1.0 OVERVIEW

The Pillar 3 Disclosure for the financial year ending 31st December 2012 for India International Bank (Malaysia) Berhad ("IIBM") complies with the Bank Negara Malaysia's (BNM) "Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3)" - BNM/RH/GL 001-32

2.0 CAPITAL MANAGEMENT

The objective of the IIBM'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.

IIBM'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.

IIBM's capital requirements and capital adequacy ratios, in accordance with BNM's Risk Weighted Capital Adequacy Framework, has adopted Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk.

3.0 CAPITAL

Capital requirements seek to ensure that risk exposures of India International Bank (Malaysia) Berhad ("IIBM") are backed by sufficient amount of capital which has the continuing ability to meet its obligations.

India International Bank (Malaysia) Berhad capital structure, according to the BNM's "Risk Weighted Capital Adequacy Framework", consists of Tier 1 capital. Tier 1 capital comprises ordinary paid-up share capital, statutory reserves and retained profits.

	31.12.2012 RM'000	**31.12.2011** RM'000
Tier-I Capital		
Share capital	310,000	23,401
Accumulated Loss	(4,246)	(1,303)
Less: Deferred tax asset	-	-
Total Tier-I capital	**305,754**	**22,098**
Total Tier-II capital	**-**	**-**
Total capital base	**305,754**	**22,098**

4.0 REGULATORY CAPITAL REQUIREMENT

Tables 1 - 5 present the minimum regulatory capital requirement for credit risk under the Standardised Approach. These tables tabulate the total RWA under the various exposure classes under the Standardised Approach and apply the minimum capital requirement at 8% as set by BNM.

Table 1: Disclosure on Capital Adequacy under Standardised Approach as at 31st December 2012 (RM'000)

Exposure Class (RM in '000)	Gross Exposures / EAD before CRM	Net Exposures / EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
Credit Risk				
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,411	3,411	-	0
Banks, Development Financial Institutions & MDBs	334,399	334,399	72,972	5,838
Other Assets	17,171	17,171	16,213	1,297
Total for On- Balance Sheet Exposures	**354,981**	**354,981**	**89,185**	**7,135**
Off-Balance Sheet Exposures				
Credit Derivatives	1,604	1,604	1,284	103
Total Off- Balance Sheet Exposures	**1,604**	**1,604**	**1,284**	**103**
Total On and Off- Balance Sheet Exposures	**356,585**	**356,585**	**90,469**	**7,238**
Operational Risk (Basic Indicator Approach)			**8,431**	**674**
Total RWA and Capital Requirements			**98,900**	**7,912**

5.0 CREDIT RISK

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 direct lending operations and in its funding, investment and trading activities, where counterparties have repayment or other obligations of the Bank.

IIBM operates within well-defined criteria for new credits as well as the expansion of existing credits and an assessment of the risk profile of the customer or transaction is being conducted prior to any approvals. All credit applications are independently evaluated by Risk Management Department prior to submission to Management Credit Committee or India Credit Committee for approval. The Bank has established a mechanism of independent, on-going assessment of the credit risk management process where all facilities are subjected to individual risk reviews at least once in a year or more frequent when adverse information on the borrower or other external factors come into picture. The results of such review will be reported directly to the BOD or Board Risk Management Committee.

Table 2: Disclosure on Risk Weights under Standardised Approach as at 31st December 2012 (RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing /Investment	Securitisation	Equity		
0%	3,411				120				957				4,488	0
20%			314,092										314,092	62,818
50%			20,307		400								20,707	10,354
100%					1,084				16,213				17,297	17,297
Total Exposure	**3,411**	**-**	**334,399**	**-**	**1,604**	**-**	**-**	**-**	**17,170**	**-**	**-**	**-**	**356,584**	**90,469**
Total RWA	**-**		**72,972**		**1,284**				**16,213**					
Average Risk Weight	**0.00%**	**0.00%**	**21.82%**	**0.00%**	**80.03%**	**0.00%**	**0.00%**	**0.00%**	**94.42%**	**0.00%**	**0.00%**	**0.00%**		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-		

Table 3: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs as at 31st December 2012 (RM'000)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aaa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)						
Insurance Cos, Securities Firms & Fund Managers						
Corporates						1,604
Total		**0**	**0**	**0**	**0**	**1,604**

Exposure Class	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moodys	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+,F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	Rating & Investment Inc	a-1+,a-1	a-2	a-3	b,c	Unrated
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		334,276		123		
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)						
Insurance Cos, Securities Firms & Fund Managers						
Corporates						1,604
Total		**334,276**	**0**	**123**	**0**	**1,604**

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aaa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Sovereigns and Central Banks		3,411				
Total		**3,411**	**0**	**0**	**0**	**0**

Exposure Class	Ratings of Banking Institutions by Approved ECAIs					
	Moodys	Aaa to Aaa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		314,092	20,184	113		
Total		**314,092**	**20,184**	**113**	**0**	**0**

5.1 CREDIT RISK MITIGANTS

Credit facilities are granted based on the financial stability and business viability of the borrower, source of repayment and the debt servicing capability. Nevertheless, adequate security / collateral are taken to mitigate its repayment risk.

IIBM has currently adopted The Simple Approach as per BNM's "Risk-Weighted Capital Adequacy Framework (Basel II - Risk-Weighted Assets Computation)" in the computation of collateralised transactions.

Table 4: Disclosures of Credit Risk Mitigants under Standardised Approach as at 31st December 2012 (RM'000)

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees /Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,411			
Public Sector Entities				
Banks, Development Financial Institutions & MDBs	334,399			
Insurance Cos, Securities Firms & Fund Managers				
Corporate				
Regulatory Retail				
Residential Mortgages				
Higher Risk Assets				
Other Assets	17,171			
Specialised Financing/Investment				
Equity Exposure				
Securitisation Exposures				
Defaulted Exposures				
Total for On- Balance Sheet Exposures	**354,981**	**0**	**0**	**0**
Off-Balance Sheet Exposures				
OTC Derivatives				
Credit Derivatives	1,604	400	120	0
Off balance sheet exposures other than OTC derivatives or credit derivatives				
Defaulted Exposures				
Total Off- Balance Sheet Exposures	**1,604**	**400**	**120**	**0**
Total On and Off- Balance Sheet Exposures	**356,584**	**400**	**120**	**0**

5.2 OFF-BALANCE SHEET EXPOSURE

Table 5: Disclosures of Off-Balance Sheet Items as at 31st December 2012 (RM'000)

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Credit Substitutes	1,604		1,604	1,284
Transaction related contingent Items				
Short Term Self Liquidating trade related contingencies				
Assets sold with recourse				
Foreign exchange related contracts				
One year or less				
Over one year to five years				
Over five years				
Interest/Profit rate related contracts				
One year or less				
Over one year to five years				
Over five years				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year				
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness				
Off-balance sheet items for securitisation exposures				
Off-balance sheet exposures due to early amortisation provisions				
Total	1,604	0	1,604	1,284

6.0 MARKET RISK

IIBM's Market Risk is the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in market rates or prices such as interest rates and foreign exchange rates resulting in a loss to earnings and capital.

Accurate and timely measurement of market risk is necessary for proper risk management and control. Market risk factors that affect the value of traded portfolios and the income stream or value of non-traded portfolio and other business activities must be identified and quantified using data that can be directly observed in markets or implied from observation or history. The Bank has also set limits, including operational limits, for the different trading desks and/or traders which may trade different products, instruments and in different markets, such as different industries and regions.

Liquidity risk is the potential for loss to the Bank arising from either the inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses.

The primary responsibility of the Bank's liquidity management is delegated to the Asset Liability Committee (ALCO), which meets at least once a month. The Committee is responsible to ensure that detailed analysis of assets and liabilities is carried out so as to assess the overall balance sheet structure and risk profile of the Bank.

In addition, the Treasury Department, is responsible for the following key activities:

a) Maintain adequate and balanced funds to meet liquidity requirement as set forth by Bank Negara Malaysia.

b) Generation of income from prudent risk taking activities in underlying interest rate and foreign exchange market on the approval of the ALCO.

c) Manage market risks of the Bank's assets and liabilities and foreign exchange position

<u>Interest Rate Risk</u>

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.

Table 6: Disclosure on Market Risk – Interest Rate Risk/Rate of Return Risk in the Banking Book

	2012 (RM '000)	**2011 (RM '000)**
Movement in basis points	*+/- 100 bps*	*+/- 100 bps*
Effect on Net Interest Income	1,552	-
Effect on Economic Value of Equity	221	-

7.0 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risk is associated with human error, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems.

The objective of operational risk management is to find out the extent of the Bank's operational risk exposure; to understand what drives it; to allocate capital against it and identify trends internally and externally that would help predicting it. The Bank's approach to operational risk management is based on the following principles:-

(i) Ultimate accountability for operational risk management rests with the BOD; and the level of risk that the organization accepts, together with the basis for managing those risks, is driven from top-down.
(ii) BOD and senior management must ensure that there is an effective, integrated operational risk management framework.
(iii) BOD and senior management must recognize, understand and have defined all categories of operational risk applicable to the Bank. They must ensure that the operational risk management framework adequately covers all of the categories of operational risk.
(iv) Operational risk policies and procedures that clearly define the way in which all aspects of operational risk are managed must be documented and communicated.
(v) All business and support functions must be an integral part of the overall operational risk management framework in order to enable the Bank to manage effectively the key operational risks.
(vi) Line management must establish processes for the identification, assessment, mitigation, monitoring and reporting of operational risks that are appropriate to the needs of the Bank.

The Bank utilizes Operational Risk Event Database, Risk Control Self-Assessment and Key Risk Indicators to identify, assess and monitor operational risks in the Bank's operating environment. All risks identified will be reported to the Operational Risk Management Committee and Board Risk Management Committee, which will be at least once on a quarterly basis.

<u>Operational Risk Capital Charge Computation Methodology</u>

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per BNM's "Risk-Weighted Capital Adequacy Framework (Basel II - Risk-Weighted Assets Computation)" guideline. Operational risk capital charge calculation applies a fixed percentage of 15% to the average of positive gross income that was achieved over the preceding three years by IIBMB. The Operational Risk Weighted Asset is computed by multiplying the minimum capital required for operational risk with a multiplier of 12.5