted probability, even if the possibility of a credit loss occurring is low, can help inform the likelihood of incurring loss. The scenario-based analysis incorporates forward-looking information into the impairment estimation using multiple forward-looking macroeconomic scenarios.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Sensitivity analysis

The Bank has performed ECL sensitivity assessment on loans and advances based on the changes in the macroeconomic variables, which is the gross domestic product (GDP) while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the ECL of the Bank.

The outlines the effect of ECL on the changes in the key variable used while other variables remain constant:

	2020 (Decrease) / Increase in ECL RM'000	2019 Increase in ECL RM'000
GDP		
+100 bps	(162)	(25)
- 100 bps	203	30

Measurement of expected credit losses ("ECL")

The Bank uses three categories for financial instruments at amortised cost for recognising ECL.

Category	Definition	Basis for recognising
Performing accounts	<ul style="list-style-type: none"><li>For instruments that are performing and do not show any deterioration in credit rating since initial recognition.</li></ul>	12-month ECL (Stage 1)

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

The Bank uses three categories for financial instruments at amortised cost for recognising ECL.  
(continued)

Category	Definition	Basis for recognizing
Underperforming accounts	<ul style="list-style-type: none"><li>• Internal credit rating downgrade of issuer/borrower by at least 2 notches</li><li>• Bankruptcy proceeding initiated against the issuer/borrower</li><li>• An external credit rating downgrade of issuer by at least 2 notches and those classified below the "investment grade" rating</li><li>• Payments that are more than 30 days but less than 90 days past due</li><li>• Adverse CCRIS record with other Banks where the borrower's credit facilities have overdues that are between 1 to 2 months but less than 3 months (as more than 3 months overdue would imply that the customer will be classified as impaired)</li><li>• Borrowers that are included in the Bank's credit monitoring watch list except for accounts that are in the watch list where the dues are less than 30 days</li></ul>	Lifetime ECL – non-credit impaired (Stage 2)

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

The Bank uses three categories for financial instruments at amortised cost for recognising ECL.  
(continued)

Category	Definition	Basis for recognizing
Impaired accounts	<ul style="list-style-type: none"><li>• Issuers/borrowers that are classified as impaired/non-performing</li><li>• Issuer has ceased business operations</li><li>• For Private Debt Securities, the obligations are classified as impaired when the coupon payments have defaulted</li><li>• When the principal and/or interest are past due for more than 90 days</li><li>• Entities have defaulted on the credit facilities with other financial institutions with 3 months or more overdue</li><li>• Company/borrower ceased business operations</li></ul>	Lifetime ECL – credit impaired (Stage 3)
Write-Off	Loans and the related impairment allowances are normally written-off, either partially or in full, in the case of an unsecured portion of the loan, when there is no realistic prospect of further recovery; and in the case of secured balances, after the proceeds from the realization of security have been received.	Asset is write-off

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

The key inputs into the measurement of ECL are the term structure of the following variables:

- PD
- LGD
- EAD

These parameters are generally derived from externally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on externally developed by consultant compiled data comprising both quantitative and qualitative factors.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the on-book customers in the credit portfolio. The proposed LGD approach is a collateral based approach which is based on assessing how much of the collateral is recoverable on repossession and sale. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from an estimation of the extent to which Bank may be exposed to a counterparty in the event of a default and at the time of the counterparty's default. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD are higher of maximum approved facility limit or balance sheet outstanding balance.

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis individual exposure and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original interest rate or an approximation thereof.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit risk by credit quality

Quality classification definitions:

Where ECL model is applied, the credit quality of financial instruments subject to credit risk are assessed by reference to the internal rating system adopted by the Bank in 2020 and 2019, as summarised below:

*Loans and loans commitments and financial guarantees*

Rating classification	Internal rating/credit grades
Good	A- or above
Satisfactory	BBB- or lower than A-
Impaired	D (by default)
No rating	No rating is available for the ad-hoc borrower

*Financial investments at amortised at cost*

Rating classification	External Rating
Investment grade	RAM – Grade A/P1 or higher MARC – Grade A/Marc 1 or higher
Non-investment grade	RAM – Below grade A/P1 MARC – Below grade A/Marc 1
Impaired	As per stipulated in SICR

*Other financial instruments include cash and short term funds, deposits and placements with bank and others, credit quality description can be summarised as follows:*

Rating classification	External Rating
Good	S&P – Grade BBB- or higher (overseas placements) RAM – Grade A- or higher (local placements)
Satisfactory	S&P – Below grade BBB- (overseas placements) RAM – Below grade A- (local placements)
Impaired	As per stipulated in SICR
No rating	This includes exposures under the Standardised Approach and those where ratings are not available

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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

**B Credit risk (continued)**

Concentration risk by geographical sectors

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table. The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

2020	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments at amortised cost RM'000	Loans and advances <sup>^</sup> RM'000	Other assets RM'000	Derivative assets RM'000	On balance sheet total* RM'000	Commitments and contingencies RM'000	Total credit exposure RM'000
Malaysia	19,304	284,148	70,176	32,561	209	3	406,401	31,048	437,449
United States	20,242	-	-	-	-	-	20,242	-	20,242
India	27	-	-	-	-	-	27	-	27
Europe	30	-	-	-	-	-	30	-	30
Others	21	-	-	-	-	-	21	-	21
	<u>39,624</u>	<u>284,148</u>	<u>70,176</u>	<u>32,561</u>	<u>209</u>	<u>3</u>	<u>426,721</u>	<u>31,048</u>	<u>457,769</u>

<sup>^</sup> Net of Stage 1, Stage 2 and Stage 3 ECL of RM105,474.

\* Excludes cash in hand and prepayments.

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**B Credit risk (continued)**

**Concentration risk by geographical sectors (continued)**

	Cash and short-term funds	Deposits and placements with banks and other financial institutions	Financial investments at amortised cost	Loans and advances <sup>^</sup>	Other assets	Derivative assets	On balance sheet total*	Commitments and contingencies	Total credit exposure
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2019</b>									
Malaysia	65,024	248,481	85,927	49,121	209	3	448,765	38,332	487,097
United States	3,750	-	-	-	-	-	3,750	-	3,750
India	166	111,798	-	-	-	-	111,964	-	111,964
Europe	16	-	-	-	-	-	16	-	16
Others	14	12,205	-	-	-	-	12,219	-	12,219
	<u>68,970</u>	<u>372,484</u>	<u>85,927</u>	<u>49,121</u>	<u>209</u>	<u>3</u>	<u>576,714</u>	<u>38,332</u>	<u>615,046</u>

<sup>^</sup> Net of Stage 1, Stage 2 and Stage 3 ECL of RM26,889.

\* Excludes cash in hand and prepayments.



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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

B Credit risk (continued)

Concentration of risk by economic sectors

	Cash and short-term funds	Deposits and placements with banks and other financial institutions	Financial investments at amortised cost	Loans and advances <sup>^</sup>	Other assets	Derivative assets	On Commitments balance sheet total* contingencies	Total credit exposure
2020	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	-	-	-	16,288	-	-	16,288	33,080
Construction	-	-	-	1,363	-	-	1,363	1,363
Wholesale and retail trade, and restaurant and hotels	-	-	-	11,704	-	-	11,704	22,419
Finance, insurance and real estate and business activities	39,624	284,148	50,022	1,619	209	3	375,625	376,712
Government and Government Agencies	-	-	20,154	-	-	-	20,154	20,154
Education, health and others-	-	-	-	1,587	-	-	1,587	3,996
Others	-	-	-	-	-	-	-	45
	39,624	284,148	70,176	32,561	209	3	426,721	457,769

<sup>^</sup> Net of Stage 1, Stage 2 and Stage 3 ECL of RM105,474.

\* Excludes cash in hand and prepayments.

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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

B Credit risk (continued)

Concentration of risk by economic sectors (continued)

	Cash and short-term funds	Deposits and placements with banks and other financial institutions	Financial investments at amortised cost	Loans and advances <sup>^</sup>	Other assets	Derivative assets	On balance sheet total*	Commitments and contingencies	Total credit exposure
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019									
Manufacturing	-	-	-	17,206	-	-	17,206	29,739	46,945
Construction	-	-	-	1,125	-	-	1,125	25	1,150
Wholesale and retail trade, and restaurant and hotels	-	-	-	24,075	-	-	24,075	3,231	27,306
Finance, insurance and real estate and business activities	68,970	372,484	65,801	3,555	-	3	510,813	4,300	515,113
Government and Government Agencies	-	-	20,126	-	10	-	20,136	-	20,136
Education, health and others	-	-	-	3,160	-	-	3,160	837	3,997
Others	-	-	-	-	199	-	199	200	399
	<u>68,970</u>	<u>372,484</u>	<u>85,927</u>	<u>49,121</u>	<u>209</u>	<u>3</u>	<u>576,714</u>	<u>38,332</u>	<u>615,046</u>

<sup>^</sup> Net of Stage 1, Stage 2 and Stage 3 ECL of RM26,889.

\* Excludes cash in hand and prepayments.

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## 33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)Credit quality of financial assets

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

				2020
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds*				
Credit grade:				
Good	19,305	-	-	19,305
Satisfactory	20,320	-	-	20,320
Gross cash and short-term funds	39,625	-	-	39,625
Expected credit losses ("ECL")	(1)	-	-	(1)
Net cash and short-term funds	39,624	-	-	39,624
Deposits and placements with banks and other financial institutions				
Credit grade:				
Good	284,148	-	-	284,148
Satisfactory	-	-	-	-
Gross deposits and placements with banks and other financial institutions	284,148	-	-	284,148
Expected credit losses ("ECL")	-	-	-	-
Net deposits and placements with banks and other financial institutions	284,148	-	-	284,148

\* Excludes cash in hand and prepayments.

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## 33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)Credit quality of financial assets (continued)

				2020
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Financial Investments at amortised cost				
Credit grade:				
Good	45,228	-	-	45,228
Satisfactory	25,553	-	-	25,553
Gross financial investments at amortised cost	70,781	-	-	70,781
Expected credit losses ("ECL")	(605)	-	-	(605)
Net financial investments at amortised cost	<u>70,176</u>	<u>-</u>	<u>-</u>	<u>70,176</u>
Loans and advances				
Credit grade:				
Good	19,571	-	-	19,571
Satisfactory	11,651	1,363	-	13,014
No rating	81	-	-	81
Impaired	-	-	-	-
Gross loans and advances	31,303	1,363	-	32,666
Expected credit losses ("ECL")	(105)	-	-	(105)
Net loans and advances	<u>31,198</u>	<u>1,363</u>	<u>-</u>	<u>32,561</u>
Derivative assets				
Credit grade:				
Good	3	-	-	3
Derivative assets	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>
Other assets*				
Credit grade:				
No rating	209	-	-	209
Other assets	<u>209</u>	<u>-</u>	<u>-</u>	<u>209</u>

\* Excludes cash in hand and prepayments.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit quality of financial assets (continued)

	<u>2020</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Loan commitments and financial guarantees				
Credit grade:				
Good	15,107	-	-	15,107
Satisfactory	14,836	-	-	14,836
No rating	18	-	-	18
Gross loan commitments and financial guarantees	29,961	-	-	29,961
Expected credit losses ("ECL")	(93)	-	-	(93)
Net loan commitments and financial guarantees	<u>29,868</u>	<u>-</u>	<u>-</u>	<u>29,868</u>
				<u>2019</u>
Cash and short-term funds*	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	65,001	-	-	65,001
Satisfactory	3,998	-	-	3,998
Gross cash and short-term funds	68,999	-	-	68,999
Expected credit losses ("ECL")	(29)	-	-	(29)
Net cash and short-term funds	<u>68,970</u>	<u>-</u>	<u>-</u>	<u>68,970</u>
Deposits and placements with banks and other financial institutions	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	248,481	-	-	248,481
Satisfactory	124,397	-	-	124,397
Gross deposits and placements with banks and other financial institutions	372,878	-	-	372,878
Expected credit losses ("ECL")	(394)	-	-	(394)
Net deposits and placements with banks and other financial institutions	<u>372,484</u>	<u>-</u>	<u>-</u>	<u>372,484</u>

\* Excludes cash in hand and prepayments.

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## 33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)Credit quality of financial assets (continued)

				2019
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Financial Investments at amortised cost				
Credit grade:				
Good	65,642	-	-	65,642
Satisfactory	20,499	-	-	20,499
Gross financial investments at amortised cost	86,141	-	-	86,141
Expected credit losses ("ECL")	(214)	-	-	(214)
Net financial investments at amortised cost	85,927	-	-	85,927
Loans and advances				
Credit grade:				
Good	17,335	-	-	17,335
Satisfactory	31,813	-	-	31,813
Impaired	-	-	-	-
Gross loans and advances	49,148	-	-	49,148
Expected credit losses ("ECL")	(27)	-	-	(27)
Net loans and advances	49,121	-	-	49,121
Derivative assets				
Credit grade:				
Good	3	-	-	3
Derivative assets	3	-	-	3
Other assets*				
Credit grade:				
No rating	209	-	-	209
Other assets	209	-	-	209

\* Excludes cash in hand and prepayments.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit quality of financial assets (continued)

	<u>2019</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Loan commitments and financial guarantees				
Credit grade:				
Good	31,221	-	-	31,221
Satisfactory	2,756	-	-	2,756
No rating	219	-	-	219
Gross loan commitments and financial guarantees	34,196	-	-	34,196
Expected credit losses ("ECL")	(19)	-	-	(19)
Net loan commitments and financial guarantees	<u>34,177</u>	<u>-</u>	<u>-</u>	<u>34,177</u>

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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

**C Liquidity risk**

Contractual 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
<b>2020</b>								
<b>Assets</b>								
Cash and short-term funds	17,882	22,045	-	-	-	-	-	39,927
Deposits and placements with banks and other financial institutions	-	-	20,022	112,995	151,131	-	-	284,148
Financial investments at amortised cost	25,074	10,241	-	-	5,007	29,854	-	70,176
Loans and advances	3,868	3,840	11,868	2,062	4,812	6,111	-	32,561
Derivative assets	2	-	1	-	-	-	-	3
Other assets	-	27	35	125	395	451	206	1,239
Deferred taxation	-	-	-	-	-	-	334	334
Tax recoverable	-	-	-	-	-	-	379	379
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	100	100
Plant and equipment	-	-	-	-	-	-	163	163
Intangible assets	-	-	-	-	-	-	140	140
Right of use assets	-	-	-	28	96	1,603	-	1,727
	46,826	36,153	31,926	115,210	161,441	38,019	1,322	430,897



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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

**C 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)

2020

Liabilities

	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
Deposits from customers	24,609	4,899	8,130	15,534	47,911	347	-	101,430
Other liabilities	16	222	309	2	12	2	216	779
Lease liabilities	-	50	101	147	255	1,082	-	1,635
	<u>24,625</u>	<u>5,171</u>	<u>8,540</u>	<u>15,683</u>	<u>48,178</u>	<u>1,431</u>	<u>216</u>	<u>103,844</u>
Net liquidity gap	<u>22,201</u>	<u>30,982</u>	<u>23,386</u>	<u>99,527</u>	<u>113,263</u>	<u>36,588</u>	<u>1,106</u>	<u>327,053</u>

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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

C 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)

2019

Assets

	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
Cash and short-term funds	39,143	30,244	-	-	-	-	-	69,387
Deposits and placements with banks and other financial institutions	-	-	80,401	103,867	188,216	-	-	372,484
Financial investments at amortised cost	-	-	5,059	-	35,281	45,587	-	85,927
Loans and advances	6,813	7,723	8,527	1,000	16,284	8,774	-	49,121
Derivative assets	3	-	-	-	-	-	-	3
Other assets	-	27	58	111	527	-	199	922
Deferred taxation	-	-	-	-	-	-	294	294
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	100	100
Plant and equipment	-	-	-	-	-	-	107	107
Intangible assets	-	-	-	-	-	-	193	193
Right of use assets	-	-	-	-	-	-	1,891	1,891
	<u>45,959</u>	<u>37,994</u>	<u>94,045</u>	<u>104,978</u>	<u>240,308</u>	<u>54,361</u>	<u>2,784</u>	<u>580,429</u>

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

C 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)

	2019	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>Liabilities</u>									
Deposits from customers	28,396	28,840	20,082	90,733	78,800	4,245	-	251,096	
Derivative liabilities	2	-	-	-	-	-	-	2	
Other liabilities	81	106	472	-	-	-	211	870	
Lease liabilities	-	73	147	199	310	989	-	1,718	
Provision for taxation	-	-	-	-	-	-	345	345	
	<u>28,479</u>	<u>29,019</u>	<u>20,701</u>	<u>90,932</u>	<u>79,110</u>	<u>5,234</u>	<u>556</u>	<u>254,031</u>	
Net liquidity gap	<u>17,480</u>	<u>8,975</u>	<u>73,344</u>	<u>14,046</u>	<u>161,198</u>	<u>49,127</u>	<u>2,228</u>	<u>326,398</u>	

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**C Liquidity risk (continued)**

Contractual maturity of financial liabilities on an undiscounted basis

Non-derivative financial liabilities

The tables below analyses the Bank's non-derivative financial liabilities into relevant maturity groupings based on the remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	2020						Total RM'000
	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	
<u>Liabilities</u>							
Deposits from customers	24,609	4,903	8,268	15,658	48,633	368	-
Other liabilities	16	222	309	2	12	2	216
Lease liabilities	-	57	113	164	284	1,152	-
	<u>24,625</u>	<u>5,182</u>	<u>8,690</u>	<u>15,824</u>	<u>48,929</u>	<u>1,522</u>	<u>216</u>
							<u>102,439</u>
							<u>779</u>
							<u>1,770</u>
							<u>104,988</u>

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**C Liquidity risk (continued)**

Contractual maturity of financial liabilities on an undiscounted basis (continued)

Non-derivative financial liabilities (continued)

The tables below analyses the Bank's non-derivative financial liabilities into relevant maturity groupings based on the remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows. (continued)

	2019						Total RM'000
	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	
<u>Liabilities</u>							
Deposits from customers	28,398	28,889	20,308	91,864	80,516	4,435	-
Other liabilities	81	106	472	-	-	-	211
Lease liabilities	-	80	160	217	340	1,047	-
	<u>28,479</u>	<u>29,075</u>	<u>20,940</u>	<u>92,081</u>	<u>80,856</u>	<u>5,482</u>	<u>211</u>
							<u>254,410</u>
							<u>870</u>
							<u>1,844</u>
							<u>257,124</u>

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Liquidity risk (continued)

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

	One year or less RM'000	Over one year RM'000	Total RM'000
<u>2020</u>			
Direct credit substitutes	1,811	160	1,971
Transaction related contingent items	82	675	757
Short-term self-liquidating trade related contingencies	481	55	536
Other commitments, such as formal standby facilities and credit lines	26,474	223	26,697
	<u>28,848</u>	<u>1,113</u>	<u>29,961</u>
<u>2019</u>			
Direct credit substitutes	3,105	421	3,526
Transaction related contingent items	442	311	753
Short-term self-liquidating trade related contingencies	1,250	-	1,250
Other commitments, such as formal standby facilities and credit lines	28,389	278	28,667
	<u>33,186</u>	<u>1,010</u>	<u>34,196</u>

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**C Liquidity risk (continued)**

Derivative financial liabilities

The table below analyses the Bank's derivative financial liabilities based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	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	Total RM'000
<b>2020</b>							
Gross-settled derivatives:							
Foreign exchange forwards and spots:							
Receipts	1,005	-	82	-	-	-	1,087
Payments	-	-	-	-	-	-	-
	<u>1,005</u>	<u>-</u>	<u>82</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,087</u>
<b>2019</b>							
Gross-settled derivatives:							
Foreign exchange forwards and spots:							
Receipts	3,972	-	-	-	-	-	3,972
Payments	(164)	-	-	-	-	-	(164)
	<u>3,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,808</u>

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**D Interest rate risk**

The following table represents the Bank's financial assets and financial liabilities at carrying amounts as at 31 December 2020:

	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-trading book		Trading book RM'000	Total RM'000
						Non- interest sensitive RM'000	interest sensitive RM'000		
<b><u>Assets</u></b>									
Cash and short-term funds	38,025	-	-	-	-	-	1,902	-	39,927
Deposits and placements with banks and other financial institutions	-	20,022	264,126	-	-	-	-	-	284,148
Financial investments at amortised cost	35,315	-	5,007	29,854	-	-	-	-	70,176
Loans and advances	7,708	11,868	6,874	3,096	3,015	-	-	-	32,561
Derivative assets	-	-	-	-	-	-	-	3	3
Other assets	-	-	-	-	-	-	209	-	209
<b>Total assets</b>	<b>81,048</b>	<b>31,890</b>	<b>276,007</b>	<b>32,950</b>	<b>3,015</b>	<b>2,111</b>	<b>3</b>	<b>3</b>	<b>427,024</b>



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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

**D Interest rate risk (continued)**

The following table represents the Bank's financial assets and financial liabilities at carrying amounts as at 31 December 2020 (continued):

	<u>Non-trading book</u>						<u>Trading book</u> RM'000	<u>Total</u> RM'000
	<u>Up to 1 month</u> RM'000	<u>1 - 3 months</u> RM'000	<u>3 - 12 months</u> RM'000	<u>1 - 5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>Non-interest sensitive</u> RM'000		
<b><u>Liabilities</u></b>								
Deposits from customers	29,508	8,130	63,445	347	-	-	101,430	
Other liabilities	-	-	-	-	-	779	779	
Lease liabilities	-	-	-	-	-	1,635	1,635	
<b>Total liabilities</b>	<b>29,508</b>	<b>8,130</b>	<b>63,445</b>	<b>347</b>	<b>-</b>	<b>2,414</b>	<b>103,844</b>	
<b>On balance sheet-interest rate gap</b>	<b>51,540</b>	<b>23,760</b>	<b>212,562</b>	<b>32,603</b>	<b>3,015</b>	<b>(303)</b>	<b>323,180</b>	

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**D Interest rate risk (continued)**

The following table represents the Bank's financial assets and financial liabilities at carrying amounts as at 31 December 2019:

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Non-trading book			Trading book RM'000	Total RM'000
					Over 5 years RM'000	Non- interest sensitive RM'000			
<b><u>Assets</u></b>									
Cash and short-term funds	63,750	-	-	-	-	-	5,637	-	69,387
Deposits and placements with banks and other financial institutions	-	80,401	292,083	-	-	-	-	-	372,484
Financial investments at amortised cost	-	5,059	35,281	45,587	-	-	-	-	85,927
Loans and advances	14,536	8,527	17,284	3,940	4,834	-	-	-	49,121
Derivative assets	-	-	-	-	-	-	-	3	3
Other assets	-	-	-	-	-	-	209	-	209
<b>Total assets</b>	<b>78,286</b>	<b>93,987</b>	<b>344,648</b>	<b>49,527</b>	<b>4,834</b>	<b>5,846</b>	<b>5,846</b>	<b>3</b>	<b>577,131</b>

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**D Interest rate risk (continued)**

The following table represents the Bank's carrying financial assets and financial liabilities at carrying amounts as at 31 December 2019 (continued):

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Non-trading book			Trading book RM'000	Total RM'000
					Over 5 years RM'000	Non- interest sensitive RM'000			
<b>Liabilities</b>									
Deposits from customers	57,236	20,082	169,533	4,245	-	-	-	-	251,096
Derivative liabilities	-	-	-	-	-	-	-	2	2
Other liabilities	-	-	-	-	-	870	-	-	870
Lease liabilities	-	-	-	-	-	1,718	-	-	1,718
<b>Total liabilities</b>	<b>57,236</b>	<b>20,082</b>	<b>169,533</b>	<b>4,245</b>	<b>-</b>	<b>2,588</b>	<b>2</b>	<b>253,686</b>	
On balance sheet-interest rate gap	21,050	73,905	175,115	45,282	4,834	3,258	1	323,445	

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank as at 31 December 2020.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by risk management to mitigate the effect of this movement in key variables. In reality, the Bank proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

The following table shows the impact on Net Interest Income and Economic Value of Equity based on a 100 basis points (bps) parallel shift in interest rates at the beginning of the financial year from 1 January for a period of 12 months as follows:-

Interest/profit rate risk sensitivity analysis on banking book

	<u>2020</u> RM'000 +/- 100 bps	<u>2019</u> RM'000 +/- 100 bps
<u>Movement in basis points</u>		
Effect on Net Interest Income	+/-2,573	+/-1,226
Effect on Economic Value of Equity	+/-944	+/-2,549

As at the reporting date, if interest rate increases/decreases by 100 bps with all the other variables held constant, the Bank's Net Interest Income and Economic Value of Equity would have an impact of RM2.57 million and RM0.94 million respectively for financial year 2020 and RM1.23 million and RM2.55 million respectively for financial year 2019. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observed market environment.

Foreign Currency Exchange Risk

The Bank is exposed to transactional foreign exchange exposures which are exposures on assets and liabilities denominated in currencies other than the functional currency.

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33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

**E** Market risk (continued)

Foreign Currency Exchange Risk

The table below summarises the financial assets and financial liabilities by currency of the Bank:

<u>2020</u>	<u>RM</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	Total Non RM RM'000	Grand Total RM'000
<u>Assets</u>						
Cash and balances with banks and other financial institutions	2,601	177	28	50	255	2,856
Money at call and deposit placements maturing within one month	17,007	20,064	-	-	20,064	37,071
Deposits and placements with banks and other financial institutions	284,148	-	-	-	-	284,148
Financial investments at amortised cost	70,176	-	-	-	-	70,176
Loans and advances	27,805	4,756	-	-	4,756	32,561
Derivative assets	-	3	-	-	3	3
Other assets	209	-	-	-	-	209
<b>Total assets</b>	<b>401,946</b>	<b>25,000</b>	<b>28</b>	<b>50</b>	<b>25,078</b>	<b>427,024</b>

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**E Market risk (continued)**

**Foreign Currency Exchange Risk (continued)**

The table below summarises the financial assets and financial liabilities by currency of the Bank (continued):

<u>2020</u>	<u>RM</u> <u>RM'000</u>	<u>USD</u> <u>RM'000</u>	<u>EUR</u> <u>RM'000</u>	<u>Others</u> <u>RM'000</u>	<u>Total</u> <u>Non</u> <u>RM</u> <u>RM'000</u>	<u>Grand</u> <u>Total</u> <u>RM'000</u>
<u>Liabilities</u>						
Deposits from customers	77,355	24,075	-	-	24,075	101,430
Other liabilities	779	-	-	-	-	779
Lease liabilities	1,635	-	-	-	-	1,635
Total liabilities	<u>79,769</u>	<u>24,075</u>	<u>-</u>	<u>-</u>	<u>24,075</u>	<u>103,844</u>
Net on balance sheet position	<u>322,177</u>	<u>925</u>	<u>28</u>	<u>50</u>	<u>1,003</u>	<u>323,180</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**E Market risk (continued)**

**Foreign Currency Exchange Risk (continued)**

The table below summarises the financial assets and financial liabilities by currency of the Bank (continued):

	<u>2019</u>	<u>RM</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> Non RM RM'000	<u>Grand</u> <u>Total</u> RM'000
<b><u>Assets</u></b>							
Cash and balances with banks and other financial institutions		14,674	3,750	14	205	3,969	18,643
Money at call and deposit placements maturing within one month		50,744	-	-	-	-	50,744
Deposits and placements with banks and other financial institutions		248,481	124,003	-	-	124,003	372,484
Financial investments at amortised cost		85,927	-	-	-	-	85,927
Loans and advances		44,521	4,600	-	-	4,600	49,121
Derivative assets		-	3	-	-	3	3
Other assets		209	-	-	-	-	209
<b>Total assets</b>		<b>444,556</b>	<b>132,356</b>	<b>14</b>	<b>205</b>	<b>132,575</b>	<b>577,131</b>

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**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**E Market risk (continued)**

**Foreign Currency Exchange Risk (continued)**

The table below summarises the financial assets and financial liabilities by currency of the Bank (continued):

	<u>2019</u>	<u>RM</u> <u>RM'000</u>	<u>USD</u> <u>RM'000</u>	<u>EUR</u> <u>RM'000</u>	<u>Others</u> <u>RM'000</u>	<u>Total</u> <u>Non</u> <u>RM</u> <u>RM'000</u>	<u>Grand</u> <u>Total</u> <u>RM'000</u>
<b><u>Liabilities</u></b>							
Deposits from customers	101,663	149,433	-	-	-	149,433	251,096
Derivative liabilities	-	2	-	-	-	2	2
Other liabilities	870	-	-	-	-	-	870
Lease liabilities	1,718	-	-	-	-	-	1,718
<b>Total liabilities</b>	<b>104,251</b>	<b>149,435</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>149,435</b>	<b>253,686</b>
<b>Net on balance sheet position</b>	<b>340,305</b>	<b>(17,079)</b>	<b>14</b>	<b>205</b>	<b>(16,860)</b>	<b>323,445</b>	



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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

33 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

F Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of MFRS 132 which requires the fair value information to be disclosed. These include fixed assets and intangibles.

A range of methodologies and assumptions had been used in deriving the fair values of the Bank's financial instruments at statement of financial position date.

Securities

The Bank uses the following hierarchy for determining and disclosing the fair value of securities held:

- Level 1 : quoted prices in active markets for the same instrument (i.e. without modification or repackaging);
- Level 2 : quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 : valuation techniques for which any significant inputs are not based on observable market data.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value of financial instruments (continued)

The following table shows an analysis of securities recorded at fair value by level of the fair value hierarchy:

Fair value measurement at end of the financial year using:

	<u>Total</u> RM'000	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000
<u>2020</u>				
<u>Financial assets at fair value through profit or loss</u>				
Derivative assets:				
- Foreign exchange spots	3	-	3	-
Total assets	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities:				
- Foreign exchange spots	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2019</u>				
<u>Financial assets at fair value through profit or loss</u>				
Derivative assets:				
- Foreign exchange spots	3	-	3	-
Total assets	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities:				
- Foreign exchange spots	2	-	2	-
Total liabilities	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value of financial instruments (continued)

Financial instruments not measured at fair value but for which fair value is disclosed

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2020 and 31 December 2019 but for which fair value is disclosed.

	Carrying value RM'000	Quoted market prices (Level 1) RM'000	Observable inputs (Level 2) RM'000	Total RM'000
<u>2020</u>				
<u>Financial assets</u>				
Deposits and placements with banks and other financial institutions	284,148	-	284,148	284,148
Financial investments at amortised cost	70,176	-	71,022	71,022
Loans and advances	32,561	-	32,561	32,561
Other assets	209	-	209	209
Total	<u>387,094</u>	<u>-</u>	<u>387,940</u>	<u>387,940</u>
<u>Financial liabilities</u>				
Deposits from customers	101,430	-	101,114	101,114
Other liabilities	779	-	779	779
Total	<u>102,209</u>	<u>-</u>	<u>101,893</u>	<u>101,893</u>

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value of financial instruments (continued)

Financial instruments not measured at fair value but for which fair value is disclosed (continued)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2020 and 31 December 2019 but for which fair value is disclosed (continued).

	Carrying value RM'000	Quoted market prices (Level 1) RM'000	Observable inputs (Level 2) RM'000	Total RM'000
<u>2019</u>				
<u>Financial assets</u>				
Deposits and placements with banks and other financial institutions	372,484	-	372,484	372,484
Financial investments at amortised cost	85,927	-	86,858	86,858
Loans and advances	49,121	-	49,121	49,121
Other assets	209	-	209	209
Total	<u>507,741</u>	<u>-</u>	<u>508,672</u>	<u>508,672</u>
<u>Financial liabilities</u>				
Deposits from customers	251,096	-	247,111	247,111
Other liabilities	870	-	870	870
Total	<u>251,966</u>	<u>-</u>	<u>247,981</u>	<u>247,981</u>

Financial instruments not measured at fair value but for which fair value is disclosed

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

Deposits and placements with banks and other financial institutions

For deposits and placements with banks and other financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, the estimated fair value is based on discounted cash flows using prevailing money market rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

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33 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value of financial instruments (continued)

Financial instruments not measured at fair value but for which fair value is disclosed (continued)

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

Financial investments

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Other assets

The fair value of other assets approximates the carrying value less impairment allowance at the statement of financial position date.

Loans and advances

For variable rate loans and advances, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans and advances with maturities of six months or more, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans and advances with similar credit risks and maturities.

The fair values of impaired variable and fixed rate loans and advances are represented by their carrying value, net of expected credit losses, being the expected recoverable amount.

Deposits from customers

For deposits from customers with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair value. For deposit with maturities of one year or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market rates for deposits and placements with similar remaining period to maturities.

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34 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial assets set off in the statement of financial position RM'000	Net amounts of financial assets presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position	Net amount RM'000	
	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial assets set off in the statement of financial position RM'000	Net amounts of financial assets presented in the statement of financial position RM'000	Financial Instruments RM'000	Cash collateral received RM'000	Net amount RM'000
<u>2020</u>						
Derivative financial assets	3	-	3	-	-	3
<u>2019</u>						
Derivative financial assets	3	-	3	(1)	-	2

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**34 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial liabilities set off in the statement of financial position RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position	Financial Instruments RM'000	Cash collateral paid RM'000	Net amount RM'000
<u>2020</u>							
Derivative financial liabilities	-	-	-	-	-	-	-
<u>2019</u>							
Derivative financial liabilities	2	-	2	(1)	(1)	-	1

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**34 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bank and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default includes failure by the other party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

**35 SEGMENT INFORMATION**

There is no segmental information as the Bank only has one reportable segment, which is its banking operation in Malaysia.

**36 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

The World Health Organisation declared the outbreak of Coronavirus disease (COVID-19) as a global pandemic in March 2020. The direct and indirect effects of the COVID-19 outbreak have impacted the global economy, markets and the Bank's counterparties and clients.

The COVID-19 effects have a limited negative impact on the Bank's results of operations. In particular, the process to determine expected credit losses ('ECL') requires estimates and assumptions, some of which require a degree of judgement. Changes in the estimates and assumptions can result in changes in ECL. The Bank is not able to predict the COVID-19's potential future direct or indirect effects. However, the Bank is taking actions to mitigate the impact, and will continue to closely monitor the impact and the related risks as they evolve.

**COVID-19 specific disclosures**

- (i) Below are the exposures to COVID-19 impacted sectors

	<u>2020</u> RM'000
Wholesale and retail trade, and restaurants and hotels	<u>11,675</u>

Most of the accounts under the above mentioned sectors are in Stage 1 with exception to one account which is classified under Stage 2.



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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

36 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

(ii) Below are the customer relief and support measures with latest status

	<u>2020</u> RM'000
Total repayment assistances granted under 6-months moratorium	10,791
Resumed repayments	9,428
Extended moratorium	<u>1,363</u>
As a percentage of total:	
Resumed repayments	87.37%
Extended moratorium	12.63%

The current MFRS 9 models are expected to generate sufficient levels of expected credit loss ("ECL") in view of the unprecedented and on-going COVID-19 pandemic. The impact to the probability-weighted scenarios and the macroeconomic variables used in the model development have been refreshed to incorporate the forward-looking estimates to incorporate the uncertainties. No ECL overlays and post-model adjustments have been applied to the overall level of ECLs for the year ended and as at 31 December 2020.

37 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 13 January 2021, the Government of Malaysia reintroduced the movement control order to curb the soaring number of Covid-19 cases. The lock down may have a negative impact on the Bank's results of operation, similar to the areas highlighted in Significant Event During the Financial Year. The Bank is not able to predict the potential future direct or indirect effects resulted from the movement control order. However, the Bank is taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Goh Ching Chee and Datuk Bhupatrai M Premji, two of the Directors of India International Bank (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 16 to 119 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2020 and financial performance of the Bank for the financial year ended 31 December 2020 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 9 April 2021.



GOH CHING CHEE  
DIRECTOR



DATUK BHUPATRAI M PREMJI  
DIRECTOR

Kuala Lumpur  
9 April 2021

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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STATUTORY DECLARATION  
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Goh Ching Chee, the Director primarily responsible for the financial management of India International Bank (Malaysia) Berhad, do solemnly and sincerely declare that, the financial statements set out on pages 16 to 119 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



GOH CHING CHEE  
DIRECTOR

Subscribed and solemnly declared by the above named at Kuala Lumpur in Malaysia on 9 April 2021.

Before me:

  
COMMISSIONER FOR OATH



5B, JALAN RAKYAT  
( JALAN TRAVERS )  
BRICKFIELDS  
50470 KUALA LUMPUR



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of India International Bank (Malaysia) Berhad (“the Bank”) give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 119.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors’ report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors’ Report, but does not include the financial statements of the Bank and our auditors’ report thereon.

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*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia  
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INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon (continued)

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

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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



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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

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



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD  
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OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers' followed by a stylized mark.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'NG YEE LING'.

NG YEE LING  
03032/01/2023 J  
Chartered Accountant

Kuala Lumpur  
9 April 2021