Company No.

911666	D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD

(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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Company No.

911666	D

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

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

CONTENTS

Company No.

911666	D

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

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 2018.

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:

Datuk Bhupatrai a/l Mansukhlal Premji
Santhanam Vangal Jagannathan
Goh Ching Chee
Palamadai Sundararajan Jayakumar (resigned on 15 June 2018)

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	3,201

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.

DIRECTORS' BENEFITS

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

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

DIRECTORS' REMUNERATION

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

INDEMNITY AND INSURANCE FOR DIRECTORS

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

RESERVES AND PROVISIONS

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

DIVIDENDS

No dividend was paid or declared by the Bank since the end of the last financial year. The Directors do not recommend any dividend to be paid for the financial year ended 31 December 2018.

ISSUE OF SHARES AND DEBENTURES

No new shares or debentures were issued during the financial year ended 31 December 2018.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Bank were prepared, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provisions had been made for doubtful debts; and

(ii) to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances:

(i) which would render the amounts written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; or

(ii) which would render the values attributed to current assets in the financial statements of the Bank misleading; or

(iii) which have arisen which would render adherence to the existing method of valuation of assets and liabilities of the Bank misleading or inappropriate.

(c) At the date of this report:

(i) there are no changes on the assets of the Bank which have arisen since the end of the financial year which secures the liabilities of any person,

(ii) there are no contingent liabilities in the Bank which have arisen since the end of the financial year other than in the ordinary course of the banking business; and

(iii) there are no charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person and, if so, giving particulars of any such charge and, so for as practicable, of the amount secured.

(d) No contingent or other liability of the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet its obligation when they fall due.

(e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the respective financial statements misleading.

(f) In the opinion of the Directors:

(i) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

OTHER STATUTORY INFORMATION (CONTINUED)

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

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

AUDITORS' REMUNERATION

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

BUSINESS REVIEW

2018 Results

The Bank's net income for financial year ("FY") 2018 increased by RM1.037 million to RM15.522 million as compared to FY 2017 (2017: RM14.485 million). The increase is due to higher net interest income which increased by RM1.017 million.

The Bank's operating expenses decreased from RM14.329 million in FY 2017 to RM12.823 million in FY 2018 (decrease of RM1.506 million) due to lower amortisation expenses, depreciation expenses and staff cost.

The Bank records an operating profit before loan loss impairment of RM2.699 million in FY 2018 compared to an operating profit of RM 0.156 million in FY 2017. There is loan loss impairment charges reversal of RM0.690 million in FY 2018 due to bad debt recovered. As the result, the Bank recorded a profit before tax of RM 3.259 million in FY 2018 against profit of RM0.582 million in FY 2017.

Loans, advances and financing as at 31 December 2018 are RM55.692 million or increases by RM3.947 million as compared to 31 December 2017. Deposits from customers are RM16.819 million higher than the previous year and stood at RM137.444 million as at end of December 2018.

Business Outlook for FY 2019

Malaysia's economy is going strong and the gross domestic product (GDP) is expected to expand a further 4.9 per cent in FY 2019, albeit, a decline in inflationary pressure. However, the real GDP is expected to slow down at 4.7 per cent from earlier forecasted of 5.4 per cent. 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 2019 and grow its loans, advances and financing and revenue in tandem with this growth.

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 2018.

THE BOARD OF DIRECTORS

Board's Duties and Responsibilities

The Board of Directors ("the Board") is led by the Chairman, who is a 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 fulltime employees of the Bank subject to the authority given.

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

Duties and responsibilities of the Board include:

(i) Review and adopt long-term and short-term strategic plans for the Bank;

(ii) Oversee the conduct of the Bank's business to evaluate whether the business is being properly managed;

(iii) Establish comprehensive risk management policies, processes and infrastructure to manage the various types of risks; and

(iv) Review the adequacy and the integrity of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

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

Board Composition

The Board of the Bank consists of seven (7) members. As at 31 December 2018, due to vacancies in the position of four (4) Directors, the board composition was made up of three (3) Independent Non-Executive Directors.

THE BOARD OF DIRECTORS (CONTINUED)

Board Composition (continued)

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

The presence of the 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 (resigned on 15 June 2018)

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.

THE BOARD OF DIRECTORS (CONTINUED)

PROFILE OF DIRECTORS (CONTINUED)

(i) Palamadai Sundararajan Jayakumar (resigned on 15 June 2018) (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 18 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.

THE BOARD OF DIRECTORS (CONTINUED)

PROFILE OF DIRECTORS (CONTINUED)

(iii) Goh Ching Chee

Mr. Goh Ching Chee is a Malaysian citizen. He was appointed to the Board as an Independent Non- Executive Director of the Bank on 2 October 2017. Mr. Goh is also the Chairman of the 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) Santhanam Vangal Jagannathan

Mr. Santhanam Vangal Jagannathan is an Indian citizen. He was appointed an Independent Non- Executive Director on 2 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 63 years history and handles statutory audits of leading banking institutions like Reserve Bank of India and State Bank of India.

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 2018, the Board held seven (7) meetings. Details of each Director's attendance at Board Meetings during the financial year are as follows:

No.	Name Of Directors	Designation	Attendance
1	Mr. Santhanam Vangal Jagannathan (Chairman)	Independent Non-Executive Director	7/7
2	Mr. Palamadai Sundararajan Jayakumar	Chairman/ Non-Independent Non-Executive Director	2/4*^
3	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	7/7
4	Mr. Goh Ching Chee	Independent Non-Executive Director	7/7

** Number of meeting(s) attended from date of appointment/before resignation.*
^ One of the meeting attended via video conferencing.

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.

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:

No.	Name of Directors	Designation	Attendance
1	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	1/1
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	0/1*
3	Mr. Goh Ching Chee	Independent Non-Executive Director	1/1
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	1/1

** 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;

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:-

No.	Committee Member	Designation	Attendance
1	Mr. Goh Ching Chee (Chairman)	Independent Non-Executive Director	1/1
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	0/0*
3	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	1/1
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	1/1

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

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:

No.	Committee Member	Designation	Attendance
1	Mr. Goh Ching Chee (Chairman)	Independent Non-Executive Director	4/4
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	0/1*
3	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	4/4
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	4/4

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

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.

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 six (6) meetings.

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

No.	Committee Member	Designation	Attendance
1	Datuk Bhupatrai a/l Mansukhlal Premji (Chairman)	Independent Non-Executive Director	6/6
2	Mr. Palamadai Sundararajan Jayakumar	Non-Independent Non-Executive Director	1/4*^
3	Mr. Goh Ching Chee	Independent Non-Executive Director	6/6
4	Mr. Santhanam Vangal Jagannathan	Independent Non-Executive Director	6/6

** Number of meeting(s) attended from date of appointment/before resignation*
^ Meeting attended via video conferencing.

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.

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.

Company No.

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

DIRECTORS' REPORT (CONTINUED)

RELATED PARTY TRANSACTIONS

During the financial year ended 31 December 2018, 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 30 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.

This report was approved by the Board of Directors on

Signed on behalf of the Board of Directors in accordance with their resolution dated 6 May 2019.

DATUK BHUPATRAI M PREMJI
DIRECTOR

GOH CHING CHEE
DIRECTOR

Kuala Lumpur

Company No.

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	31.12.2018 RM'000	31.12.2017 RM'000
ASSETS			
Cash and short-term funds	4	84,469	194,533
Deposits and placements with banks and other financial institutions	5	227,371	121,636
Financial investments held to maturity	6	-	75,814
Financial investments at amortised cost	7	91,253	-
Loans, advances and financing	8	55,692	51,745
Derivative assets	9	13	8
Other assets	10	2,610	1,267
Deferred taxation	18	171	-
Statutory deposits with Bank Negara Malaysia	11	100	100
Plant and equipment	12	197	274
Intangible assets	13	255	114
TOTAL ASSETS		462,131	445,491
LIABILITIES AND EQUITY			
Deposits from customers	14	137,444	120,625
Deposits and placements of banks and other financial institutions	15	-	4,063
Derivative liabilities	16	2	4
Other liabilities	17	930	1,188
Provision for taxation		400	-
TOTAL LIABILITIES		138,776	125,880
Share capital	19	330,000	330,000
Regulatory reserves		1,711	-
Accumulated losses		(8,356)	(10,389)
TOTAL EQUITY OF SHAREHOLDERS		323,355	319,611
TOTAL LIABILITIES AND EQUITY		462,131	445,491
COMMITMENTS AND CONTIGENCIES	29	52,482	65,089

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

Company No.

911666	D

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Interest income	20	17,402	16,876
Interest expense	21	(3,554)	(4,045)
Net interest income		13,848	12,831
Other operating income	22	1,674	1,654
Net income		15,522	14,485
Other operating expenses	23	(12,823)	(14,329)
		2,699	156
Write back of impairment loss on loans, advances and financing	25	690	426
Expected credit losses for loan/financing commitment and financial guarantee	26	(7)	-
Expected credit losses for other financial investments	27	(123)	-
Profit before taxation		3,259	582
Taxation	28	(58)	-
PROFIT FOR THE FINANCIAL YEAR/ TOTALCOMPREHENSIVE PROFIT FOR THE FINANCIAL YEAR		3,201	582

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

Company No.

911666	D

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Share capital	Regulatory reserves RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 1 January 2018		330,000	-	(10,389)	319,611
Changes on initial application of MFRS 9	2(A)(a)(i)	-	-	543	543
Transfer to regulatory reserves	2(A)(a)	-	1,466	(1,466)	-
Restated balance as at 1 January 2018		330,000	1,466	(11,312)	320,154
Transfer to regulatory reserves		-	245	(245)	-
Total comprehensive profit for the financial period		-	-	3,201	3,201
Balance as at 31 December 2018		330,000	1,711	(8,356)	323,355
Balance as at 1 January 2017		330,000	-	(10,971)	319,029
Total comprehensive loss for the financial year		-	-	582	582
Balance as at 31 December 2017		330,000	-	(10,389)	319,611

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

Company No.

911666	D

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		3,259	582
Adjustments for:			
Depreciation of plant and equipment		167	623
Amortisation of intangible assets		65	1,328
Write-off of intangible assets		40	224
Unrealised gain on revaluation of derivative instruments		(7)	(334)
Interest income for financial investment at amortised cost		(3,552)	-
Interest income for financial investment held to maturity		-	(1,484)
Amortisation of discount/(Accretion of premium paid) for financial investment		91	16
Interest income for money at call and deposit placement with financial institution		(10,902)	(11,342)
Expected credit losses for other financial assets		123	-
Expected credit losses for loan/financing commitment and financial guarantee		7	-
Write back of impairment losses for loans, advances and financing		(690)	(426)
Operating loss before working capital changes		(11,399)	(10,813)
(Increase)/Decrease in deposits and placements with financial institution		(104,370)	120,253
Decrease in financial investments held to maturity		75,803	271
Increase in financial investments at amortised cost		(76,112)	-
Increase in other assets		(1,343)	(371)
Increase in derivative assets		(5)	(8)
(Increase)/Decrease in loans, advances and financing		(2,517)	9,538
Increase /(Decrease) in deposits from customers		16,819	(33,798)
(Decrease)/Increase in deposits and placements of bank and other financial institution		(4,063)	4,063
Decrease in derivative liabilities		6	8
(Decrease)/Increase in other liabilities		(276)	98
Cash flows (used in)/from operations		(107,457)	89,241
Taxation paid		-	-
Net cash (used in) / generated from operating activities		(107,457)	89,241

Company No.

911666	D

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note	2018 RM'000	2017 RM'000
Net cash generated (used in)/from operating activities		(107,457)	89,241
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(91)	(67)
Purchase of intangible assets		(246)	(95)
Proceeds of disposal of plant and equipment		1	1
Interest income received for financial investments at amortised cost		2,852	-
Interest income received for financial investments held to maturity		-	1,138
Interest income received for money at call and deposit placement with financial institution		9,476	11,648
Purchase of financial assets held-to-maturity		-	(55,460)
Purchase of financial assets at amortised cost		(84,594)	-
Proceeds of matured financial assets at amortised cost		70,000	-
Net cash used in investing activities		(2,602)	(42,835)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		(110,059)	46,406
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		194,533	148,127
EFFECT OF MFRS 9 ADOPTION		(5)	-
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	4	84,469	194,533

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

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 _____.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards, amendments to published standards and interpretations that are effective

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

- MFRS 9 "Financial Instruments"
- MFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

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

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

*All the remeasurement are due to expected credit loss reinstated as at 1 January 2018
^Provision for taxation is not a financial liabilities

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

Retained Earning

	RM'000
As previously reported at 31 December 2017	(10,389)
Effect of adoption of MFRS 9	
Reversal of Expected Credit Loss, net of tax	543
Transfer to Regulatory Reserves	(1,466)
As restated at 1 January 2018	(11,312)

Regulatory Reserves

	RM'000
As previously reported at 31 December 2017	-
Transfer from Retained Earnings	1,466
As restated at 1 January 2018	1,466

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

Key provisions of the new standard are as follows:

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

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

B FINANCIAL ASSETS

(a) Classification

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

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

(b) Recognition and de-recognition

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(c) Measurement

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

Debt instruments

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

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

(i) Amortised cost

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(c) Measurement (continued)

Business model

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

Solely payments of principal and interest ("SPPI")

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

Equity instruments

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment

Impairment for debt instruments and financial guarantee contracts

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

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

The measurement of ECL reflects:

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

General 3-stage approach

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

Simplified approach

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Significant increase in credit risk

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

The following indicators are incorporated:

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Significant increase in credit risk (continued)

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

Definition of default and credit-impaired financial assets

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

Write off policy

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

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

Modification of financing

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – Impairment (continued)

De-recognition other than a modification

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

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

(e) Regulatory reserve requirements

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

C CASH AND CASH EQUIVALENTS

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

D PLANT AND EQUIPMENT

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E INTANGIBLE ASSETS

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

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

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

F IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

G PROVISIONS

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H FINANCIAL LIABILITIES

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

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

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

I FINANCIAL GUARANTEE CONTRACTS AND FINANCING COMMITMENTS

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) Interest income and interest expense

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

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

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

(ii) Fee and other income

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

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

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

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

K EMPLOYEE BENEFITS

(i) Short-term benefits

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

(ii) Defined contribution plans

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L OPERATING LEASE PAYMENT

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

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

M FOREIGN CURRENCIES

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

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

	31 December 2018	31 December 2017
Indian Rupees	0.0593	0.0635
Singapore Dollars	3.0322	3.0392
United States Dollars	4.1385	4.0620
Hong Kong Dollars	0.5284	0.5196
British Pounds	5.2532	5.4660
Euro	4.7340	4.8510

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N CURRENT AND DEFERRED TAX

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

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

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

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

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

O DERIVATIVES

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

P OTHER ASSETS

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q ACCOUNTING POLICIES APPLICABLE UNTIL 31 DECEMBER 2017

(a) Classification

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

Financial assets at fair value through profit or loss

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

(b) Subsequent measurement – Impairment

Assets carried at amortised cost

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q ACCOUNTING POLICIES APPLICABLE UNTIL 31 DECEMBER 2017 (CONTINUED)

(a) Subsequent measurement – Impairment (continued)

Assets carried at amortised cost (continued)

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

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

(b) De-recognition

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

(c) Loans, advances and financing

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q ACCOUNTING POLICIES APPLICABLE UNTIL 31 DECEMBER 2017 (CONTINUED)

(c) Loans, advances and financing (continued)

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.

(d) Financial Guarantee Contracts

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

4 CASH AND SHORT-TERM FUNDS

	31.12.2018 RM'000	31.12.2017 RM'000
Cash and balances with banks and other financial institutions	57,254	83,741
Money at call and deposit placements maturing within one month	27,221	110,792
Less: Expected Credit Losses		
-Stage 1	(6)	-
	84,469	194,533

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	31.12.2018 RM'000	31.12.2017 RM'000
Licensed banks	227,432	121,636
Less: Expected Credit Losses		
- Stage 1	(61)	-
	227,371	121,636

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

	Stage 1 RM'000	Total RM'000
At 1 January 2018	-	-
New deposits and placements	61	61
At 31 December 2018	61	61

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

	Stage 1 RM'000	Total RM'000
At 1 January 2018	-	-
New deposits and placements	29,046	29,046
At 31 December 2018	29,046	29,046

6 FINANCIAL INVESTMENTS HELD TO MATURITY

	31.12.2018 RM'000	31.12.2017 RM'000
Money market instruments:		
Malaysian Government Securities	-	30,373
Cagamas Bond	-	15,363
Negotiable Instruments of Deposits	-	30,078
	-	75,814

7 FINANCIAL INVESTMENTS AT AMORTISED COST

	31.12.2018 RM'000	31.12.2017 RM'000
Money market instruments:		
Malaysian Government Securities	30,220	-
Cagamas Bond	30,425	-
Private Debt Securities	30,680	-
Less: Expected Credit Losses		
- Stage 1	(72)	-
	91,253	-

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

	Stage 1 RM'000	Total RM'000
At 1 January 2018	-	-
Effect of adoption of MFRS 9	11	11
At 1 January 2018, restated	11	11
Financial investment at amortised cost derecognised during the period (other than write-offs)	(1)	(1)
New financial investment at amortised cost	61	61
Changes due to changes in credit risk	1	1
At 31 December 2018	72	72

7 FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

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

	Stage 1 RM'000	Total RM'000
At 1 January 2018	-	-
Effect of adoption of MFRS 9	45,441	45,441
At 1 January 2018, restated	45,441	45,441
Financial investment at amortised cost derecognised during the period (other than write-offs)	(30,080)	(30,080)
New financial investment at amortised cost	45,794	45,794
Changes due to changes in credit risk	(50)	(50)
At 31 December 2018	61,105	61,105

8 LOANS, ADVANCES AND FINANCING

	31.12.2018 RM'000	31.12.2017 RM'000
(i) By type		
Overdrafts	30,338	21,207
Term loans/financing		
- Other term loans/financing	10,537	9,219
Bills receivable	8,785	17,417
Trust receipt	6,675	5,999
Less: Unearned interest and income	(21)	(44)
	56,314	53,798
Less: Allowance for impairment losses		
- Expected credit losses	(622)	-
- Collective assessment allowance	-	(788)
- Individual assessment allowance	-	(1,265)
Net loans, advances and financing	55,692	51,745

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

		31.12.2018 RM'000	31.12.2017 RM'000
(ii)	By classification		
	Gross loan, advances and financing		
	12 Months ECL (Stage 1)	53,431	53,798
	Lifetime ECL credit-impaired (Stage 3)	2,883	-
		56,314	53,798
	Less: Allowance for impairment losses		
	- 12- month ECL (Stage 1)	(57)	-
	- Lifetime ECL credit-impaired (Stage 3)	(565)	-
	- Collective assessment allowance	-	(788)
	- Individual assessment allowance	-	(1,265)
	Net loans, advances and financing	55,692	51,745
(iii)	By type of customer		
	Domestic business enterprises		
	- Small medium enterprises	56,314	51,563
	- Others	-	2,235
	Gross loans, advances and financing	56,314	53,798
(iv)	By interest rate sensitivity		
	Variable rate		
	- BLR plus/minus	50,786	49,583
	- Other variable rates	5,528	4,215
	Gross loans, advances and financing	56,314	53,798
(v)	By residual contractual maturity		
	Maturity within one year	45,777	44,579
	More than five years	10,537	9,219
	Gross loans, advances and financing	56,314	53,798

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

		31.12.2018 RM'000	31.12.2017 RM'000
(vi)	By geographical distribution		
	Malaysia		
	- Kuala Lumpur	34,858	21,572
	- Selangor	5,809	12,126
	- Perak	3,719	4,457
	- Kedah	5,841	4,457
	- Terengganu	2,667	11,185
	- Melaka	3,420	1
	Gross loans, advances and financing	56,314	53,798
(vii)	By sector		
	Manufacturing	17,139	24,739
	Construction	969	715
	Wholesale and retail trade, and restaurants and hotels	31,554	23,081
	Finance, insurance, real estate and business activities	3,538	5,263
	Education, health and others	3,114	-
	Gross loans, advances and financing	56,314	53,798
(viii)	Impaired loans, advances and financing analysed by geographical distribution		
	Malaysia		
	- Kuala Lumpur	2,883	3,537
	Gross loans, advances and financing	2,883	3,537

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

	31.12.2018 RM'000	31.12.2017 RM'000
(ix) Impaired loans, advances and financing analysed by sector		
Wholesale and retail trade, and restaurants and hotels	2,883	3,537
Gross loans, advances and financing	2,883	3,537

(x) Movements in impaired loans, advances and financing (Stage 3) are as follows:

	31.12.2018 RM'000	31.12.2017 RM'000
At the beginning of the financial year	3,537	4,142
Classified as impaired during the financial year	42	-
Amount recovered	(696)	(605)
At the end of the financial year	2,883	3,537
Individual impairment allowance	-	(1,265)
Lifetime ECL credit-impaired (Stage 3)	(565)	-
Net impaired loans and advances	2,318	2,272
Ratio of net impaired loans and advances to gross loans and advances less individual impairments allowance	-	4.32%
Ratio of net impaired loans and advances to gross loans and advances less lifetime ECL credit-impaired (Stage 3)	4.16%	-

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	31.12.2018 RM'000	31.12.2017 RM'000
Individual assessment allowance		
At the beginning of the financial year	1,265	1,504
Effect of adoption of MFRS 9	(1,265)	
Allowance written back during the year	-	(239)
At the end of the financial year	-	1,265
Collective impairments allowances		
At the beginning of the financial year	788	975
Effect of adoption of MFRS 9	(788)	
Write back made during the year	-	(187)
At the end of the financial year	-	788
As % of gross loans and advances less individual impairment allowance	-	1.50%

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Individual and collective allowance RM'000	Total RM'000
At 1 January 2018	-	-	-	2,053	2,053
Effect of adoption of MFRS 9	46	1	1,265	(2,053)	(741)
At 1 January 2018, restated	46	1	1,265	-	1,312
Changes due to changes in credit risk due to transferred within stages					
- Transfer to 12-month ECL (Stage 1)	10	(10)	-	-	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(10)	10	-	-	-
Loans/financing derecognised during the period (other than write-offs)	(13)	(1)	-	-	(14)
Write back in respect of full recoveries	-	-	(700)	-	(700)
New loans/financing originated or purchased	2	-	-	-	2
Changes due to changes in credit risk	22	-	-	-	22
At 31 December 2018	**57**	**-**	**565**	**-**	**622**

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

2018

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Gross loan, advances and financing RM'000	Total RM'000
At the beginning of the financial year	-	-	-	53,798	53,798
Effect of adoption of MFRS 9	49,455	806	3,537	(53,798)	-
At the beginning of the financial year, restated	49,455	806	3,537	-	53,798
Transfer between stages					
Changes due to changes in credit risk					
- Transfer to 12-month ECL (Stage 1)	2,205	(2,205)	-	-	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(2,205)	2,205	-	-	-
Loans/financing derecognised during the period (other than write-offs)	(6,368)	(806)	-	-	(7,174)
Write back in respect of full recoveries	-	-	(696)	-	(696)
New loans/financing originated or purchased	10,013	-	42	-	10,055
Changes due to changes in credit risk	331	-	-	-	331
At the end of financial year	**53,431**	**-**	**2,883**	**-**	**56,314**

9 DERIVATIVE ASSETS

	31.12.2018 RM'000	31.12.2017 RM'000
Derivative assets:		
Foreign exchange forwards and spots	13	8

	Contract or underlying principal amount RM'000	Year end positive fair value RM'000
2018		
Foreign exchange forwards and spots	1,440	13
2017		
Foreign exchange forwards and spots	2,689	8

10 OTHER ASSETS

	31.12.2018 RM'000	31.12.2017 RM'000
Deposits	310	351
Prepayments	2,187	788
Other receivables	113	128
	2,610	1,267

11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

12 PLANT AND EQUIPMENT

	Office equipment RM'000	Computers RM'000	Motor vehicles RM'000	Office renovations RM'000	Total RM'000
At 31 December 2018					
Cost					
At 1 January 2018	360	4,909	170	1,633	7,072
Additions	15	76	-	-	91
Disposals	(1)	(5)	-	-	(6)
At 31 December 2018	374	4,980	170	1,633	7,157
Accumulated depreciation					
At 1 January 2018	327	4,829	109	1,533	6,798
Charge for the financial year	18	42	21	86	167
Disposals	-	(5)	-	-	(5)
At 31 December 2018	345	4,866	130	1,619	6,960
Net book value	29	114	40	14	197
At 31 December 2017					
Cost					
At 1 January 2017	350	4,872	170	1,620	7,012
Additions	10	44	-	13	67
Disposals	-	(7)	-	-	(7)
At 31 December 2017	360	4,909	170	1,633	7,072
Accumulated depreciation					
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

13 INTANGIBLE ASSETS

	Computer software RM'000	Work-in-progress RM'000	Total RM'000
At 31 December 2018			
Cost			
At 1 January 2018	12,325	40	12,365
Additions	246	-	246
Write-off	-	(40)	(40)
At 31 December 2018	12,571	-	12,571
Accumulated amortisation			
At 1 January 2018	12,251	-	12,251
Amortisation for the financial year	65	-	65
At 31 December 2018	12,316	-	12,316
Net book value	255	-	255
At 31 December 2017			
Cost			
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
Accumulated amortisation			
At 1 January 2017	10,923	-	10,923
Amortisation for the financial year	1,328	-	1,328
At 31 December 2017	12,251	-	12,251
Net book value	74	40	114

14 DEPOSITS FROM CUSTOMERS

		31.12.2018 RM'000	31.12.2017 RM'000
(i)	By type of deposits		
	Demand deposits	17,373	21,952
	Savings deposits	741	1,070
	Fixed deposits	119,330	97,603
		137,444	120,625
(ii)	Maturity structure of fixed deposits is as follows:		
	Due within six months	40,092	59,613
	Six months to one year	79,081	32,749
	One year to three years	157	5,241
		119,330	97,603
(iii)	The deposits are sourced from the following types of customers:		
	Business enterprises	31,728	55,046
	Individuals	1,027	974
	Foreign entities	99,053	59,083
	Non-Bank Financial Institutes	5,252	5,146
	Other Entity	384	376
		137,444	120,625

15 DEPOSITS AND PLACEMENTS OF BANK AND OTHER FINANCIAL INSTITUTIONS

	31.12.2018 RM'000	31.12.2017 RM'000
Licensed banks	-	4,063

16 DERIVATIVE LIABILITIES

	31.12.2018 RM'000	31.12.2017 RM'000
Derivative liabilities:		
Foreign exchange forwards and spots	2	4

	Contract or underlying principal amount RM'000	Year end negative fair value RM'000
2018		
Foreign exchange forwards and spots	1,796	2
2017		
Foreign exchange forwards and spots	2,718	4

17 OTHER LIABILITIES

	31.12.2018 RM'000	31.12.2017 RM'000
Accruals	858	588
Banker's cheque	7	401
Other payables	47	199
Expected credit loss for loan/financing commitment and financial guarantee - Note (i)	18	-
	930	1,188

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

	Stage 1 RM'000	Total RM'000
At 1 January 2018	-	-
Effect of adoption of MFRS 9	11	11
At 1 January 2018, restated	11	11
New loan/financing commitments and financial guarantees	4	4
Changes due to changes in credit risk	3	3
At 31 December 2018	**18**	**18**

18 DEFERRED TAXATION

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

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

	31.12.2018 RM'000	31.12.2017 RM'000
Deferred tax assets	219	-
Deferred tax liabilities	(48)	-
	171	-

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

	31.12.2018 RM'000	31.12.2017 RM'000
Deferred tax assets (before offsetting)		
Expected credit losses	18	-
Provision for expenses	201	-
	219	-
Property, plant and equipment and intangible assets	(48)	-
Deferred tax assets (after offsetting)	171	-
Deferred tax liabilities (before offsetting)		
Property, plant and equipment and intangible assets	(48)	-
Deferred tax liabilities (after offsetting)	(48)	-

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

	31.12.2018 RM'000	31.12.2017 RM'000
Unabsorbed capital allowances carried forward	-	3,467
	-	3,467

18 DEFERRED TAXATION (CONTINUED)

	Expected credit losses RM'000	Provision for expenses RM'000	Accelerated tax depreciation and amortisation RM'000	Total RM'000
Deferred tax assets/(liabilities)				
At 1 January 2018	-	-	-	-
Credited to statement of income (Note 28)	18	201	(48)	171
At 31 December 2018	18	201	(48)	171

19 SHARE CAPITAL

	31.12.2018 RM'000	31.12.2017 RM'000
Authorised:		
50,000,000 ordinary shares of RM10 each	500,000	500,000
Issued and fully paid:		
Balance as at beginning/end of the financial year	330,000	330,000

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20 INTEREST INCOME

	2018 RM'000	2017 RM'000
Loans, advances and financing	3,039	4,066
Money at call and deposit placements with financial institutions	10,902	11,342
Financial investments – held-to-maturity	-	1,468
Financial investments at amortised cost	3,461	-
Total interest income	17,402	16,876

21 INTEREST EXPENSE

	2018 RM'000	2017 RM'000
Deposits and placements of banks and other financial institutions	119	80
Deposits from customers	3,435	3,965
Total interest expenses	3,554	4,045

22 OTHER OPERATING INCOME

	2018 RM'000	2017 RM'000
Commission, fee and other income:		
Commission	283	301
Service charges and fees	358	336
Other Income	131	96
	772	733
Foreign exchange related income:		
Foreign exchange gain	895	587
Unrealised gain on revaluation of derivative instruments	7	334
Total	1,674	1,654

23 OTHER OPERATING EXPENSES

	2018 RM'000	2017 RM'000
Personnel costs (Note a)	5,377	5,432
Marketing expenses (Note b)	39	31
Establishments costs (Note c)	5,050	6,593
Administration and general expenses (Note d)	2,357	2,273
	12,823	14,329
(a) Personnel costs:		
- Salaries and allowances	3,775	3,957
- Pension fund contributions	507	488
- Other staff costs	1,095	987
	5,377	5,432
(b) Marketing expenses:		
- Advertising and promotion	39	31
(c) Establishments costs:		
- Depreciation of plant and equipment	167	623
- Amortisation of intangible assets	65	1,328
- Rental - Office premises	468	461
- Rental - Data centre and data recovery sites	305	302
- Repair and maintenance	60	87
- Information technology expenses	3,215	3,062
- Telecommunication charges	653	616
- Others	117	114
	5,050	6,593
(d) Administration and general expenses:		
- Legal and professional fees	194	288
- Auditor's fees	260	200
- Licensing fees	182	203
- Directors' fees	190	132
- Subscriptions	567	573
- Transport and travelling	31	37
- Postage and stamps	186	168
- Security services	125	134
- General insurance	67	75
- Swift and Rentas charges	149	82
- Others	406	381
	2,357	2,273

23 OTHER OPERATING EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosure:

	2018 RM'000	2017 RM'000
Directors' remuneration including benefits-in-kind	190	227
Rental of premises	468	461
Auditors' remuneration		
Current year		
- Statutory audit	260	200
- Other audit related	5	5
- Non-audit related	99	71

24 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:-

	2018 RM'000	2017 RM'000
Non-Executive Directors		
Fees		
- Vangal Jagannathan Santhanam	63	42
- Gopala Krishnan a/l C P Gopalan (retired on 08 November 2017)	-	37
- Datuk Bhupatrai a/l Mansukhlal Premji	63	42
- Goh Ching Chee	64	11
	190	132
Managing Director/Chief Executive Officer		
Thenkurissi Nandakumar Ramakumar (retired on 27 March 2017)		
- Salary	-	37
- Allowance	-	39
- Defined contribution plan	-	1
- Benefit-in-kind	-	18
	–	95
Chief Executive Officer		
Jauhari Rajesh Mohan		
- Salary	116	67
- Allowance	68	33
- Defined contribution plan	5	3
- Benefit-in-kind	64	34
	253	137
Total remuneration	443	364

25 WRITE-BACK OF IMPAIRMENT LOSS ON LOANS, ADVANCES AND FINANCING

	2018 RM'000	2017 RM'000
Expected credit losses / collective and impairment loss on loans and advances		
Individual assessment allowance:		
- Written back during the financial year	-	239
Collective assessment allowance:		
- Written back during the financial year	-	187
12- month ECL (Stage 1):		
- Made during the financial year	(11)	-
Lifetime ECL not credit-impaired (Stage 2):		
- Written back during the financial year	1	-
Lifetime ECL credit-impaired (Stage 3):		
- Written back during the financial year	700	-
	690	426

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

	2018 RM'000	2017 RM'000
Expected credit loss on commitment and contingency		
12- month ECL (Stage 1):		
- Made during the financial year	(7)	-
	(7)	-

27 EXPECTED CREDIT LOSS FOR OTHER FINANCIAL INVESTMENTS

	2018 RM'000	2017 RM'000
Expected credit loss on cash and short-term funds		
12- month ECL (Stage 1):		
- Made during the financial year	(1)	-
Expected credit loss on deposits and placements with financial institution		
12- month ECL (Stage 1):		
- Made during the financial year	(61)	-
Expected credit loss on financial investments		
12- month ECL (Stage 1):		
- Made during the financial year	(61)	-
	(123)	-

28 TAXATION

	2018 RM'000	2017 RM'000
Malaysian income tax:		
Current year	229	-
Deferred tax	(171)	-
Tax charge for the financial year	58	-

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

	2018 RM'000	2017 RM'000
Profit before taxation	3,259	582
Malaysian income tax:		
Tax charge at applicable tax rate of 24% (2017: 24%)	782	140
Non-deductible expenses	108	669
Other temporary differences not recognised in prior years	(832)	(809)
Tax charge for the financial year	58	-

29 COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies constitute the following:

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

29 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
31 December 2017				
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
Derivative financial contracts				
Foreign exchange related contracts:				
- Less than one year	5,407	8	-	-
Total	65,089	8	21,810	18,232

30 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

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

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

(b) Significant related party balances

	2018 RM'000	2017 RM'000
Amounts due from/(due to):		
Cash and short-term funds with:		
- Bank of Baroda	2,586	2,222
- Indian Overseas Bank	7	3
- Andhra Bank	1	1
Deposits and placements with banks and other financial institutions		
- Bank of Baroda	29,046	-
Total	31,640	2,226

30 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:

	2018 RM'000	2017 RM'000
Salary and other remuneration	753	717
Defined contribution plan	52	56
Benefits-in-kind	112	100
Allowance	56	53
	973	926

31 CAPITAL MANAGEMENT

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

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

The Bank's capital requirements and capital adequacy ratios, in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework ("RWCAF"): Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk are disclosed in Note 32.

32 CAPITAL ADEQUACY

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

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

The comparative capital adequacy ratios as at 31 December 2018 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.

32 CAPITAL ADEQUACY (CONTINUED)

The capital adequacy ratio of the Bank are as follows:

	2018 RM'000	2017 RM'000
Common Equity Tier 1 Capital		
Paid-up share capital	330,000	330,000
Accumulated losses	(8,356)	(10,389)
Total Common Equity Tier 1 Capital	321,644	319,611
Tier 2 capital		
Collective impairment allowance	-	788
Stage 1 and 2 ECL	214	-
Regulatory reserves	1,711	-
Total Tier 2 capital	1,925	788
Total capital base	323,569	320,399
Capital ratios		
Common Equity Tier 1 Capital Ratio	189.747%	192.290%
Total Capital Ratio	190.883%	192.764%

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:

	2018 RM'000	2017 RM'000
Credit risk	139,904	133,920
Market risk	1,851	4,858
Operational risk	27,757	27,435
Total risk-weighted assets	169,512	166,213

32 CAPITAL ADEQUACY (CONTINUED)

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

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

	Long position	Short position		
(b) Market risk				
Foreign currency risk	1,851	-	1,851	148
(c) Operational risk			27,757	2,221
Total risk weighted assets and capital requirements			169,512	13,562

32 CAPITAL ADEQUACY (CONTINUED)

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

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

32 CAPITAL ADEQUACY (CONTINUED)

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

Exposure Class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
(a) Credit Risk				
On-balance sheet exposures				
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
Off-balance sheet exposures				
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
	Long position	Short position		
(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

32 CAPITAL ADEQUACY (CONTINUED)

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

	Exposures after netting and credit risk mitigation (RM'000)									
	Sovereigns/ Central banks	Public sector entities	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Higher risk assets	Other assets	Equity	Total exposures after netting and credit risk mitigation	Total risk weighted assets
31.12.2017 Risk weighted										
0%	30,829	-	-	-	-	-	735	-	31,564	-
20%	-	-	345,164	15,363	-	-	-	-	360,527	72,106
50%	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	60,159	-	-	1,655	-	61,814	61,814
150%	-	-	-	-	-	-	-	-	-	-
Total exposures	30,829	-	345,164	75,522	-	-	2,390	-	453,905	133,920
Risk weighted assets by exposure	-	-	69,033	63,232	-	-	1,655	-		133,920
Average risk weight	-	-	20.00%	83.73%	-	-	69.25%	-		
Deduction from capital base	-	-	-	-	-	-	-	-		

33 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:

	2018 RM'000	2017 RM'000
Within a year	636	458
After one year but less than 5 years	33	471
	669	929

34 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.

34 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.

34 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.

34 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.

	Note	2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	4	84,016	193,798
Deposits and placements with banks and other financial institutions	5	227,371	121,636
Financial investments held to maturity	6	-	75,814
Financial investments at amortised cost	7	91,253	-
Loans, advances and financing^	8	55,692	51,745
Derivative assets	9	13	8
Other assets	10	423	479
Total assets*		458,768	443,480
Commitments and contingencies	29	52,482	65,089
Total credit exposure		511,250	508,569

^ Net of Stage 1, Stage 2 and Stage 3 ECL of RM621,963 (Net of collective impairment and individual impairment for 2017: RM2,053,194).

* Excludes cash in hand and prepayments.

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

Collaterals

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

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

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit risk grades

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

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

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

Generating the term structure of probability of default

Due to insufficient internal historical data, and a portion of the Bank's customers are closely related to international trading business, the internal ratings of IIBM and its respective PD rates are derived by benchmarking them to S&P's "Default, Transition, and Recovery: 2017 Annual Global Corporate Default Study and Rating Transition".

Regression analyses were conducted to examine how macroeconomic variables affect the Overall Default Rates (ODR) of the Bank. The methodology took the form of an experimental research design that attempts to establish cause-effect relationships among the variables. It was quantitative in nature and based on both internal and external data. The sampling period of the analyses covers a total of 11 years, starting from year 2007 to 2017.

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Generating the term structure of probability of default (continued)

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

- A point in time (PIT) probability of default (PD) assesses the likelihood of default at that point in time. As it assesses risk at a point in time, the borrower will move up or down rating grades through the economic cycle.

- Through the cycle (TTC) PDs, in contrast, predict average default rate performance for a particular customer over an economic cycle and ignore short run changes to a customer's PD.

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

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

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

Determining whether credit risk has increased significantly

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

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

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

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Definition of defaults

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

- The principal or interest is past due for more than 90 days or 3 months.
- For revolving credit (e.g. overdraft facilities), the facility shall be classified as impaired when the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months.
- When the loan/financing is classified as rescheduled and restructured in CCRIS (based on BNM's Guideline "Classification and Impairment Provisions for the Loans/Financing" Paragraph 13.1).

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

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

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank formulates a using an equal weightage for three different potential future economic scenarios ie Good, Bad, and Base as a prudent measure. Going forward, the Bank may implement a model to estimate the probability of the occurrence of each potential future economic scenario.

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Incorporation of forward-looking information (continued)

The economic scenario used for ECL estimate and the effect to the ECL estimate due to the changes in the economic variable by % as at 31 December 2018 are set out as below:

Measurement variables **MEV change**	**2018** **%**
Import on year-on-year	1%
Unemployment on year-on-year	1%

The impact based on 10 years historical MEV as below

Bank	**+** **RM'000**	**-** **RM'000**
Impact on ECL	26	(30)

Measurement of expected credit losses ("ECL")

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

Category	Definition	Basis for recognising
Performing accounts	• For instruments that are performing and do not show any deterioration in credit rating since initial recognition.	12-month ECL (Stage 1)

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

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

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

Category	Definition	Basis for recognising
Underperforming accounts	• Internal credit rating downgrade of issuer/borrower by at least 2 notches • Bankruptcy proceeding initiated against the issuer/borrower • An external credit rating downgrade of issuer by at least 2 notches and those classified below the "investment grade" rating • Payments that are more than 30 days but less than 90 days past due • Adverse CCRIS record with other Banks where the borrower's credit facilities have overdues that are between 1 to 2 months but less than 3 months (as more than 3 months overdue would imply that the customer will be classified as impaired) • Borrowers that are included in the Bank's credit monitoring watch list except for accounts that are in the watch list where the dues are less than 30 days	Lifetime ECL – non-credit impaired (Stage 2)

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

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

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

Category	Definition	Basis for recognising
Impaired accounts	• Issuers/borrowers that are classified as impaired/non-performing • Issuer has ceased business operations • For Private Debt Securities, the obligations are classified as impaired when the coupon payments have defaulted • When the principal and/or interest are past due for more than 90 days • Entities have defaulted on the credit facilities with other financial institutions with 3 months or more overdue • Company/borrower ceased business operations	Lifetime ECL – credit impaired (Stage 3)
Write-Off	Loans and the related impairment allowances are normally written-off, either partially or in full, in the case of an unsecured portion of the loan, when there is no realistic prospect of further recovery; and in the case of secured balances, after the proceeds from the realization of security have been received.	Asset is write-off

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

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

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

- PD
- LGD
- EAD

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

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

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

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

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit risk by credit quality

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

(i) the principal or profit or both is past due more than 3 months from the first day of default;

(ii) where the account is in arrears for less than 3 months, there is evidence of impairment to indicate that the borrower/customer is 'unlikely to pay' its credit obligations; or

(iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS).

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit risk by credit quality (continued)

Quality classification definitions:

Where ECL model is applied, the credit quality of financial instruments subject to credit risk are assessed by reference to the internal rating system adopted by the Bank in 2018, as summarised below:

Loans and financing and loans commitments and financial guarantee

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

Financial investments at amortised at cost

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

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

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

34 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).

2018	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments at amortised costs 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
Malaysia	81,428	198,386	91,253	55,692	423	13	427,195	52,482	479,677
United States	2,563	-	-	-	-	-	2,563	-	2,563
India	4	16,569	-	-	-	-	16,573	-	16,573
Europe	12	-	-	-	-	-	14	-	14
Others	9	12,416	-	-	-	-	12,423	-	12,423
	84,016	227,371	91,253	55,692	423	13	458,768	52,482	511,250

^ Net of Stage 1, Stage 2 and Stage 3 ECL of RM621,963 (Net of collective impairment and individual impairment for 2017: RM2,053,194).
* Excludes cash in hand and prepayments.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Concentration risk by geographical sectors (continued)

2017	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
Malaysia	191,572	121,636	75,814	51,745	479	8	441,254	65,089	506,343
United States	2,128	-	-	-	-	-	2,128	-	2,128
India	13	-	-	-	-	-	13	-	13
Europe	83	-	-	-	-	-	83	-	83
Others	2	-	-	-	-	-	2	-	2
	193,798	121,636	75,814	51,745	479	8	443,480	65,089	508,569

^ Net of collective assessment allowance and individual assessment allowance of RM2,053,194
* Excludes cash in hand and prepayments.

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Concentration of risk by economic sectors

2018	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments at amortised cost RM'000	Loans, 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
Manufacturing	-	-	-	17,090	-	-	17,090	38,522	55,612
Construction	-	-	-	969	-	-	969	31	1,000
Wholesale and retail trade, and restaurant and hotels	-	-	-	30,983	-	-	30,983	9,290	40,273
Finance, insurance and real estate and business activities	84,016	227,371	40,576	3,537	-	13	355,513	3,553	359,066
Government and Government Agencies	-	-	30,220	-	113	-	30,333	-	30,333
Education, health and others	-	-	-	3,113	-	-	3,113	886	3,999
Others	-	-	20,457	-	310	-	20,767	200	20,967
	84,016	227,371	91,253	55,692	423	13	458,768	52,482	511,250

^ Net of Stage 1, Stage 2 and Stage 3 ECL of RM621,963.
* Excludes cash in hand and prepayments.

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Concentration of risk by economic sectors (continued)

2017	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
Manufacturing	-	-	-	24,368	-	-	24,368	30,081	54,449
Construction	-	-	-	704	-	-	704	322	1,026
Wholesale and retail trade, and restaurant and hotels	-	-	-	21,489	-	-	21,489	17,038	38,527
Finance, insurance and real estate and business activities	193,798	121,636	45,441	5,184	-	8	366,067	13,448	379,515
Government and Government Agencies	-	-	30,373	-	128	-	30,501	-	30,501
Education, health and others	-	-	-	-	-	-	-	4,000	4,000
Others	-	-	-	-	351	-	351	200	551
	193,798	121,636	75,814	51,745	479	8	443,480	65,089	508,569

^ Net of collective assessment allowance and individual assessment allowance of RM 2,053,194.
* Excludes cash in hand and prepayments.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Impaired loans, advances and financing

Distribution of loans, advances and financing by credit quality

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	2018 Total RM'000
Loans, advances and financing				
Neither past due nor impaired	53,431	-	-	53,431
Impaired	-	-	2,883	2,883
Gross loans, advances and financing	53,431	-	2,883	56,314
Less: Allowance for impairment				
- Expected credit losses ("ECL")	(57)	-	(565)	(622)
Net loans, advances and financing	53,374	-	2,318	55,692

(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.).

(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.

There is no gross loans, advances and financing past due but not impaired in the financial year 2018 and financial year 2017.

34 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:

	Overdrafts RM'000	Trust receipt RM'000	Bills receivable RM'000	Term loans RM'000	Total RM'000
2018					
Gross impaired	837	920	1,126	-	2,883
- Life time ECL credit impaired (Stage 3)	(565)	-	-	-	(565)
Net impaired	272	920	1,126	-	2,318
2017					
Gross impaired	883	1,543	1,111	-	3,537
Less: Individual allowance	(671)	(345)	(249)	-	(1,265)
Net impaired	212	1,198	862	-	2,272

Credit quality of financial assets

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

				2018
Cash and short-term funds	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Credit grade:				
Good	81,427	-	-	81,427
Satisfactory	2,595	-	-	2,595
Gross cash and short-term funds	84,022	-	-	84,022
Expected credit losses ("ECL")	(6)	-	-	(6)
Net cash and short-term funds	84,016	-	-	84,016

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit quality of financial assets (continued)

				2018
Deposits and placements with banks and other financial institutions	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	198,386	-	-	198,386
Satisfactory	29,046	-	-	29,046
Gross deposits and placements with banks and other financial institutions	227,432	-	-	227,432
Expected credit losses ("ECL")	(61)	-	-	(61)
Net deposits and placements with banks and other financial institutions	227,371	-	-	227,371

Financial Investments at amortised cost	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	70,821	-	-	70,821
Satisfactory	20,504	-	-	20,504
Gross financial investments at amortised cost	91,325	-	-	91,325
Expected credit losses ("ECL")	(72)	-	-	(72)
Net financial investments at amortised cost	91,253	-	-	91,253

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Credit risk (continued)

Credit quality of financial assets (continued)

				2018
Loans, advances and financing	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	37,615	-	-	37,615
Satisfactory	15,816	-	-	15,816
Impaired	-	-	2,883	2,883
Gross loans, advances and financing	53,431	-	2,883	56,314
Expected credit losses ("ECL")	(57)	-	(565)	(622)
Net loans, advances and financing	53,374	-	2,318	55,692

Derivative assets	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	13	-	-	13
Derivative assets	13	-	-	13

Other assets*	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
No rating	423	-	-	423
Other assets*	423	-	-	423

Loan/Financing commitment and financial guarantee	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Credit grade:				
Good	3,519	-	-	3,519
Satisfactory	11,672	-	-	11,672
No rating	218	-	-	218
Gross loan/financing commitment and financial guarantee	15,409	-	-	15,409
Expected credit losses ("ECL")	(18)	-	-	(18)
Net loan/Financing commitment and financial guarantee	15,391	-	-	15,391

34 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:

2018	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
Assets								
Cash and short-term funds	57,254	27,215	-	-	-	-	-	84,469
Deposits and placements with banks and other financial institutions	-	-	20,115	207,256	-	-	-	227,371
Financial investments at amortised cost	-	-	10,120	10,172	70,961	-	-	91,253
Loans, advances and financing	9,743	5,695	6,964	16,376	6,379	10,535	-	55,692
Derivative assets	1	10	2	-	-	-	-	13
Other assets	-	-	-	-	-	-	2,610	2,610
Deferred taxation	-	-	-	-	-	-	171	171
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	100	100
Plant and equipment	-	-	-	-	-	-	197	197
Intangible assets	-	-	-	-	-	-	255	255
	66,998	32,920	37,201	233,804	77,340	10,535	3,333	462,131

34 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)

2018	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
Liabilities								
Deposits from customers	21,587	5,894	14,833	15,892	79,081	157	-	137,444
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-
Derivative liabilities	2	-	-	-	-	-	-	2
Other liabilities	-	638	128	146	18	-	-	930
Provision for taxation	400	-	-	-	-	-	-	400
	21,989	6,532	14,961	16,038	79,099	157	-	138,776
Net liquidity gap	45,009	26,388	22,240	217,766	(1,761)	10,380	3,333	323,355

34 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)

	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
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	-	-	35,633	-	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
Plant and equipment	-	-	-	-	-	-	274	274
Intangible assets	-	-	-	-	-	-	114	114
	170,067	47,499	109,889	64,606	6,973	44,702	1,755	445,491

34 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)

	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
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	4,063	-	-	-	-	-	-	4,063
Derivative liabilities	4	-	-	-	-	-	-	4
Other liabilities	445	218	402	95	28	-	-	1,188
	54,571	11,139	9,232	12,920	32,777	5,241	-	125,880
Net liquidity gap	115,496	36,360	100,657	51,686	(25,804)	39,461	1,755	319,611

34 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.

	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
2018								
Liabilities								
Deposits from customers	21,587	5,905	15,056	16,127	81,655	160	-	140,490
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-
Other liabilities	-	638	128	146	18	-	-	930
Provision for taxation	-	-	400	-	-	-	-	400
	21,587	6,543	15,584	16,273	81,673	160	-	141,820

34 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)

	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
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
	54,571	11,154	9,290	13,072	33,875	5,488	-	127,450

34 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
2018			
Direct credit substitutes	11,948	502	12,450
Transaction related contingent items	22	3	25
Short-term self-liquidating trade related contingencies	2,934	-	2,934
Other commitments, such as formal standby facilities and credit lines	33,559	278	33,837
	48,463	783	49,246
2017			
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
	58,454	1,228	59,682

34 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
2018							
Gross-settled derivatives:							
Foreign exchange forwards and spots:							
Receipts	1,697	1,070	162	-	-	-	2,929
Payments	(307)	-	-	-	-	-	(307)
	1,390	1,070	162	-	-	-	2,622
2017							
Foreign exchange forwards and spots:							
Receipts	5,224	-	-	-	-	-	5,224
Payments	(162)	-	-	-	-	-	(162)
	5,062	-	-	-	-	-	5,062

34 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 2018:

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

34 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 2018: (Continue)

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

34 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:

	Non-trading book								
31 December 2017	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	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
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	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	8	445,491	

34 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:

	Non-trading book								
31 December 2017	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	Trading book RM'000	Total RM'000	Effective interest rate %
Liabilities									
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	4	-
Other liabilities	-	-	-	-	-	1,188	-	1,188	-
Total liabilities	65,043	8,830	45,574	5,241	-	1,188	4	125,880	
On balance sheet-interest rate gap	149,198	101,059	26,005	33,062	6,399	3,884	4	319,611	

34 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 2018.

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

	2018 RM'000 +/- 100 bps	2017 RM'000 +/- 100 bps
Movement in basis points		
Effect on Net Interest Income	+/-1,060	+/- 1,862
Effect on Economic Value of Equity	+/-2,609	+/- 1,317

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 RM1.06 million and RM2.61 million respectively for financial year 2018 and RM1.86 million and RM1.32 million respectively for financial year 2017. 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.

34 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 2018	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total Non MYR RM'000	Grand Total RM'000
Assets						
Cash and balances with banks and other financial institutions	54,660	2,563	12	13	2,588	57,248
Money at call and deposit placements maturing within one month	27,221	-	-	-	-	27,221
Deposits and placements with banks and other financial institutions	198,386	28,985	-	-	28,985	227,371
Financial investments at amortised cost	91,253	-	-	-	-	91,253
Loans, advances and financing	49,652	6,040	-	-	6,040	55,692
Derivative assets	-	13	-	-	13	13
Other assets	2,610	-	-	-	-	2,610
Deferred taxation	171	-	-	-	-	171
Statutory deposits with Bank Negara Malaysia	100	-	-	-	-	100
Plant and equipment	197	-	-	-	-	197
Intangible assets	255	-	-	-	-	255
Total assets	424,505	37,601	12	13	37,626	462,131

34 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 2018	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total Non MYR RM'000	Grand Total RM'000
Liabilities						
Deposits from customers	101,539	35,896	9	-	35,905	137,444
Deposits and placements of banks and other financial institutions	-		-	-	-	-
Derivative liabilities	-	2	-	-	2	2
Other liabilities	930	-	-	-	-	930
Provision for taxation	400	-	-	-	-	400
Total liabilities	102,869	35,898	9	-	35,907	138,776
Net on balance sheet position	321,636	1,703	3	13	1,719	323,355

34 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 2017	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total Non MYR RM'000	Grand Total RM'000
Assets						
Cash and balances with banks and other financial institutions	81,515	2,128	79	19	2,226	83,741
Money at call and deposit placements maturing within one month	110,792	-	-	-	-	110,792
Deposits and placements with banks and other financial institutions	121,636	-	-	-	-	121,636
Financial investments held-to-maturity	75,814	-	-	-	-	75,814
Loans, advances and financing	36,576	15,169	-	-	15,169	51,745
Derivative assets	-	8	-	-	8	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	428,088	17,305	79	19	17,403	445,491

34 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 2017	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total Non MYR RM'000	Grand Total RM'000
Liabilities						
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

34 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.

34 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:

	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2018				
Financial assets at fair value through profit or loss				
Derivative assets:				
- Foreign exchange forwards	12	-	12	-
- Foreign exchange spots	1	-	1	-
Total assets	13	-	13	-
Financial liabilities at fair value through profit or loss				
Derivative liabilities:				
- Foreign exchange forwards	-	-		-
- Foreign exchange spots	2	-	2	-
Total liabilities	2	-	2	-
2017				
Financial assets at fair value through profit or loss				
Derivative assets:				
- Foreign exchange spots	8	-	8	-
Total assets	8	-	8	-
Financial liabilities at fair value through profit or loss				
Derivative liabilities:				
- Foreign exchange spots	4	-	4	-
Total liabilities	4	-	4	-

34 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 2018 and 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
31 December 2018				
Financial assets				
Financial investments	91,253	-	91,308	91,308
Total	91,253	-	91,308	91,308
Financial liabilities				
Deposits from customers	137,444	-	137,436	137,436
Total	137,444	-	137,436	137,436
31 December 2017				
Financial assets				
Financial investments	75,814	-	75,382	75,382
Total	75,814	-	75,382	75,382
Financial liabilities				
Deposits from customers	120,625	-	120,360	120,360
Total	120,625	-	120,360	120,360

34 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:

	Carrying amount RM'000	Fair value RM'000
31 December 2018		
Financial assets		
Financial investments	91,253	91,308
Financial liabilities		
Deposits from customers	137,444	137,436
31 December 2017		
Financial assets		
Financial investments	75,814	75,382
Financial liabilities		
Deposits from customers	120,625	120,360

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

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.

34 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 expected credit losses, being the expected recoverable amount.

Deposits from customers

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

Deposits and placements of banks and other financial institutions

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

35 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		
				Financial Instruments RM'000	Cash collateral received RM'000	Net amount RM'000
2018						
Derivative financial assets	13	-	13	(1)	-	12
2017						
Derivative financial assets	8	-	8	-	-	8

35 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	Related amounts not set off in the statement of financial position: Cash collateral paid RM'000	Net amount RM'000
2018						
Derivative financial liabilities	2	-	2	(1)	-	1
2017						
Derivative financial liabilities	4	-	4	-	-	4

35 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.

36 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	D

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 18 to 121 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and financial performance of the Bank for the financial year ended 31 December 2018 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 6 May 2019.

DATUK BHUPATRAI M PREMJI
DIRECTOR

GOH CHING CHEE
DIRECTOR

Kuala Lumpur

Company No.

911666	D

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 18 to 121 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 6 May 2019.

Before me:

PESURUHJAYA SUMPAH
W607
GURDEEP SINGH
A/L JAG SINGH
01/01/2019-31/12/2021
MALAYSIA

COMMISSIONER FOR OATHS

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

pwc

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 2018, 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 2018, 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 18 to 121.

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.

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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.

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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)

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.

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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)

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
03032/01/2021 J
Chartered Accountant

Kuala Lumpur
6 May 2019