



INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD (911666-D)

**RISK WEIGHTED CAPITAL ADEQUACY
(BASEL II)**

Pillar 3 Disclosure for Financial Year Ended

31 December 2014

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1.0 OVERVIEW

The Pillar 3 Disclosure for the year ended 31 December 2014 for India International Bank (Malaysia) Berhad (“IIBM” or “The Bank”) complies with Bank Negara Malaysia’s (BNM) “Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3)” - BNM/RH/GL 001-32

IIBM has adopted the Standardised Approach (SA) for the computation of credit and market risk weighted asset, while the Basic Indicator Approach (BIA) has been adopted for the computation of operational risk weighted asset.

MEDIUM AND LOCATION OF DISCLOSURE

The Bank’s Pillar 3 Disclosure will be made available under the Financial Statement section of the Bank’s website at www.indiainternationalbank.com.my

BASIS OF DISCLOSURE

This Pillar 3 disclosure document is in compliance with BNM’s Basel II – Disclosure Requirement (Pillar 3) guideline. The disclosures published are for the year ended 31 December 2014 and is to be read in conjunction with the Bank’s financial statements for financial year ended 31 December 2014.

The disclosures have been reviewed and verified by the IIBM’s internal auditor and approved by the Board of Directors (“Board”) of India International Bank (Malaysia) Berhad.

2.0 CAPITAL MANAGEMENT

The objective of 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. It seeks to ensure that risk exposures of the Bank are backed by adequate amount of high quality capital and ability to meet its obligations while also maintaining the confidence of customers, depositors, creditors and other stakeholders.

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.

2.1 Capital Structure

India International Bank (Malaysia) Berhad ("IIBM") is a locally incorporated joint venture between 3 of India's largest government owned financial institution namely Bank of Baroda with 40% shareholding, Indian Overseas Bank with 35% and Andhra Bank with the remaining 25% shares.

As per Bank Negara Guideline (BNM) "Risk Weighted Capital Adequacy Framework", bank capital structure consists of Common Equity Tier 1, additional Tier 1 and Tier 2 capital. IIBM capital structure mainly contributed from Share Capital which is one of the components of Common Equity Tier 1 capital. The table below presents information on the components of IIBM capital under the above guideline.

	<u>31 December 2014</u>	<u>31 December 2013</u>
	RM'000	RM'000
<u>Common Equity Tier-1 Capital</u>		
Share capital	320,000	320,000
Accumulated Loss	(8,495)	(6,445)
	<hr/>	<hr/>
Total CET-1 capital	311,505	313,555
	<hr/>	<hr/>
<u>Additional Tier-1 Capital</u>		
Additional Tier 1 Capital Instruments	-	-
Share Premium	-	-
	<hr/>	<hr/>
Total Tier-1 capital	-	-
	<hr/>	<hr/>
<u>Tier-2 Capital</u>		
Collective Impairment Provision	715	628
	<hr/>	<hr/>
Total Tier-2 capital	715	628
	<hr/>	<hr/>
Total Capital	312,220	314,183
	<hr/> <hr/>	<hr/> <hr/>

2.2 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's ICAAP Framework has been developed and approved by the Board in October 2013. The Bank has implemented the ICAAP and will continuously enhance and improve the process along with the Bank's growth over the next few years.

The Bank's ICAAP Framework seeks to ensure that the Bank has adequate capital to support its business activities and to instil a forward looking approach in managing capital. Regular ICAAP reports are submitted to the Bank's Management Committee and Board Risk Management Committee (BRMC) on a quarterly basis, for a comprehensive review of the risk profile and appetite of the Bank and assessment of the Bank's capital adequacy to meet its obligation and regulatory requirements.

Risk Assessment under ICAAP Framework

IIBM identifies all material risk faced by the Bank and measure it based on qualitative (expert judgment) and quantitative approach.

The Bank assesses the following risks type:

- Risk captured under Pillar 1- credit risk, market risk and operational risk.
- Risks not fully captured under Pillar 1- the Bank has yet to include this form of risk. However, the Bank shall consider such risk along with the enhancement/ review of the framework.
- Risk type not covered by Pillar 1- credit concentration risk, interest rate risk in the banking book (IRRBB), liquidity risk, reputational risk and strategic/business risk.

Risk Appetite

The Risk Appetite statements for the Bank were approved by the Board on 23 July 2013. The setting of the risk appetite enables the Bank to translate risk appetite into risk limits and tolerance.

Objectives of the Bank's Risk Appetite statements are as follow:

- Expresses the type and quantum of risk the Bank wishes to be exposed to base on its core values, strategy, risk management competencies and shareholders' expectations
- To develop a framework that supports the evaluation of risks in a consistent manner
- To set aside adequate risk buffers to support stress scenarios in line with the Bank's risk appetite

Stress Testing

The Bank uses a 3 year horizon for the stress tests, in order to balance the need to fully capture potential losses that materialize gradually over time, allowing the Bank to conduct assessment of its capital planning and projections. The Bank forecasts its balance sheet position and macroeconomic scenarios of a 3-year horizon period under 3 different severities reflected by different values of projected factors and subsequently apply to the current portfolio to derive the projected losses.

The stress test results will be tabled to the Credit Risk Management Committee (CRMC) and Board Risk Management Committee (BRMC) on a regular basis.

2.3 Capital Adequacy Ratio

Table 1: Risk Weighted Capital Ratio as at 31 December 2014 and 31 December 2013

Risk Weighted Assets (RWA)	31 Dec 2014 (RM '000)	31 Dec 2013 (RM '000)
Credit RWA	141,902	160,232
Market RWA	367	3,700
Operational RWA	19,392	16,241
Total RWA	161,661	180,173

As at	Capital Adequacy	CET 1	Tier 1 Capital	Total Capital
31 Dec 2014	Capital Base (RM '000)	311,505	311,505	312,220
	Risk Weighted Capital Ratio (RWCR)	192.7%	192.7%	193.1%
31 Dec 2013	Capital Base (RM '000)	313,555	313,555	314,183
	Risk Weighted Capital Ratio (RWCR)	174.0%	174.0%	174.4%

3.0 REGULATORY CAPITAL REQUIREMENT

The following tables present the minimum regulatory capital requirement for credit, market and operational risks for IIBM. These tables tabulate the total risk weighted asset under the respective risk areas. Based on the adopted approaches used for credit, market and operational risks, the Bank computes the minimum capital requirement of 8% as per requirement by BNM.

Table 2a: Disclosure on Capital Adequacy under Standardised Approach as at 31st December 2014 (RM'000)

Exposure Class	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				
<u>On-Balance Sheet Exposures</u>				
Corporate	45,779	33,823	33,823	2,706
Sovereigns/Central Banks	22,099	22,099	0	0
Banks, Development Financial Institutions & MDBs	380,272	380,272	76,054	6,084
Other Assets	11,105	11,105	10,352	828
Defaulted Exposures	843	843	422	34
Total for On- Balance Sheet Exposures	460,098	448,142	120,651	9,652
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	111	111	22	2
Credit Derivatives	0	0	0	0
Off balance sheet exposures other than OTC derivatives or credit derivatives	22,940	21,229	21,229	1,698
Defaulted Exposures	0	0	0	0
Total Off- Balance Sheet Exposures	23,051	21,340	21,251	1,700
Total On and Off- Balance Sheet Exposures (A)	483,149	469,482	141,902	11,352
Market Risk (Standardised Approach)	Long Position	Short Position		
Foreign Currency Risk	367	0	367	29
Total Market Exposures (B)			367	29
Operational Risk (Basic Indicator Approach) (C)			19,392	1,552
Total RWA and Capital Requirements (A+B+C)			161,661	12,933

Table 2b: Disclosure on Capital Adequacy under Standardised Approach as at 31st December 2013 (RM'000)

Exposure Class	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					
<u>On-Balance Sheet Exposures</u>					
Corporate	41,445	41,445	41,445	29,838	2,387
Sovereigns/Central Banks	10,790	10,790	10,790	0	0
Banks, Development Financial Institutions & MDBs	395,599	395,599	395,599	86,247	6,900
Other Assets	14,185	14,185	14,185	13,737	1,099
Defaulted Exposures	0	0	0	0	0
Total for On- Balance Sheet Exposures	462,019	462,019	462,019	129,822	10,386
<u>Off-Balance Sheet Exposures</u>					
Credit Derivatives	134	134	134	27	2
Off balance sheet exposures other than OTC derivatives or credit derivatives	33,065	33,065	33,065	30,384	2,431
Defaulted Exposures	0	0	0	0	0
Total Off- Balance Sheet Exposures	33,199	33,199	33,199	30,411	2,433
Total On and Off- Balance Sheet Exposures (A)	495,218	495,218	495,218	160,232	12,819
Market Risk (Standardised Approach)	Long Position	Short Position			
Foreign Currency Risk	3,700	0	3,700	3,700	296
Total Market Exposures (B)				3,700	296
Operational Risk (Basic Indicator Approach) (C)				16,241	1,299
Total RWA and Capital Requirements (A+B+C)				180,173	14,414

4.0 RISK MANAGEMENT

The Bank recognizes 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 Bank has defined risk governance structure with clear roles and responsibilities with segregation of duties between Board and Senior Management. The Board is supported by four committees comprising of Board Risk Management Committee (BRMC), Audit Committee (AC), Remuneration Committee (RC) and Nomination Committee (NC). Additionally, the roles and responsibilities of the Board and Senior Management have been realigned to include ICAAP functions.

The Board Risk Management Committee's primary objective is to oversee risk management activities of the Bank and recommending appropriate risk management policies and risk measurement parameters. With membership consisting of mainly non-executive directors and chaired by an independent non-executive member of the Board, the BRMC provides the risk management process with the necessary power to effect changes and take timely risk mitigating action when necessary.

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. The Bank's 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 appraises the amount and timing of the cash flows as well as the financial position of the borrower and intended purpose of the funds during loan structuring. The Bank 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.

Table 3a: Disclosure on Credit Risk Exposure – Geographical Analysis as at 31 December 2014 (RM '000)

Geographical Exposure as at 31 December 2014	Malaysia					Other Countries	Total
Exposure Class	Northern Region	East Coast Region	Central Region	Southern Region	East Malaysia		
Exposures under the Standardised Approach							
Corporate	7,617	23,657	36,894	-	-	551	68,719
Regulatory Retail	-	-	-	-	-	-	-
Sovereigns/Central Banks	-	-	22,099	-	-	-	22,099
Banks, Development Financial Institutions & MDBs	-	-	377,915	-	-	2,468	380,383
Other Assets	-	-	11,105	-	-	-	11,105
Defaulted Exposures	-	-	843	-	-	-	843
Total Credit Exposure	7,617	23,657	448,856	-	-	3,019	483,149

Table 3b: Disclosure on Credit Risk Exposure – Geographical Analysis as at 31 December 2013 (RM '000)

Geographical Exposure as at 31 December 2013	Malaysia					Other Countries	Total
Exposure Class	Northern Region	East Coast Region	Central Region	Southern Region	East Malaysia		
Exposures under the Standardised Approach							
Corporate	7,589	21,225	42,346	3,350	-	-	74,510
Regulatory Retail	-	-	-	-	-	-	-
Sovereigns/Central Banks	-	-	10,790	-	-	-	10,790
Banks, Development Financial Institutions & MDBs	-	-	392,034	-	-	3,699	395,733
Other Assets	-	-	14,185	-	-	-	14,185
Defaulted Exposures	-	-	-	-	-	-	-
Total Credit Exposure	7,589	21,225	459,355	3,350	-	3,699	495,218

Table 4a: Disclosure on Credit Risk Exposure – Sectoral Analysis as at 31 December 2014 (RM '000)

Exposure Class	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale and Retail Trade, and Restaurant and Hotels	Transport, Storage and Communication	Finance, Insurance and Real Estate and Business Activities	Education, Health and Others	Household	Sector N.E.C	Total
<u>Exposures under the Standardised Approach</u>												
Corporate	-	-	31,901	-	1,102	24,924	-	9,498	1,294	-	-	68,719
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns/Central Banks	-	-	-	-	-	-	-	22,099	-	-	-	22,099
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	380,383	-	-	-	380,383
Other Assets	-	-	-	-	-	-	-	-	-	-	11,105	11,105
Defaulted Exposures	-	-	-	-	-	843	-	-	-	-	-	843
Total Credit Exposure	-	-	31,901	-	1,102	25,767	-	411,980	1,294	-	11,105	483,149

Table 4b: Disclosure on Credit Risk Exposure – Sectoral Analysis as at 31 December 2013 (RM '000)

Exposure Class	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale and Retail and Trade, and Restaurant and Hotels	Transport, Storage and Communication	Insurance and Real Estate and Business	Education, Health and Others	Household	Sector N.I.C	Total
Exposures under the Standardised Approach												
Corporate	-	-	35,609	-	1,654	27,427	-	9,820	-	-	-	74,510
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns/Central Banks	-	-	-	-	-	-	-	10,790	-	-	-	10,790
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	395,733	-	-	-	395,733
Other Assets	-	-	-	-	-	-	-	-	-	-	14,185	14,185
Defaulted Exposures	-	-	-	-	-	-	-	-	-	-	-	-
Total Credit Exposure	-	-	35,609	-	1,654	27,427	-	416,343	-	-	14,185	495,218

Table 5a: Disclosure on Credit Risk Exposure – Maturity Analysis as at 31 December 2014 (RM '000)

Exposure Class	One Year or Less	One to Five Years	Over Five Years	Total
Exposures under the Standardised Approach				
Corporate	62,429	-	6,290	68,719
Regulatory Retail	-	-	-	-
Sovereigns/Central Banks	1,946	20,152	-	22,099
Banks, Development Financial Institutions & MDBs	380,383	-	-	380,383
Other Assets	11,105	-	-	11,105
Defaulted Exposures	843	-	-	843
Total Credit Exposure	456,706	20,152	6,290	483,149

Table 5b: Disclosure on Credit Risk Exposure – Maturity Analysis as at 31 December 2013 (RM '000)

Exposure Class	One Year or Less	One to Five Years	Over Five Years	Total
Exposures under the Standardised Approach				
Corporate	59,719	-	14,791	74,510
Regulatory Retail	-	-	-	-
Sovereigns/Central Banks	614	10,176	-	10,790
Banks, Development Financial Institutions & MDBs	395,733	-	-	395,733
Other Assets	14,185	-	-	14,185
Defaulted Exposures	-	-	-	-
Total Credit Exposure	470,251	10,176	14,791	495,218

5.1 Impairment of Financial Assets

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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- (i) Significant financial difficulty of the issuer or obligor;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) Disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - a. Adverse changes in the payment status of borrowers in the portfolio; and
 - b. National or local economic conditions that correlate with defaults on the assets in the portfolio.

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

Table 6a: Impaired Loans, Collective Impairment Allowance, Individual Impairment Allowance and Write-offs as at 31 December 2014 (RM '000)

Purpose of Financing	Collective Impairment	Individual Impairment	Impaired Assets	Write-Offs
<u>Exposures under the Standardised Approach</u>				
Purchase of Non-Residential Property	139	-	-	-
Purchase of Fixed Asset other than Land/ Buildings	-	-	-	-
Working Capital	576	2,287	3,130	-
Others	-	-	-	-
Total Credit Exposure	715	2,287	3,130	-

Table 6b: Impaired Loans, Collective Impairment Allowance, Individual Impairment Allowance and Write-offs as at 31 December 2013 (RM '000)

Purpose of Financing	Collective Impairment	Individual Impairment	Impaired Assets	Write-Offs
<u>Exposures under the Standardised Approach</u>				
Purchase of Non-Residential Property	58	-	-	-
Purchase of Fixed Asset other than Land/ Buildings	-	-	-	-
Working Capital	570	-	-	-
Others	-	-	-	-
Total Credit Exposure	628	-	-	-

Table 7a: Movements in impaired loans, advances and financing as at 31st December 2014 and 31 December 2013 (RM'000)

Item	31.12.2014 (‘000)	31.12.2013 (‘000)
Credit Risk		
At beginning of financial period	0	0
Classified as impaired during the financial period	5,170	0
Reclassified as non-impaired during the financial period	0	0
Amount recovered	2,040	0
Amount written off	0	0
At end of financial period	3,130	0
Individual impairment provision	2,287	0
Net Impaired loans and advances	843	0
Ratio of net impaired loans and advances to gross loans and advances less individual impairments provisions	1.78%	0

Table 7b: Movements in allowance for impaired loans, advances and financing as at 31st December 2014 and 31 December 2013 (RM'000)

Item	31.12.2014 (‘000)	31.12.2013 (‘000)
Credit Risk		
Individual assessment allowance		
At 1 January	0	0
Allowance made during the financial year	2,287	0
Write back made during the financial year	0	0
At 31 December	2,287	0
Collective assessment allowance		
At 1 January	628	0
Allowance made during the financial year	87	628
Write back made during the financial year	0	0
At 31 December	715	628
As a % of gross loans and advances less individual assessment allowance	1.51%	1.52%

5.2 Credit Rating

IIBM has adopted Standardized Approach in the computation of Credit Risk Weighted Assets. External credit assessments by External Credit Assessment Institutions (ECAI) on borrowers or specific securities issued by the borrower are the basis for the determination of risk weights under the standardised approach for exposures to sovereigns, central banks, public sector entities, banks, corporates as well as certain other specific portfolios.

Table 8a: Disclosure on Risk Weights under Standardised Approach as at 31 December 2014 (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 DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity		
0%	22,099	-	-	-	-	-	-	-	753	-	-	-	22,852	0
20%	-	-	380,383	-	-	-	-	-	-	-	-	-	380,383	76,076
50%	-	-	-	-	843	-	-	-	-	-	-	-	843	422
100%	-	-	-	-	55,052	-	-	-	10,352	-	-	-	65,404	65,404
Total Exposure	22,099	-	380,383	-	55,895	-	-	-	11,105	-	-	-	469,482	141,902
Total RWA	0	-	76,076	-	55,474	-	-	-	10,352	-	-	-		
Average Risk Weight	0%	-	20%	-	99.25%	-	-	-	93.22%	-	-	-		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-		

Table 8b: Disclosure on Risk Weights under Standardised Approach as at 31 December 2013 (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 DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing /Investment	Securitisation	Equity		
0%	10,790	-	-	-	13,163	-	-	-	448	-	-	-	24,401	0
20%	-	-	371,975	-	-	-	-	-	-	-	-	-	371,975	74,395
50%	-	-	23,758	-	2,252	-	-	-	-	-	-	-	26,010	13,005
100%	-	-	-	-	59,095	-	-	-	13,737	-	-	-	72,832	72,832
Total Exposure	10,790	-	395,733	-	74,510	-	-	-	14,185	-	-	-	495,218	160,232
Total RWA	0	-	86,274	-	60,221	-	-	-	13,737	-	-	-		
Average Risk Weight	0%	-	21.80%	-	80.82%	-	-	-	96.84%	-	-	-		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-		

Table 9a: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs as at 31 December 2014 (RM'000)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	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						69,562
Total		0	0	0	0	69,562

Exposure Class	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moody's	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 DFIs		379,537		846		
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						69,562
Total		379,537	0	846	0	69,562

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moody's	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		22,099				
Total		22,099	0	0	0	0

Exposure Class	Ratings of Banking Institutions by Approved ECAIs					
	Moody's	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 DFIs		304,137	75,400	846		
Total		304,137	75,400	846	0	0

Table 9b: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs as at 31 December 2013 (RM'000)

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	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						74,510
Total		0	0	0	0	74,510

Exposure Class	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moody's	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 DFIs		392,035		3,698		
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						74,510
Total		392,035	0	3,698	0	74,510

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moody's	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		10,790				
Total		10,790	0	0	0	0

Exposure Class	Ratings of Banking Institutions by Approved ECAIs					
	Moody's	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 DFIs		371,975	20,060	3,698		
Total		371,975	20,060	3,698	0	0

5.3 Credit Risk Mitigation

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 10a: Disclosure on Credit Risk Mitigation Analysis as at 31 December 2014 (RM '000)

Exposure Class (RM '000)	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				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	22,099	0	0	0
Banks, Development Financial Institutions & MDBs	380,272	0	0	0
Corporate	45,779	0	11,956	0
Other Assets	11,105	0	753	0
Defaulted Exposures	843	-	-	-
Total for On- Balance Sheet Exposures	460,098	0	12,709	0
<u>Off-Balance Sheet Exposures</u>				
OTC Credit Derivatives	111	0	0	0
Off balance sheet exposures other than OTC derivatives or credit derivatives	22,940	0	1,711	0
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	23,051	0	1,711	0
Total On and Off- Balance Sheet Exposures	483,149	0	14,420	0

Table 10b: Disclosure on Credit Risk Mitigation Analysis as at 31 December 2013 (RM '000)

Exposure Class (RM '000)	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				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	10,790	0	0	0
Banks, Development Financial Institutions & MDBs	395,599	0	0	0
Corporate	41,445	1,852	10,681	0
Other Assets	14,185	0	448	0
Defaulted Exposures	-	-	-	-
Total for On- Balance Sheet Exposures	462,019	1,852	11,129	0
<u>Off-Balance Sheet Exposures</u>				
Credit Derivatives	134	0	0	0
Off balance sheet exposures other than OTC derivatives or credit derivatives	33,065	400	2,481	0
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	33,199	400	2,481	0

5.4 Off-Balance Sheet Exposure

Table 11a: Disclosures of Off-Balance Sheet Items as at 31 December 2014 (RM'000)

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Credit Substitutes	13,757		13,757	12,046
Short Term Self Liquidating trade related	1,386		277	277
Foreign exchange related contracts				
One year or less	16,739	1	111	22
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	10,000		5,000	5,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	19,529		3,906	3,906
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				
Total	61,411	1	23,051	21,251

Table 11b: Disclosures of Off-Balance Sheet Items as at 31 December 2013 (RM'000)

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Credit Substitutes	14,340		14,340	11,659
Short Term Self Liquidating trade related	1,463		293	293
Foreign exchange related contracts				
One year or less	8,346	11	134	27
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	21,912		10,956	10,956
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	37,380		7,476	7,476
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				
Total	83,441	11	33,199	30,411

6.0 MARKET RISK

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.

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 and IRRBB review are delegated to the Bank's 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.

IIBM's Treasury Department is responsible for the maintenance of adequate and balanced funds to meet liquidity requirement as set forth by BNM, generation of income from prudent risk taking activities in underlying interest rate and foreign exchange market on the approval of ALCO and manages market risks of the Bank's assets and liabilities and foreign exchange position.

6.1 Interest Rate Risk in the Banking Book (IRRBB)

IIBM's market risk mainly comprises interest rate risk as the Bank is not involved in trading activities presently.

Interest Rate Risk in Banking Book (IRRBB) is defined as the exposure the Bank foresees due to adverse movements in interest rate or benchmark rates arising from re-pricing risk, options risk, basis risk and yield curve risk. The following are the sources of interest rate risk:

- Re-pricing Risk – It is risk that arises due to timing difference or mismatches in the maturity and interest rate changes in bank's assets and liabilities.
- Options Risk - It is risk that arises from implicit and explicit options in a bank's assets and liabilities, such as prepayment of loans or early withdrawal of funds.
- Basis Risk – It is due to change in interest rates for various assets and liabilities at the same time, but not necessarily in the same amount.
- Yield Curve Risk – It is the risk that changes in market interest rates may have different effects on similar instruments with different maturities.

Interest Rate Risk in the Banking Book can be measured by the following methods:

- Interest Rate Gap – Interest rate sensitive assets and liabilities positions are distributed in time bands according to its maturity or time remaining to next pricing.
- Net Interest Income (NII) simulations –The NII are performed via interest rate gap and indicate the short term impact of interest rate movements on the projected earnings of the Bank.
- Economic Value of Equity (EVE) – Provides the present value of the net cash flows of the Bank and gives an indication of the underlying value of the Bank’s current position and provides the potential longer impact of interest rate movements on the Bank’s value.

Table 12: Disclosure on Market Risk – Interest Rate Risk/Rate of Return Risk in the Banking Book

	31 December 2014 (RM '000)	31 December 2013 (RM '000)
<i>Movement in basis points</i>	<i>+/- 100 bps</i>	<i>+/- 100 bps</i>
Effect on Net Interest Income	1,856	2,139
Effect on Economic Value of Equity	1,181	431

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 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.

Operational Risk Capital Charge Computation Methodology

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.

Table 13: Disclosure on Operational Risk Weighted Assets

	31 December 2014 (RM '000)	31 December 2013 (RM '000)
Total RWA for Operational Risk	19,392	16,241