

Company No.

911666

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

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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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 2017.

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:

Palamadai Sundararajan Jayakumar	
Datuk Bhupatrai a/l Mansukhlal Premji	
Gopala Krishnan a/l C P Gopalan	(retired on 08 November 2017)
Santhanam Vangal Jagannathan	
Thenkurissi Nandakumar Ramakumar	(retired on 27 March 2017)
Goh Ching Chee	(appointed on 02 October 2017)

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 for the financial year	582

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.

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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 23 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 23 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.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements 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 2017.

ISSUE OF SHARES AND DEBENTURES

No new shares or debentures were issued during the financial year ended 31 December 2017.

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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; and
 - (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.
- (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
 - (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.

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DIRECTORS' REPORT (CONTINUED)

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 22 to the financial statements.

BUSINESS REVIEW

2017 Results

The Bank's net income for financial year ("FY") 2017 increased by RM0.081 million to RM 14.485 million as compared to FY 2016 (2016: RM14.404 million). The increase is due to higher other income which increased by RM0.145 million which was partly set off by lower net interest income.

The Bank's operating expenses decreased from RM 15.744 million in FY 2016 to RM14.329 million in FY 2017 (decrease of RM1.415 million) due to lower amortisation expenses, depreciation expenses and IT expenses.

The Bank records an operating profit before loan loss impairment of RM0.156 million in FY 2017 compared to an operating loss of RM 1.340 million in FY 2016. There is loan loss impairment charges reversal of RM0.426 million in FY 2017 mainly due to reversal of collective impairment charges as the loan base decreased compare to FY 2016. As the result, the Bank recorded a profit before tax of RM 0.582 million in FY 2017 against loss of RM 1.385 million in FY 2016.

Loans, advances and financing as at 31 December 2017 are RM51.745 million or decreases by RM9.112 million as compared to 31 December 2016. Deposits from customers are lower by RM33.798 million from the previous year and stood at RM120.625 million as at end of December 2017.

Business Outlook for FY 2018

For FY 2018, the Malaysian economy is expected to expand at a moderate pace of 5.5% to 5.8%. With this conducive economic environment and given the niche target market segments of the Bank particularly the trade flows between Malaysia and India, which is supported by the positive economic outlook for the Indian economy, the business prospects for the Bank are favourable. In addition, the Bank is also focussing on financing specific segments of the local Small and Medium Enterprises ("SME").

The Board is optimistic that the Bank will be able to increase its business volume at a moderate pace in view of the potential business opportunities in the trade financing and SME segments in 2018 and grow its loans, advances and financing and revenue in tandem with this growth.

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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 2017.

THE BOARD OF DIRECTORS

Board's Duties and Responsibilities

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

The role of the Chairman and Managing Director ("MD")/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 MD/ CEO and the full time 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 2017, due to vacancies in the position of three (3) Directors, the board composition was made up of one (1) Non-Independent Non-Executive Director and three (3) Independent Non-Executive Directors.

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DIRECTORS' REPORT (CONTINUED)

THE BOARD OF DIRECTORS (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 three (3) Independent Non-Executive Directors 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) Palamadai Sundararajan Jayakumar

Mr. Palamadai Sundararajan Jayakumar is an Indian citizen. He was appointed as Non-Independent Non-Executive Director of the Bank and Chairman of the Board on 16 June 2016. Mr. Palamadai Sundararajan Jayakumar took over as Managing Director & Chief Executive Officer of Bank of Baroda on 13 October 2015. He is a career banker and has spent over 23 years in Citibank in India and Singapore starting in 1986. He has contributed to several innovations in retail banking in India. In addition, he was associated with the first asset securitisation in India in 1991 and the first multi-lingual biometric ATM for the financially excluded in 2006.

Mr. Palamadai Sundararajan Jayakumar had held diverse assignments while at Citibank such as Treasurer - Consumer Bank, Business Development Head covering deposit and lending business, Managing Director for CitiFinancial Ltd, Managing Director and Head of Citibank Consumer Loan for Asia Pacific Countries (covering Indonesia, Philippines, Australia, Thailand, Hong Kong and Korea), Country Head - Citibank Consumer Business and Head of Balance Sheet Management - Asia Pacific. Mr. Palamadai Sundararajan Jayakumar had also served as a Board Member in many of Citibank's subsidiaries in India.

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DIRECTORS' REPORT (CONTINUED)

THE BOARD OF DIRECTORS (CONTINUED)

PROFILE OF DIRECTORS (CONTINUED)

(i) **Palamadai Sundararajan Jayakumar (continued)**

Prior to his appointment as MD & CEO of Bank of Baroda, he was the Co-founder and CEO of VBHC Value Budget Housing, a leader in housing for low and moderate-income household from 2009 onwards. He was also the Co-founder and Non-Executive Promoter Director for Home First Finance Company, a housing finance institution regulated by the NHB, focused on financing customers who are not able to access mortgage loans from the banking sector.

Mr. Palamadai Sundararajan Jayakumar is a Chartered Accountant by qualification and additionally holds a Post-Graduate Diploma in Business Management from XLRI Jamshedpur. He also has the distinction of being a Chevening Gurukool Scholar through the London School of Economics and Political Science.

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

Datuk Bhupatrai a/l Mansukhlal Premji is a Malaysian citizen and was appointed to the Board of the Bank as an Independent Non-Executive Director on 9 November 2011. Datuk Bhupatrai is also the Chairman of the Audit and Nomination Committee of the Bank.

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 17 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.

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DIRECTORS' REPORT (CONTINUED)

THE BOARD OF DIRECTORS (CONTINUED)

PROFILE OF DIRECTORS (CONTINUED)

(iii) Goh Ching Chee (appointed on 02 October 2017)

Mr. Goh Ching Chee is a Malaysian citizen. He was appointed to the Board as an Independent Non- Executive Director of the Bank on 02 October 2017. Mr. Goh is also the Chairman of the Risk Management 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.

(iv) Gopala Krishnan a/l C P Gopalan (retired on 08 November 2017)

Mr. Gopala Krishnan a/l C P Gopalan is a Malaysian citizen. He was appointed to the Board as an Independent Non-Executive Director on 9 November 2011. He also served as the Chairman of the Risk Management and Remuneration Committee prior to his retirement. He has 37 years of experience in banking and financial services and has held various senior management positions in Corporate and Commercial Banking, International Banking, Treasury and Investment Banking. His last position before his retirement in 2009 was with EON Bank Berhad where he served as the Deputy Chief Executive Officer since 1999. He had also served as Head of Treasury with the Bank of Nova Scotia Malaysia Berhad and prior to that as Senior Manager at United Asian Bank. He has an Advanced Diploma in Business Management from the West Glamorgan Institute, United Kingdom.

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DIRECTORS' REPORT (CONTINUED)

THE BOARD OF DIRECTORS (CONTINUED)

PROFILE OF DIRECTORS (CONTINUED)

(v) Santhanam Vangal Jagannathan

Mr. Santhanam Vangal Jagannathan is an Indian citizen. He was appointed an Independent Non- Executive Director on 2nd June, 2015. Mr. Santhanam Vangal Jagannathan is a professionally qualified Chartered accountant with 35 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 62 years history and handles statutory audits of leading banking institutions like Reserve Bank of India and State Bank of India.

(vi) Thenkurissi Nandakumar Ramakumar (retired on 27 March 2017)

Mr. Thenkurissi Nandakumar Ramakumar was appointed to the Board as MD/ CEO on 7 October 2013. Before joining the Bank, he was Deputy General Manager of Indian Overseas Bank and was the Chief Representative of Indian Overseas Bank in Dubai, United Arab Emirates, who managed and oversaw the Bank's business interests in the entire Gulf Region. While there, he conceptualised and facilitated the expansion of the Bank's footprints to four other Gulf countries, Qatar, Oman, Kuwait and Saudi Arabia and also brought in latest technology to support the electronic remittance gateways of the bank from Gulf countries. Starting as a direct recruit officer in Indian Overseas Bank, he has 32 years of experience in all areas of banking. Mr. Thenkurissi Nandakumar Ramakumar has handled various assignments in the Bank in India including heading exceptionally large branches in the commercial hub of India – Mumbai. He holds a Bachelor's Degree in Commerce from the University of Calicut in India and was awardee of Government National Merit Scholarship. He has attended trainings conducted by Foreign Exchange Dealers Association of India and National Institute of Bank Management, Pune, India.

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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 2017, 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. Palamadai Sundararajan Jayakumar	Chairman/ Non-Independent Non-Executive Director	5/7*
2	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	7/7
3	Mr. Gopala Krishnan a/l C P Gopalan (retired on 08 November 2017)	Independent Non-Executive Director	5/6*
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	7/7
5	Mr. Thenkurissi Nandakumar Ramakumar (retired on 27 March 2017)	Managing Director/ Chief Executive Officer	2/2*
6	Mr. Goh Ching Chee (appointed on 02 October 2017)	Independent Non-Executive Director	2/2*

** Number of meeting(s) attended from date of appointment/before resignation.*

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 Committee;
- (ii) Remuneration Committee;
- (iii) Risk Management Committee; and
- (iv) Audit Committee.

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 Committee

During the financial year, the Nomination Committee held one (1) meeting. 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>Name of Directors</u>	<u>Designation</u>	<u>Attendance</u>
1	Datuk Bhupatrai a/l Mansukhlal Premji (Chairman)	Independent Non-Executive Director	1/1
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	0/1
3	Mr. Gopala Krishnan a/l C P Gopalan (retired on 08 November 2017)	Non-Independent Non-Executive Director	1/1
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	1/1
5	Mr. Goh Ching Chee (appointed on 02 October 2017)	Independent Non-Executive Director	0/0*

** Number of meeting(s) attended from date of appointment/before resignation*

Terms of reference

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

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 MD/ CEO;
- (c) Recommend and assess the nominees for directorship, Board Committee members and the MD/ CEO;

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DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(i) Nomination Committee (continued)

Terms of reference (continued)

The primary functions of the Nomination Committee include the following:

- (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 and 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 MD/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.

(ii) Remuneration Committee

During the financial year, the Remuneration Committee held one (1) meeting. The composition of the Remuneration 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. Gopala Krishnan a/l C P Gopalan (Chairman) (retired on 08 November 2017)	Independent Non-Executive Director	1/1
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	0/1
3	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	1/1
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	1/1
5	Mr. Goh Ching Chee (appointed on 02 October 2017)	Independent Non-Executive Director	0/0*

* Number of meeting(s) attended from date of appointment/before resignation

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DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(ii) Remuneration Committee (continued)

Terms of reference

The Remuneration Committee is established to provide a formal and transparent procedure for developing a remuneration policy for the Directors, MD/ 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 MD/ CEO and other key senior management officers for the Board's approval;
- (b) Review the remuneration package of the Directors, MD/ CEO and key senior management officers; and
- (c) Recommend to the Board the proposed overall salary increments and overall annual bonus of the staff.

(iii) Risk Management Committee

During the financial year, the Risk Management Committee held four (4) meetings. The composition of 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. Gopala Krishnan a/l C P Gopalan (Chairman) (retired on 08 November 2017)	Independent Non-Executive Director	2/3*
2	Mr. Palamadai Sundararajan Jayakumar	<i>Non-Independent Non-Executive Director</i>	0/4*
3	Datuk Bhupatrai a/l Mansukhlal Premji	<i>Independent Non-Executive Director</i>	4/4
4	Mr. Santhanam Vangal Jagannathan	<i>Independent Non-Executive Director</i>	4/4
5	Mr. Goh Ching Chee (appointed on 02 October 2017)	Independent Non-Executive Director	2/2*

* Number of meeting(s) attended from date of appointment/before resignation

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iii) Risk Management Committee (continued)

Terms of reference

The 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 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.

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.

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DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iii) Risk Management Committee (continued)

Risk Management Framework (continued)

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.

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

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

3rd 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.

(iv) 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	Datuk Bhupatrai a/l Mansukhlal Premji (Chairman)	Independent Non-Executive Director	4/4
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	1/4*
3	Mr. Gopala Krishnan a/l C P Gopalan (retired on 08 November 2017)	Independent Non-Executive Director	3/4
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	4/4
5	Mr. Goh Ching Chee (appointed on 02 October 2017)	Independent Non-Executive Director	1/1*

* Number of meeting(s) attended from date of appointment/before resignation

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

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iv) **Audit Committee (continued)**

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;
- (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.

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

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iv) **Audit Committee (continued)**

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 MD/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.

MANAGEMENT INFORMATION

All the Directors have reviewed the Board reports prior to the Board Meetings. Information and materials, duly endorsed by the MD/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.

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

DIRECTORS' REPORT (CONTINUED)

RELATED PARTY TRANSACTIONS

During the financial year ended 31 December 2017, the Bank entered into transactions with the Bank's shareholders namely Bank of Baroda, Indian Overseas Bank and Andhra Bank in the normal course of business. The details and nature of the transactions are disclosed in Note 27 of the financial statements.

BANK RATINGS

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

OPTIONS GRANTED OVER UNISSUED SHARES

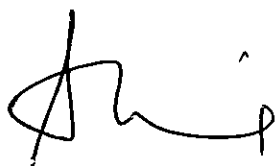
No options were granted to any person to take up unissued shares of the Bank during the financial year.

AUDITORS

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

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 02 January 2018 and with effect from that date, PricewaterhouseCoopers (AF1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board of Directors in accordance with their resolution dated 8 May 2018.



DATUK BHUPATRAI M PREMJI
DIRECTOR



GOH CHING CHEE
DIRECTOR

Kuala Lumpur

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	<u>Note</u>	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
ASSETS			
Cash and short-term funds	4	194,533	148,127
Deposits and placements with banks and other financial institutions	5	121,636	242,196
Financial investments held-to-maturity	6	75,814	20,294
Loans, advances and financing	7	51,745	60,857
Derivative assets	8	8	-
Other assets	9	1,267	896
Statutory deposits with Bank Negara Malaysia	10	100	100
Plant and equipment	11	274	831
Intangible assets	12	114	1,571
TOTAL ASSETS		<u>445,491</u>	<u>474,872</u>
LIABILITIES AND EQUITY			
Deposits from customers	13	120,625	154,423
Deposits and placements of banks and other financial institutions	14	4,063	-
Derivative liabilities	15	4	330
Other liabilities	16	1,188	1,090
TOTAL LIABILITIES		<u>125,880</u>	<u>155,843</u>
Share capital	18	330,000	330,000
Accumulated losses		(10,389)	(10,971)
TOTAL EQUITY OF SHAREHOLDERS		<u>319,611</u>	<u>319,029</u>
TOTAL LIABILITIES AND EQUITY		<u>445,491</u>	<u>474,872</u>
COMMITMENTS AND CONTINGENCIES	26	<u>65,089</u>	<u>62,355</u>

The accounting policies on pages 24 to 37 and the notes on pages 38 to 97 form an integral part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Interest income	19	16,876	17,586
Interest expense	20	(4,045)	(4,691)
Net interest income		12,831	12,895
Other operating income	21	1,654	1,509
Net income		14,485	14,404
Other operating expenses	22	(14,329)	(15,744)
Loan impairment write-back/ (charges)	24	156 426	(1,340) (45)
Profit / (Loss) before taxation		582	(1,385)
Taxation	25	-	-
PROFIT/ (LOSS) FOR THE FINANCIAL YEAR/ TOTAL COMPREHENSIVE PROFIT/ (LOSS) FOR THE FINANCIAL YEAR		582	(1,385)

The accounting policies on pages 24 to 37 and the notes on pages 38 to 97 form an integral part of these financial statements.

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<u>Note</u>	<u>Share capital</u> RM'000	<u>Accumulated losses</u> RM'000	<u>Total</u> RM'000
Balance as at 1 January 2017	18	330,000	(10,971)	319,029
Total comprehensive profit for the financial year		-	582	582
Balance as at 31 December 2017		<u>330,000</u>	<u>(10,389)</u>	<u>319,611</u>
Balance as at 1 January 2016	18	330,000	(9,586)	320,414
Total comprehensive loss for the financial year		-	(1,385)	(1,385)
Balance as at 31 December 2016		<u>330,000</u>	<u>(10,971)</u>	<u>319,029</u>

The accounting policies on pages 24 to 37 and the notes on pages 38 to 97 form an integral part of these financial statements.

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before taxation		582	(1,385)
Adjustments for:			
Depreciation of plant and equipment		623	1,230
Amortisation of intangible assets		1,328	2,454
Write-off of intangible assets		224	-
Unrealised (gain)/loss on revaluation of derivative instruments		(334)	340
Allowance for bad and doubtful debts and financing		(426)	45
		<hr/>	<hr/>
Operating profit before working capital changes		1,997	2,684
Decrease/(Increase) in deposits and placements with financial institution		120,560	(16,354)
(Increase)/Decrease in financial assets held-to-maturity		(60)	31
(Increase)/Decrease in other assets		(371)	163
(Increase)/Decrease in derivative assets		(8)	39
Decrease/(Increase) in loans, advances and financing		9,538	(10,056)
(Decrease)/Increase in deposits from customers		(33,798)	12,472
Increase in deposits and placements of bank and other financial institution		4,063	-
Increase/(Decrease) in derivative liabilities		8	(44)
Increase/(Decrease) in other liabilities		98	(839)
		<hr/>	<hr/>
Cash flows from/(used in) operations		102,027	(11,904)
Taxation paid		-	-
		<hr/>	<hr/>
Net cash generated from / (used in) operating activities		102,027	(11,904)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(67)	(256)
Purchase of intangible assets		(95)	-
Proceeds of disposal of plant and equipment		1	-
Purchase of financial assets held-to-maturity		(55,460)	(10,141)
Proceeds of matured financial assets held-to-maturity		-	10,000
		<hr/>	<hr/>
Net cash used in investing activities		(55,621)	(397)

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		46,406	(12,301)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		<u>148,127</u>	<u>160,428</u>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	4	<u>194,533</u>	<u>148,127</u>

The accounting policies on pages 24 to 37 and the notes on pages 38 to 97 form an integral part of these financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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 8 May 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

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

A BASIS OF PREPARATION

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards, amendments to published standards and interpretations that are effective

The Bank has applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 'Disclosures of Interests in Other Entities'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards and amendments that have been issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement"

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading).

A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement" (continued)

The Bank has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the Bank's debt instruments currently classified as loans and receivables and held-to-maturity will meet the conditions for classification at amortised cost under MFRS 9 and continued to be recognised at amortised cost.

Under MFRS 9, fair value through profit and loss is the residual category and financial instruments which do not qualify to be recognised as FVOCI or amortised cost will be recognised as FVTPL. The instruments currently held at FVTPL will continue to be measured on the same basis under MFRS 9.

There will be no impact on the Bank's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The de-recognition rules have been transferred from MFRS 139 'Financial Instruments: Recognition and Measurement' and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Bank will apply the new rules retrospectively from 1 January 2018.

The Bank is now progressing to the implementation of the identified changes and has not finalised the financial impact of the adoption of MFRS 9.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The Bank is in the process of finalising the financial implication arising from the adoption of this new standard, although it is not expected to have any material impact to the Bank.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

The Bank is in the process of assessing the financial implication arising from the adoption of this new standard, although it is not expected to have any material impact to the Bank.

B 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 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

C FINANCIAL ASSETS

(a) Classification

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C FINANCIAL ASSETS (CONTINUED)

(a) Classification (continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Bank's loans and receivables comprise 'cash and short-term funds', 'deposits and placements with banks and other financial institutions', 'loans, advances and financing', 'other assets' and 'statutory deposits with Bank Negara Malaysia' in the statement of financial position (Note 4,5,7,9 and 10).

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative quoted financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset not carried at fair value through profit or loss. Financial assets through profit or loss are initially recognised of fair value, and transaction costs are expensed in income statement.

(c) Subsequent measurement – gains and losses

Changes in fair values of financial assets at fair value through profit and loss, including the effects of currency translation are recognised in income statement in the period in which the changes arise.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment

Assets carried at amortised cost

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

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

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

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

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

(e) De-recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D IMPAIRMENT OF FINANCIAL ASSETS

Loans, advances and financing

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

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

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

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

For the purposes of a collective evaluation of impairment, loans, advances and financing are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E PLANT AND EQUIPMENT

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

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

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

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

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

At the end of the reporting period, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable.

F INTANGIBLE ASSETS

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G 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 income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

H 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.

I FINANCIAL LIABILITIES

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

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

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

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

J FINANCIAL GUARANTEE CONTRACTS

In the ordinary course of business, the Bank gives financial guarantee, consisting letters of credits, guarantees and acceptances. Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument.

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

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

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 income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

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

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

(ii) Fee and other income

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

M OPERATING LEASE PAYMENT

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

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

N 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.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N FOREIGN CURRENCIES (CONTINUED)

(ii) Foreign currency transactions (continued)

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
Indian Rupees	0.0635	0.0660
Singapore Dollars	3.0392	3.1016
United States Dollars	4.0620	4.4860
Hong Kong Dollars	0.5196	0.5785
British Pounds	5.4660	5.5108
Euro	4.8510	4.7238

O 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 substantively 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.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O CURRENT AND DEFERRED TAX (CONTINUED)

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.

P DERIVATIVES

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

Derivatives are classified as held for trading and accounted for in accordance with the accounting policy set out in Note C.

Q OTHER ASSETS

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

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

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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.

Allowance for losses on loans, advances and financing

The Bank makes allowance for losses on loans, advances and financing based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans, advances and financing. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flows to service debt obligations and the aggregate amount and ranking of all other creditor claims.

4 CASH AND SHORT-TERM FUNDS

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Cash and balances with banks and other financial institutions	83,741	92,698
Money at call and deposit placements maturing within one month	110,792	55,429
	<u>194,533</u>	<u>148,127</u>

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Licensed banks	121,636	242,196

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
<u>At amortised cost</u>		
Money market instruments:		
Malaysian Government Securities	30,373	20,294
Cagamas Bond	15,363	-
Negotiable Instruments of Deposit	30,078	-
	<u>75,814</u>	<u>20,294</u>

7 LOANS, ADVANCES AND FINANCING

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
(i) By type		
Overdrafts	21,207	37,722
Term loans/financing		
- Other term loans/financing	9,219	9,606
Bills receivable	17,417	10,174
Trust receipt	5,999	5,871
Less: Unearned interest and income	(44)	(37)
	<u>53,798</u>	<u>63,336</u>
Less: Allowance for impaired loans and financing		
- Collective assessment allowance	(788)	(975)
- Individual assessment Allowance	(1,265)	(1,504)
Net loans, advances and financing	<u>51,745</u>	<u>60,857</u>
(ii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	51,563	60,236
- Others	2,235	3,100
Gross loans, advances and financing	<u>53,798</u>	<u>63,336</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
(iii) By interest rate sensitivity		
Variable rate		
- BLR plus/minus	49,583	63,067
- Other variable rates	4,215	269
	<u>53,798</u>	<u>63,336</u>
Gross loans, advances and financing	<u>53,798</u>	<u>63,336</u>
(iv) By residual contractual maturity		
Maturity within one year	44,579	53,730
More than one year to three years	-	-
More than three years to five years	-	-
More than five years	9,219	9,606
	<u>53,798</u>	<u>63,336</u>
Gross loans, advances and financing	<u>53,798</u>	<u>63,336</u>
(v) By geographical distribution		
Malaysia		
- Kuala Lumpur	21,572	35,937
- Selangor	12,126	9,756
- Perak	4,457	5,061
- Kedah	4,457	6,246
- Terengganu	11,185	6,336
- Johor	1	-
	<u>53,798</u>	<u>63,336</u>
Gross loans, advances and financing	<u>53,798</u>	<u>63,336</u>
(vi) By sector		
Manufacturing	24,739	18,511
Electricity, gas and water supply	-	-
Construction	715	891
Wholesale and retail trade, and restaurants and hotels	23,081	34,273
Finance, insurance, real estate and business activities	5,263	8,951
Education, health and others	-	710
	<u>53,798</u>	<u>63,336</u>
Gross loans, advances and financing	<u>53,798</u>	<u>63,336</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(vii) Movements in impaired loans, advances and financing are as follows:

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Movements in impaired loans, advances and financing		
At beginning of financial period	4,142	4,999
Classified as impaired during the financial period	-	533
Interest reversal	-	(64)
Amount recovered	(605)	(1,326)
	<hr/>	<hr/>
At end of financial period	3,537	4,142
Individual impairment provision	(1,265)	(1,504)
	<hr/>	<hr/>
Net Impaired loans, advances and financing	2,272	2,638
	<hr/>	<hr/>
Ratio of net impaired loans, advances and financing to gross loans, advances and financing less individual impairments provisions	4.32%	4.27%

(viii) Movements in allowance for impaired loans, advances and financing are as following:

Individual assessment allowance

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
At 1 January	1,504	1,644
Allowance written back during the financial year	(239)	(140)
	<hr/>	<hr/>
At 31 December	1,265	1,504
	<hr/>	<hr/>

Collective assessment allowance

At 1 January	975	790
Allowance made during the financial year	-	185
Allowance written back during the financial year	(187)	-
	<hr/>	<hr/>
At 31 December	788	975
	<hr/>	<hr/>

As a % of gross loans, advances and financing less individual assessment allowance	1.50%	1.58%
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
(ix) Impaired loans, advances and financing analysed by geographical distribution		
Malaysia		
- Kuala Lumpur	3,537	4,142
- Selangor	-	-
- Kedah	-	-
- Terengganu	-	-
- Perak	-	-
Gross loans, advances and financing	<u>3,537</u>	<u>4,142</u>
(x) Impaired loans, advances and financing analysed by sector		
Manufacturing	-	-
Electricity, gas and water supply	-	-
Construction	-	-
Wholesale and retail trade, and restaurants and hotels	3,537	4,142
Finance, insurance, real estate and business activities	-	-
Education, health and others	-	-
Gross loans, advances and financing	<u>3,537</u>	<u>4,142</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

8 DERIVATIVE ASSETS

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Derivative assets:		
Foreign exchange forwards and spots	<u>8</u>	<u>-</u>
	<u>Contract or</u> <u>underlying</u> <u>principal amount</u> RM'000	<u>Year end</u> <u>positive</u> <u>fair value</u> RM'000
<u>2017</u>		
Foreign exchange forwards and spots	<u>2,689</u>	<u>8</u>
<u>2016</u>		
Foreign exchange forwards and spots	<u>1,202</u>	<u>-</u>

9 OTHER ASSETS

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Deposits	351	220
Prepayments	788	522
Other receivables	128	154
	<u>1,267</u>	<u>896</u>

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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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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>At 31 December 2017</u>					
<u>Cost</u>					
At 1 January 2017	350	4,872	170	1,620	7,012
Additions	10	44	0	13	67
Disposals	-	(7)	-	-	(7)
At 31 December 2017	360	4,909	170	1,633	7,072
<u>Accumulated depreciation</u>					
At 1 January 2017	304	4,331	109	1,437	6,181
Charge for the financial year	23	504	-	96	623
Disposals	-	(6)	-	-	(6)
At 31 December 2017	327	4,829	109	1,533	6,798
Net book value	33	80	61	100	274
<u>At 31 December 2016</u>					
<u>Cost</u>					
At 1 January 2016	340	4,851	170	1,395	6,756
Additions	10	21	-	225	256
Disposals	-	-	-	-	-
At 31 December 2016	350	4,872	170	1,620	7,012
<u>Accumulated depreciation</u>					
At 1 January 2016	250	3,360	77	1,264	4,951
Charge for the financial year	54	971	32	173	1,230
Disposals	-	-	-	-	-
At 31 December 2016	304	4,331	109	1,437	6,181
Net book value	46	541	61	183	831

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NOTES TO THE FINANCIAL STATEMENTS
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12 INTANGIBLE ASSETS

	Computer software RM'000	Work-in- progress RM'000	Total RM'000
<u>At 31 December 2017</u>			
<u>Cost</u>			
At 1 January 2017	12,270	224	12,494
Additions	55	40	95
Write-off	-	(224)	(224)
At 31 December 2017	12,325	40	12,365
<u>Accumulated amortisation</u>			
At 1 January 2017	10,923	-	10,923
Amortisation for the financial year	1,328	-	1,328
Write-off	-	-	-
At 31 December 2017	12,251	-	12,251
Net book value	74	40	114
<u>At 31 December 2016</u>			
<u>Cost</u>			
At 1 January 2016	12,270	224	12,494
Additions	-	-	-
Write-off	-	-	-
At 31 December 2016	12,270	224	12,494
<u>Accumulated amortisation</u>			
At 1 January 2016	8,469	-	8,469
Amortisation for the financial year	2,454	-	2,454
Write-off	-	-	-
At 31 December 2016	10,923	-	10,923
Net book value	1,347	224	1,571

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

13 DEPOSITS FROM CUSTOMERS

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
(i) By type of deposits		
Demand deposits	21,952	20,188
Savings deposits	1,070	902
Fixed deposits	97,603	133,333
	<u>120,625</u>	<u>154,423</u>
(ii) Maturity structure of fixed deposits is as follows:		
Due within six months	59,613	83,185
Six months to one year	32,749	50,143
One year to three years	5,241	5
Three years to five years	-	-
	<u>97,603</u>	<u>133,333</u>
(iii) The deposits are sourced from the following types of customers:		
Business enterprises	55,046	54,552
Individuals	974	7,390
Foreign entities	59,083	92,481
Non-Bank Financial Institutes	5,146	-
Other Entity	376	-
	<u>120,625</u>	<u>154,423</u>

14 DEPOSITS AND PLACEMENTS OF BANK AND OTHER FINANCIAL INSTITUTIONS

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Licensed banks	<u>4,063</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

15 DERIVATIVE LIABILITIES

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Derivative liabilities:		
Foreign exchange forwards and spots	<u>4</u>	<u>330</u>
	<u>Contract or</u> <u>underlying</u> <u>principal amount</u> RM'000	<u>Year end</u> <u>negative</u> <u>fair value</u> RM'000
<u>2017</u>		
Foreign exchange forwards and spots	<u>2,718</u>	<u>4</u>
<u>2016</u>		
Foreign exchange forwards and spots	<u>14,898</u>	<u>330</u>

16 OTHER LIABILITIES

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Accruals	588	692
Banker's cheque	401	2
Other payables	<u>199</u>	<u>396</u>
	<u>1,188</u>	<u>1,090</u>

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NOTES TO THE FINANCIAL STATEMENTS
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17 DEFERRED TAX ASSETS / (LIABILITIES)

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.

The deferred tax asset amount is not recognised as deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

The amount of unabsorbed capital allowances of the Bank as at year end are as follows:

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
Unabsorbed capital allowances carried forward	2,786	5,804
	<u>2,786</u>	<u>5,804</u>

18 SHARE CAPITAL

	<u>31.12.2017</u> RM'000	<u>31.12.2016</u> RM'000
<u>Authorised:</u>		
50,000,000 ordinary shares of RM10 each	<u>500,000</u>	<u>500,000</u>
<u>Issued and fully paid:</u>		
Balance as at beginning/end of the financial year	<u>330,000</u>	<u>330,000</u>

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

19 INTEREST INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
Loans, advances and financing	4,066	3,707
Money at call and deposit placements with financial institutions	11,342	13,185
Financial investments – held-to-maturity	1,468	694
Total interest income	<u>16,876</u>	<u>17,586</u>

20 INTEREST EXPENSE

	<u>2017</u> RM'000	<u>2016</u> RM'000
Deposits and placements of banks and other financial institutions	80	60
Deposits from customers	3,965	4,631
Total interest expenses	<u>4,045</u>	<u>4,691</u>

21 OTHER OPERATING INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Commission, fee and other income:</u>		
Commission	301	272
Service charges and fees	336	290
Other Income	96	69
	<u>733</u>	<u>631</u>
<u>Foreign exchange related income:</u>		
Foreign exchange gain	587	1,218
Unrealised gain /(loss) on revaluation of derivative instruments	334	(340)
Total	<u>1,654</u>	<u>1,509</u>

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22 OTHER OPERATING EXPENSES

	2017 RM'000	2016 RM'000
Personnel costs (Note a)	5,432	4,968
Marketing expenses (Note b)	31	32
Establishments costs (Note c)	6,593	8,742
Administration and general expenses (Note d)	2,273	2,002
	<u>14,329</u>	<u>15,744</u>
(a) <u>Personnel costs:</u>		
- Salaries and allowances	3,957	3,547
- Pension fund contributions	488	467
- Other staff costs	987	954
	<u>5,432</u>	<u>4,968</u>
(b) <u>Marketing expenses:</u>		
- Advertising and promotion	31	32
	<u>31</u>	<u>32</u>
(c) <u>Establishments costs:</u>		
- Depreciation of plant and equipment	623	1,230
- Amortisation of intangible assets	1,328	2,454
- Rental - Office premises	461	411
- Rental - Data centre and data recovery sites	302	302
- Repair and maintenance	87	58
- Information technology expenses	3,062	3,527
- Telecommunication charges	616	643
- Others	114	117
	<u>6,593</u>	<u>8,742</u>
(d) <u>Administration and general expenses:</u>		
- Legal and professional fees	288	129
- Auditor's fees	200	185
- Licensing fees	203	177
- Directors' fees	132	128
- Subscriptions	573	443
- Transport and travelling	37	28
- Postage and stamps	168	124
- Security services	134	121
- General insurance	75	101
- Swift and rentas charges	82	86
- Others	381	480
	<u>2,273</u>	<u>2,002</u>

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22 OTHER OPERATING EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosure:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Directors' remuneration including benefits-in-kind	227	380
Rental of premises	461	411
Auditors' remuneration		
<u>Current year</u>		
- Statutory audit	200	185
- Other audit related	5	5
- Non-audit related	71	61
	<u> </u>	<u> </u>

23 REMUNERATION OF MANAGING DIRECTOR ("MD"), CHIEF EXECUTIVE OFFICER ("CEO") AND DIRECTORS

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Non-Executive Directors</u>		
Fees		
- Vangal Jagannathan Santhanam	42	42
- Gopala Krishnan a/l C P Gopalan (retired on 08 November 2017)	37	43
- Datuk Bhupatrai a/l Mansukhlal Premji	42	43
- Goh Ching Chee (appointed on 02 October 2017)	11	-
	<u> </u>	<u> </u>
	132	128
<u>Managing Director/Chief Executive Officer</u>		
Thenkurissi Nandakumar Ramakumar (retired on 27 March 2017)		
- Salary	37	117
- Allowance	39	58
- Defined contribution plan	1	6
- Benefit-in-kind	18	71
	<u> </u>	<u> </u>
	95	252
<u>Chief Executive Officer</u>		
Jauhari Rajesh Mohan		
- Salary	67	-
- Allowance	33	-
- Defined contribution plan	3	-
- Benefit-in-kind	34	-
	<u> </u>	<u> </u>
	137	-
	<u> </u>	<u> </u>
Total remuneration	<u> </u>	<u> </u>
	364	380

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24 LOAN IMPAIRMENT WRITE-BACK/ (CHARGES)

	<u>2017</u> RM'000	<u>2016</u> RM'000
Allowance for losses on loans, advances and financing		
Individual assessment allowance:		
- Made during the financial year	-	-
- Written back during the financial year	(239)	(140)
Collective assessment allowance:		
- Made during the financial year	-	185
- Written back during the financial year	(187)	-
	<u>(426)</u>	<u>45</u>

25 TAXATION

	<u>2017</u> RM'000	<u>2016</u> RM'000
Malaysian income tax:		
Current year	-	-
Under provision of prior years' taxation	-	-
Tax charge for the financial year	<u>-</u>	<u>-</u>

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Profit/(Loss) before taxation	<u>582</u>	<u>(1,385)</u>
Malaysian income tax:		
Tax charge at applicable tax rate of 24% (2016: 24%)	140	(332)
Non-deductible expenses	214	179
Impact of deferred tax not recognised	(354)	153
Tax charge for the financial year	<u>-</u>	<u>-</u>

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26 COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies constitute the following:

	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk- weighted assets RM'000
<u>31 December 2017</u>				
Direct credit substitutes	12,011	-	12,011	10,708
Transaction-related contingent items	584	-	292	277
Short-term self-liquidating trade-related contingencies	780	-	156	148
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	298	-	149	149
- Not exceeding one year	46,009	-	9,202	6,950
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	5,407	8	-	-
Total	<u>65,089</u>	<u>8</u>	<u>21,810</u>	<u>18,232</u>

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26 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk- weighted assets RM'000
<u>31 December 2016</u>				
Direct credit substitutes	12,746	-	12,746	10,814
Transaction-related contingent items	-	-	-	-
Short-term self-liquidating trade-related contingencies	1,136	-	227	227
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	-	-	-	-
- Not exceeding one year	32,373	-	6,475	6,416
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	16,100	-	91	18
Total	62,355	-	19,539	17,475

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27 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

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

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

(b) Significant related party balances

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Amounts due from:</u>		
Bank balances and short-term funds with:		
- Bank of Baroda	2,222	11,430
- Indian Overseas Bank	3	14
- Andhra Bank	1	1
Total	<u>2,226</u>	<u>11,445</u>

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27 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) 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>2017</u> RM'000	<u>2016</u> RM'000
Salary and other remuneration	717	678
Defined contribution plan	56	55
Benefits-in-kind	100	122
Allowance	53	63
	<u>926</u>	<u>918</u>

28 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 29.

29 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 2017 were based on BNM's Risk-Weighted Capital Adequacy Framework ("RWCAF") which has regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance.

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29 **CAPITAL ADEQUACY (CONTINUED)**

The capital adequacy ratio of the Bank are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Common Equity Tier 1 Capital</u>		
Paid-up share capital	330,000	330,000
Accumulated losses	(10,389)	(10,971)
Less: Deferred tax assets	-	-
	<hr/>	<hr/>
Total Common Equity Tier 1 Capital	319,611	319,029
	<hr/>	<hr/>
<u>Tier 2 capital</u>		
Collective impairment allowance	788	975
	<hr/>	<hr/>
Total Tier 2 capital	788	975
	<hr/>	<hr/>
Total capital base	320,399	320,004
	<hr/> <hr/>	<hr/> <hr/>
Capital ratios		
Common Equity Tier 1 Capital Ratio	192.29%	176.1%
Total Capital Ratio	192.76%	176.6%

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>2017</u> RM'000	<u>2016</u> RM'000
Credit risk	133,920	150,144
Market risk	4,858	4,120
Operational risk	27,435	26,947
	<hr/>	<hr/>
Total risk-weighted assets	166,213	181,211
	<hr/> <hr/>	<hr/> <hr/>

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29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2017:

<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				
<u>On-balance sheet exposures</u>				
Sovereigns/central banks	30,829	30,829	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	345,164	345,164	69,033	5,523
Corporates	64,836	55,018	42,728	3,418
Other assets	2,390	2,390	1,655	132
Defaulted exposures	2,272	2,272	2,272	182
Total on-balance sheet Exposures	445,491	435,673	115,688	9,255
<u>Off-balance sheet exposures</u>				
Over-the-counter ("OTC")				
Derivatives	-	-	-	-
Credit derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	21,810	18,232	18,232	1,459
Total off-balance sheet exposures	21,810	18,232	18,232	1,459
Total on and off-balance sheet Exposures	467,301	453,905	133,920	10,714
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Foreign currency risk	4,858	-	4,858	389
(c) Operational risk			27,435	2,195
Total risk weighted assets and capital requirements			166,213	13,298

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29 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2016:

<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				
<u>On-balance sheet exposures</u>				
Sovereigns/central banks	21,638	21,638	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	388,714	388,714	77,743	6,219
Corporates	58,219	48,723	48,723	3,898
Other assets	3,663	3,663	3,298	264
Defaulted exposures	2,638	2,638	2,905	232
Total on-balance sheet Exposures	474,872	465,376	132,669	10,613
<u>Off-balance sheet exposures</u>				
Over-the-counter ("OTC")				
Derivatives	91	91	18	1
Credit derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	19,448	17,457	17,457	1,397
Total off-balance sheet exposures	19,539	17,548	17,475	1,398
Total on and off-balance sheet Exposures	494,411	482,924	150,144	12,011
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Foreign currency risk	4,120	-	4,120	330
(c) Operational risk			26,947	2,156
Total risk weighted assets and capital requirements			181,211	14,497

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 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>						
	Sovereigns/ Central banks	Public sector entities	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Higher risk assets	Total exposures after netting and credit risk mitigation
31.12.2016							
Risk weighted							
0%	21,638	-	-	-	-	-	-
20%	-	-	388,805	-	-	-	388,805
50%	-	-	-	-	-	-	-
100%	-	-	-	68,285	-	-	71,583
150%	-	-	-	533	-	-	533
Total exposures	21,638	-	388,805	68,818	-	-	482,924
					3,663	-	150,144
Risk weighted assets by exposure	-	-	77,761	69,085	-	-	150,144

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30 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises which is classified as operating leases.

A summary of the non-cancellable long-term lease commitments is as follows:

	2017 RM'000	2016 RM'000
Within a year	458	425
After one year but less than 5 years	471	827
	<u>929</u>	<u>1,252</u>

31 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.

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Credit risk management (continued)

(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.

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 1 June 2017. 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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31 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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31 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>2017</u> RM'000	<u>2016</u> RM'000
<u>Assets</u>			
Cash and short-term funds	4	193,798	147,763
Deposits and placements with banks and other financial institutions	5	121,636	242,196
Financial investments held-to-maturity	6	75,814	20,294
Loans, advances and financing [^]	7	51,745	60,857
Derivative assets	8	8	-
Other assets	9	479	374
Total assets*		<u>443,480</u>	<u>471,484</u>
Commitments and contingencies	26	<u>21,810</u>	<u>19,539</u>
Total credit exposure		<u><u>465,290</u></u>	<u><u>491,023</u></u>

[^] Net of collective impairment and individual impairment of RM2,053,194 (2016: RM2,478,800).

* Excludes cash in hand and prepayments.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

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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31 **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).

	Cash and short-term funds	Deposits and placements with banks and other financial institutions	Financial investments held-to-maturity	Loans, advances and financing [^]	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
<u>2017</u>									
Malaysia	191,572	121,636	75,814	51,745	479	8	441,254	21,810	463,064
United States	2,128	-	-	-	-	-	2,128	-	2,128
India	13	-	-	-	-	-	13	-	13
Europe	83	-	-	-	-	-	83	-	83
Others	2	-	-	-	-	-	2	-	2
	<u>193,798</u>	<u>121,636</u>	<u>75,814</u>	<u>51,745</u>	<u>479</u>	<u>8</u>	<u>443,480</u>	<u>21,810</u>	<u>465,290</u>

[^] Net of collective assessment allowance and individual assessment allowance of RM2,053,194.

* Excludes cash in hand and prepayments.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Concentration risk by geographical sectors (continued)

	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments held-to- maturity RM'000	Loans, advances and financing [^] 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
2016									
Malaysia	136,318	242,196	20,294	60,857	374	-	460,039	19,539	479,578
United States	11,386	-	-	-	-	-	11,386	-	11,386
India	5	-	-	-	-	-	5	-	5
Europe	35	-	-	-	-	-	35	-	35
Others	19	-	-	-	-	-	19	-	19
	<u>147,763</u>	<u>242,196</u>	<u>20,294</u>	<u>60,857</u>	<u>374</u>	<u>-</u>	<u>471,484</u>	<u>19,539</u>	<u>491,023</u>

[^] Net of collective assessment allowance and individual assessment allowance of RM2,478,800.

* Excludes cash in hand and prepayments.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

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31 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 held-to-maturity	Loans, advances and financing [^]	Other assets	Derivative assets	On Commitments		Total credit exposure
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	balance sheet total*	contingencies	RM'000
<u>2017</u>									
Manufacturing	-	-	-	24,368	-	-	24,368	15,278	39,646
Construction	-	-	-	704	-	-	704	94	798
Wholesale and retail trade, and restaurant and hotels	-	-	-	21,489	-	-	21,489	3,778	25,267
Finance, insurance and real estate and business activities	193,798	121,636	45,441	5,184	351	8	366,418	1,660	368,078
Government and Government Agencies	-	-	30,373	-	128	-	30,501	-	30,501
Education, health and others	-	-	-	-	-	-	-	800	800
Others	-	-	-	-	-	-	-	200	200
	<u>193,798</u>	<u>121,636</u>	<u>75,814</u>	<u>51,745</u>	<u>479</u>	<u>8</u>	<u>443,480</u>	<u>21,810</u>	<u>465,290</u>

[^] Net of collective assessment allowance and individual assessment allowance of RM 2,053,194.

* Excludes cash in hand and prepayments.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

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31 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 held-to-maturity	Loans, advances and financing [^]	Other assets	Derivative assets	On Commitments		Total credit exposure
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	balance sheet total*	contingencies	RM'000
2016									
Manufacturing	-	-	-	18,220	-	-	18,220	16,176	34,396
Construction	-	-	-	877	-	-	877	59	936
Wholesale and retail trade, and restaurant and hotels	-	-	-	32,252	-	-	32,252	1,404	33,656
Finance, insurance and real estate and business activities	147,763	242,196	-	8,810	220	-	398,989	1,842	400,831
Government and Government Agencies	-	-	20,294	-	154	-	20,448	-	20,448
Education, health and others	-	-	-	698	-	-	698	58	756
Others	-	-	-	-	-	-	-	-	-
	147,763	242,196	20,294	60,857	374	-	471,484	19,539	491,023

[^] Net of collective assessment allowance and individual assessment allowance of RM2,478,800.

* Excludes cash in hand and prepayments.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Loans, advances and financing

Loans, advances and financing are summarised as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Neither past due nor impaired	50,261	59,194
Past due but not impaired	-	-
Individually impaired	3,537	4,142
	<hr/>	<hr/>
Gross loans, advances and financing	53,798	63,336
Less: Allowance for losses on loans, advances and financing:		
- Individual assessment allowance	(1,265)	(1,504)
- Collective assessment allowance	(788)	(975)
	<hr/>	<hr/>
Net loans, advances and financing	<u>51,745</u>	<u>60,857</u>

(a) Gross loans, advances, and financing neither past due nor impaired

The credit quality of the portfolio of loans, advances and financing that were neither past due nor impaired are loans, advances and financing that have no overdue either in its principle or interest for a period of not more than 90 days or do not exhibit any weaknesses in its financial/ non-financial performance (i.e. significant deterioration in financial performance, confirmed adverse news, etc.).

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Loans, advances and financing (continued)

(b) Gross loans, advances and financing past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans, advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans, advances and financing by class to customers that were past due but not impaired were as follows:

	<u>Overdrafts</u>	<u>Trust</u>	<u>Bills</u>	<u>Term</u>	<u>Total</u>
	RM'000	<u>receipt</u>	<u>receivable</u>	<u>loans</u>	RM'000
		RM'000	RM'000	RM'000	
<u>2017</u>					
Past due up to 30 days	-	-	-	-	-
Past due 30 - 60 days	-	-	-	-	-
Past due 60 - 90 days	-	-	-	-	-
Past due more than 90 days	-	-	-	-	-
Total	-	-	-	-	-
<u>2016</u>					
Past due up to 30 days	-	-	-	-	-
Past due 30 - 60 days	-	-	-	-	-
Past due 60 - 90 days	-	-	-	-	-
Past due more than 90 days	-	-	-	-	-
Total	-	-	-	-	-

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

(c) Loans, advances and financing individually impaired

The breakdowns of the amount of individually impaired loans, advances and financing by class are as follows:

	<u>Overdrafts</u> RM'000	<u>Trust receipt</u> RM'000	<u>Bills receivable</u> RM'000	<u>Term loans</u> RM'000	<u>Total</u> RM'000
<u>2017</u>					
Gross impaired	883	1,543	1,111	-	3,537
Less: Individual allowance	(671)	(345)	(249)	-	(1,265)
Net impaired	<u>212</u>	<u>1,198</u>	<u>862</u>	<u>-</u>	<u>2,272</u>
<u>2016</u>					
Gross impaired	1,210	1,544	1,111	277	4,142
Less: Individual allowance	(758)	(434)	(312)	-	(1,504)
Net impaired	<u>452</u>	<u>1,110</u>	<u>799</u>	<u>277</u>	<u>2,638</u>

Credit quality of financial assets

The table below presents an analysis of the credit quality of securities for the Bank by external rating agency as at 31 December are summarised as follows:

	<u>Investment Securities</u> RM'000
<u>2017</u>	
<u>Held-to-maturity</u>	
Sovereign rating	30,373
Investment grade (AAA to BBB-)	45,441
	<u>75,814</u>
<u>2016</u>	
Sovereign rating	20,294
Investment grade (AAA to BBB-)	-
	<u>20,294</u>

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31 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:

2017

Assets

Cash and short-term funds	159,261	35,272	-	-	-	-	-	-	-	194,533
Deposits and placements with banks and other financial institutions	-	-	63,333	58,303	-	-	-	-	-	121,636
Financial investments held-to-maturity	-	-	40,181	-	-	-	-	-	-	75,814
Loans, advances and financing	10,798	12,227	6,375	6,303	6,973	9,069	-	-	-	51,745
Derivative assets	8	-	-	-	-	-	-	-	-	8
Other assets	-	-	-	-	-	-	-	1,267	-	1,267
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	100	100	100
Plant and equipment	-	-	-	-	-	-	-	274	274	274
Intangible assets	-	-	-	-	-	-	-	114	114	114
	170,067	47,499	109,889	64,606	6,973	44,702	1,755			445,491

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31 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)

2017

Liabilities

Deposits from customers	50,059	10,921	8,830	12,825	32,749	5,241	-	120,625
Deposits and placements of banks and other financial institutions	4,064	-	-	-	-	-	-	4,064
Derivative liabilities	4	-	-	-	-	-	-	4
Other liabilities	445	218	402	95	28	-	-	1,188
	<u>54,572</u>	<u>11,139</u>	<u>9,232</u>	<u>12,920</u>	<u>32,777</u>	<u>5,241</u>	<u>-</u>	<u>125,881</u>
Net liquidity gap	<u>115,495</u>	<u>36,360</u>	<u>100,657</u>	<u>51,686</u>	<u>(25,804)</u>	<u>39,461</u>	<u>1,755</u>	<u>319,610</u>

	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
2016								
Assets								
Cash and short-term funds	122,938	25,189	-	-	-	-	-	148,127
Deposits and placements with banks and other financial institutions	-	-	68,615	173,581	-	-	-	242,196
Financial investments held-to-maturity	-	-	-	-	-	20,294	-	20,294
Loans, advances and financing	18,481	7,268	10,449	12,682	2,371	9,606	-	60,857
Derivative assets	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	896	896
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	100	100
Plant and equipment	-	-	-	-	-	-	831	831
Intangible assets	-	-	-	-	-	-	1,571	1,571
	141,419	32,457	79,064	186,263	2,371	29,900	3,398	474,872

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31 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)

2016

Liabilities

Deposits from customers	21,254	39,926	35,595	7,500	50,143	5	-	154,423
Derivative liabilities	79	244	7	-	-	-	-	330
Other liabilities	-	-	-	-	-	-	1,090	1,090
	<u>21,333</u>	<u>40,170</u>	<u>35,602</u>	<u>7,500</u>	<u>50,143</u>	<u>5</u>	<u>1,090</u>	<u>155,843</u>
Net liquidity gap	<u>120,086</u>	<u>(7,713)</u>	<u>43,462</u>	<u>178,763</u>	<u>(47,772)</u>	<u>29,895</u>	<u>2,308</u>	<u>319,029</u>

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31 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.

2017

Liabilities

Deposits from customers	50,062	10,936	8,888	12,977	33,847	5,488	-	122,198
Deposits and placements of banks and other financial institutions	4,064	-	-	-	-	-	-	4,064
Other liabilities	445	218	402	95	28	-	-	1,188
	<u>54,571</u>	<u>11,154</u>	<u>9,290</u>	<u>13,072</u>	<u>33,875</u>	<u>5,488</u>	<u>-</u>	<u>127,450</u>

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31 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)

2016

Liabilities

Deposits from customers	21,254	39,993	35,864	7,600	51,852	5	-	156,568
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	1,090	1,090
	<u>21,254</u>	<u>39,993</u>	<u>35,864</u>	<u>7,600</u>	<u>51,852</u>	<u>5</u>	<u>1,090</u>	<u>157,658</u>

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31 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>2017</u>			
Direct credit substitutes	11,084	927	12,011
Transaction related contingent items	581	3	584
Short-term self liquidating trade related contingencies	780	-	780
Other commitments, such as formal standby facilities and credit lines	46,009	298	46,307
	<u>58,454</u>	<u>1,228</u>	<u>59,682</u>
<u>2016</u>			
Direct credit substitutes	12,037	709	12,746
Transaction related contingent items	-	-	-
Short-term self liquidating trade related contingencies	1,136	-	1,136
Other commitments, such as formal standby facilities and credit lines	32,373	-	32,373
	<u>45,546</u>	<u>709</u>	<u>46,255</u>

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31 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
2017							
Gross-settled derivatives:							
Foreign exchange forwards:							
Receipts	5,224	-	-	-	-	-	5,224
Payments	(162)	-	-	-	-	-	(162)
	<u>5,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,062</u>
2016							
Gross-settled derivatives:							
Foreign exchange forwards:							
Receipts	3,716	6,327	1,939	-	-	-	11,982
Payments	(4,118)	-	-	-	-	-	(4,118)
	<u>(402)</u>	<u>6,327</u>	<u>1,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,864</u>

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Interest rate risk

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2017:

31 December 2017	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
<u>Assets</u>								
Cash and balances with banks and other financial institutions	80,424	-	-	-	-	3,317	83,741	3.00
Money at call and deposit placements maturing within one month	110,792	-	-	-	-	-	110,792	3.38
Deposits and placements with banks and other financial institutions	-	63,333	58,303	-	-	-	121,636	3.52
Financial investments held-to-maturity	-	40,181	-	35,633	-	-	75,814	3.67
Loans, advances and financing	23,025	6,375	13,276	2,670	6,399	-	51,745	5.54
Derivative assets	-	-	-	-	-	-	8	-
Other assets	-	-	-	-	-	1,267	1,267	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	100	100	-
Plant and equipment	-	-	-	-	-	274	274	-
Intangible assets	-	-	-	-	-	114	114	-
Total assets	214,241	109,889	71,579	38,303	6,399	5,072	445,491	

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Interest rate risk (continued)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2017: (Continue)

31 December 2017	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
<u>Liabilities</u>								
Deposits from customers	60,980	8,830	45,574	5,241	-	-	120,625	2.97
Deposits and placements of banks and other financial institutions	4,063	-	-	-	-	-	4,063	1.70
Derivative liabilities	-	-	-	-	-	-	4	-
Other liabilities	-	-	-	-	-	1,188	1,188	-
Total liabilities	65,043	8,830	45,574	5,241	-	1,188	125,880	
On balance sheet-interest rate gap	149,198	101,059	26,005	33,062	6,399	3,884	319,611	

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Interest rate risk (continued)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2016:

31 December 2016	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
<u>Assets</u>								
Cash and balances with banks and other financial institutions	79,582	-	-	-	-	13,116	92,698	3.00
Money at call and deposit placements maturing within one month	55,000	-	-	-	-	429	55,429	3.32
Deposits and placements with banks and other financial institutions	-	68,615	173,581	-	-	-	242,196	3.48
Financial investments held-to-maturity	-	-	-	20,294	-	-	20,294	3.51
Loans, advances and financing	28,228	10,449	15,053	-	9,606	(2,479)	60,857	6.39
Derivative assets	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	896	896	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	100	100	-
Plant and equipment	-	-	-	-	-	831	831	-
Intangible assets	-	-	-	-	-	1,571	1,571	-
Total assets	162,810	79,064	188,634	20,294	9,606	14,464	474,872	

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Interest rate risk (continued)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2016:

	31 December 2016	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
		Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
<u>Liabilities</u>									
Deposits from customers	54,564	42,210	57,644	5	-	-	-	154,423	3.18
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	330	330	-
Other liabilities	-	-	-	-	-	-	1,090	1,090	-
Total liabilities	54,564	42,210	57,644	5	-	-	330	155,843	
On balance sheet-interest rate gap	108,246	36,854	130,990	20,289	9,606	13,374	(330)	319,029	

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 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 2017.

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>2017</u>	<u>2016</u>
	RM'000	RM'000
<u>Movement in basis points</u>	+/- 100 bps	+/- 100 bps
Effect on Net Interest Income	+/- 1,862	+/- 1,564
Effect on Economic Value of Equity	+/- 1,317	+/- 1,104

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 RM1.86 million and RM1.32 million respectively for financial year 2017 and RM1.56 million and RM1.10 million respectively for financial year 2016. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Market risk (continued)

Foreign Currency Exchange Risk

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

31 December 2017

Assets

Cash and balances with banks and other financial institutions
Money at call and deposit placements maturing within one month
Deposits and placements with banks and other financial institutions
Financial investments held-to-maturity
Loans, advances and financing
Derivative assets
Other assets
Statutory deposits with Bank Negara Malaysia
Plant and equipment
Intangible assets

Total assets

	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total Non MYR RM'000	Grand Total RM'000
	81,515	2,128	79	19	2,226	83,741
	110,792	-	-	-	-	110,792
	121,636	-	-	-	-	121,636
	75,814	-	-	-	-	75,814
	36,576	15,169	-	-	15,169	51,745
	-	8	-	-	8	8
	1,267	-	-	-	-	1,267
	100	-	-	-	-	100
	274	-	-	-	-	274
	114	-	-	-	-	114
	428,088	17,305	79	19	17,403	445,491

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Market risk (continued)

Foreign Currency Exchange Risk (continued)

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

<u>31 December 2017</u>	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> Non MYR RM'000	<u>Grand</u> <u>Total</u> RM'000
<u>Liabilities</u>						
Deposits from customers	111,875	8,692	58	-	8,750	120,625
Deposits and placements of banks and other financial institutions	-	4,063	-	-	4,063	4,063
Derivative liabilities	-	4	-	-	4	4
Other liabilities	1,188	-	-	-	-	1,188
Total liabilities	113,063	12,759	58	-	12,817	125,880
Net on balance sheet position	315,025	4,546	21	19	4,586	319,611

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Market risk (continued)

Foreign Currency Exchange Risk (continued)

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

31 December 2016	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total Non MYR RM'000	Grand Total RM'000
<u>Assets</u>						
Cash and balances with banks and other financial institutions	81,253	11,386	30	29	11,445	92,698
Money at call and deposit placements maturing within one month	55,429	-	-	-	-	55,429
Deposits and placements with banks and other financial institutions	242,196	-	-	-	-	242,196
Financial investments held-to-maturity	20,294	-	-	-	-	20,294
Loans, advances and financing	60,857	-	-	-	-	60,857
Derivative assets	-	-	-	-	-	-
Other assets	896	-	-	-	-	896
Statutory deposits with Bank Negara Malaysia	100	-	-	-	-	100
Plant and equipment	831	-	-	-	-	831
Intangible assets	1,571	-	-	-	-	1,571
Total assets	463,427	11,386	30	29	11,445	474,872

Company No.

911666 D

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Market risk (continued)

Foreign Currency Exchange Risk (continued)

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

	<u>31 December 2016</u>	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> Non MYR RM'000	<u>Grand</u> <u>Total</u> RM'000
<u>Liabilities</u>							
Deposits from customers	146,865	7,529	29	-	-	7,558	154,423
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Derivative liabilities	-	330	-	-	-	330	330
Other liabilities	1,090	-	-	-	-	-	1,090
Total liabilities	147,955	7,859	29	-	-	7,888	155,843
Net on balance sheet position	315,472	3,527	1	29	-	3,557	319,029

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 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 input are not based on observable market data.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 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>2017</u>				
<u>Financial assets at fair value through profit or loss</u>				
Derivative assets:				
- Foreign exchange forwards	-	-	-	-
- Foreign exchange spots	8	-	8	-
	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>
Total assets	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities:				
- Foreign exchange forwards	-	-	-	-
- Foreign exchange spots	4	-	4	-
	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
Total liabilities	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
<u>2016</u>				
<u>Financial assets at fair value through profit or loss</u>				
Derivative assets:				
- Foreign exchange forwards	-	-	-	-
- Foreign exchange spots	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative liabilities:				
- Foreign exchange forwards	329	-	329	-
- Foreign exchange spots	1	-	1	-
	<u>330</u>	<u>-</u>	<u>330</u>	<u>-</u>
Total liabilities	<u>330</u>	<u>-</u>	<u>330</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 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 2017 but for which fair value is disclosed.

The fair value of financial assets and liabilities of the Bank approximate to their respective carrying values at the reporting date, except for the following:

	Carrying value RM'000	Quoted market prices (Level 1) RM'000	Observable inputs (Level 2) RM'000	Total RM'000
<u>31 December 2017</u>				
<u>Financial assets</u>				
Financial investments held-to-maturity	75,814	-	75,382	75,382
Total	<u>75,814</u>	<u>-</u>	<u>75,382</u>	<u>75,382</u>
<u>Financial liabilities</u>				
Deposits from customers	120,625	-	120,360	120,360
Total	<u>120,625</u>	<u>-</u>	<u>120,360</u>	<u>120,360</u>
<u>31 December 2016</u>				
<u>Financial assets</u>				
Financial investments held-to-Maturity	20,294	-	20,118	20,118
Total	<u>20,294</u>	<u>-</u>	<u>20,118</u>	<u>20,118</u>
<u>Financial liabilities</u>				
Deposits from customers	154,423	-	154,423	154,423
Total	<u>154,423</u>	<u>-</u>	<u>154,423</u>	<u>154,423</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 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 total fair value of each financial assets and liabilities presented on the statement of financial position of the Bank approximates the total carrying value as at the reporting date, except for the following:

	<u>Carrying amount</u> RM'000	<u>Fair value</u> RM'000
<u>31 December 2017</u>		
<u>Financial assets</u>		
Financial investments held-to-maturity	75,814	75,382
<u>Financial liabilities</u>		
Deposits from customers	120,625	120,360
<u>31 December 2016</u>		
<u>Financial assets</u>		
Financial investments held-to-maturity	20,294	20,118
<u>Financial liabilities</u>		
Deposits from customers	154,423	154,423

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

Short-term funds and placements with financial institutions

For short-term funds and placements with 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.

Financial investments held-to-maturity

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 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)

Other assets

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

Financing, advances and other financing/loans

For variable rate financing, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing 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 financing with similar credit risks and maturities.

The fair values of impaired variable and fixed rate financing are represented by their carrying value, net of individual impairment allowance, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

32

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
				Financial Instruments RM'000	Cash collateral received RM'000
<u>2017</u>					
Derivative financial assets	8	-	8	8	-
<u>2016</u>					
Derivative financial assets	-	-	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32 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 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>2017</u>							
Derivative financial liabilities	4	-	4		(4)	-	-
<u>2016</u>							
Derivative financial liabilities	330	-	330		(330)	-	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32 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.

33 SEGMENT INFORMATION

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

Company No.

911666

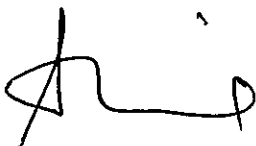
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

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

We, Datuk Bhupatrai M Premji and Goh Ching Chee, 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 19 to 97 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and financial performance of the Bank for the financial year ended 31 December 2017 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 8 May 2018.



DATUK BHUPATRAI M PREMJI
DIRECTOR



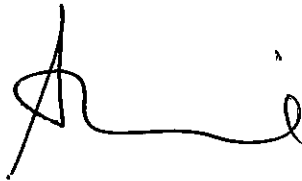
GOH CHING CHEE
DIRECTOR

Kuala Lumpur

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

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

I, Datuk Bhupatrai a/l Mansukhlal Premji, 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 19 to 97 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.

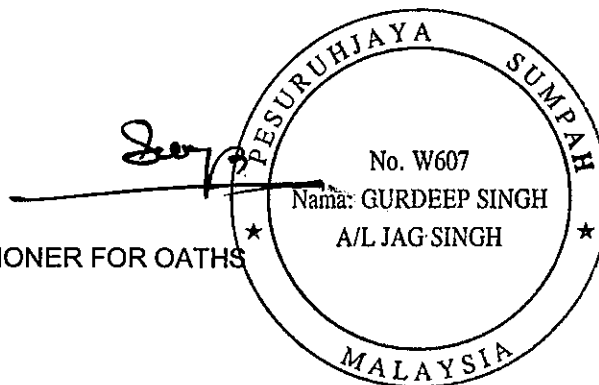


DATUK BHUPATRAI A/L MANSUKHLAL PREMJI
DIRECTOR

Subscribed and solemnly declared by the above named at Kuala Lumpur in Malaysia on 8 May 2018.

Before me:

COMMISSIONER FOR OATHS



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



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)
(Company No. 911666 D)

REPORT ON 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 19 to 97.

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' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

.....
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
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 02.01.2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 911666 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the 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.



INDEPENDENT AUDITORS' REPORT
OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 911666 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

- (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 represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT
OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 911666 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

NG YEE LING
03032/01/2019 J
Chartered Accountant

Kuala Lumpur