



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

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

Pillar 3 Disclosure for Financial Year Ended

31 December 2015

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1.0 OVERVIEW

The Pillar 3 Disclosure for the year ended 31 December 2015 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)”.

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

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 disclosure published is for the year ended 31 December 2015 and is to be read in conjunction with the Bank’s financial statements for financial year ended 31 December 2015.

The disclosure has been reviewed and verified by IIBM’s internal auditors 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's capital structure is 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's capital under the above guideline.

| | <u>31 December 2015</u> | <u>31 December 2014</u> |
|--|-------------------------|-------------------------|
| | RM '000 | RM '000 |
| <u>Common Equity Tier-1 Capital</u> | | |
| Share Capital | 330,000 | 320,000 |
| Accumulated Loss | (9,586) | (8,495) |
| | <hr/> | <hr/> |
| Total CET-1 capital | 320,414 | 311,505 |
| | <hr/> | <hr/> |
| <u>Additional Tier-1 Capital</u> | | |
| Additional Tier 1 Capital Instruments | - | - |
| Share Premium | - | - |
| | <hr/> | <hr/> |
| Total Tier-1 Capital | 320,414 | 311,505 |
| | <hr/> | <hr/> |
| <u>Tier-2 Capital</u> | | |
| Collective Impairment Provision | 790 | 715 |
| | <hr/> | <hr/> |
| Total Tier-2 Capital | 790 | 715 |
| | <hr/> | <hr/> |
| Total Capital | 321,204 | 312,220 |
| | <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 of Directors. 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 risks faced by the Bank and measures it based on qualitative (expert judgment) and quantitative approaches.

The Bank assesses the following risk types:

- Risks 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 types not covered under 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 of Directors and are reviewed on a yearly basis. The setting of the risk appetite enables the Bank to translate risk appetite into risk limits and tolerance.

The objectives of the Bank's Risk Appetite statements are as follows:

- 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 over a 3-year horizon under different severities reflected by different values of projected factors, and subsequently applies them to the current portfolio to derive the projected losses.

The stress test results will be tabled to the Asset & Liability Committee (ALCO) and Board Risk Management Committee (BRMC) and Board on a regular basis.

2.3 Capital Adequacy Ratio

Table 1: Risk Weighted Capital Ratio as at 31 December 2015 and 31 December 2014

| Risk Weighted Assets (RWA) | 31 Dec 2015 (RM '000) | 31 Dec 2014 (RM '000) |
|-----------------------------------|----------------------------------|----------------------------------|
| Credit RWA | 143,702 | 141,902 |
| Market RWA | 1,171 | 367 |
| Operational RWA | 24,611 | 19,392 |
| Total RWA | 169,484 | 161,661 |

| As at | Capital Adequacy | CET 1 | Tier 1 Capital | Total Capital |
|--------------|------------------------------------|--------------|-----------------------|----------------------|
| 31 Dec 2015 | Capital Base (RM '000) | 320,414 | 320,414 | 321,204 |
| | Risk Weighted Capital Ratio (RWCR) | 189.1% | 189.1% | 189.5% |
| 31 Dec 2014 | Capital Base (RM '000) | 311,505 | 311,505 | 312,220 |
| | Risk Weighted Capital Ratio (RWCR) | 192.7% | 192.7% | 193.1% |

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 2015 (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 | 47,491 | | 37,299 | 37,299 | 2,984 |
| Sovereigns / Central Banks | 22,700 | | 22,700 | - | - |
| Banks, Development Financial Institutions & MDBs | 383,097 | | 383,097 | 76,619 | 6,130 |
| Other Assets | 7,685 | | 7,685 | 6,889 | 551 |
| Defaulted Exposures | 3,355 | | 3,355 | 3,355 | 268 |
| Total for On- Balance Sheet Exposures | 464,328 | | 454,136 | 124,162 | 9,933 |
| <u>Off-Balance Sheet Exposures</u> | | | | | |
| OTC Derivatives | 171 | | 171 | 34 | 3 |
| Credit Derivatives | - | | - | - | - |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 21,417 | | 19,506 | 19,506 | 1,560 |
| Defaulted Exposures | - | | - | - | - |
| Total Off- Balance Sheet Exposures | 21,588 | | 19,677 | 19,540 | 1,563 |
| Total On and Off- Balance Sheet Exposures (A) | 485,916 | | 473,813 | 143,702 | 11,496 |
| Market Risk (Standardised Approach) | | Long Position | Short Position | | |
| Foreign Currency Risk | | 1,171 | - | 1,171 | 94 |
| Total Market Exposures (B) | | | | 1,171 | 94 |
| Operational Risk (Basic Indicator Approach) (C) | | | | 24,611 | 1,969 |
| Total RWA and Capital Requirements (A+B+C) | | | | 169,484 | 13,559 |

**Table 2b: 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 | - | - |
| 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 | - | - | - | - |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 22,940 | 21,229 | 21,229 | 1,698 |
| Defaulted Exposures | - | - | - | - |
| 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 | - | 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 |

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 2015 (RM '000)

| Geographical Exposure Exposure Class | Malaysia | | | | | Other Countries | Total |
|--|-----------------|-------------------|----------------|-----------------|---------------|-----------------|----------------|
| | Northern Region | East Coast Region | Central Region | Southern Region | East Malaysia | | |
| Exposures under the Standardised Approach | | | | | | | |
| Corporate | 13,376 | 23,074 | 32,444 | - | - | 14 | 68,908 |
| Regulatory Retail | - | - | - | - | - | - | - |
| Sovereigns / Central Banks | - | - | 22,700 | - | - | - | 22,700 |
| Banks, Development Financial Institutions & MDBs | - | - | 378,601 | - | - | 4,667 | 383,268 |
| Other Assets | - | - | 7,685 | - | - | - | 7,685 |
| Defaulted Exposures | - | - | 3,355 | - | - | - | 3,355 |
| Total Credit Exposure | 13,376 | 23,074 | 444,785 | - | - | 4,681 | 485,916 |

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

| Geographical Exposure Exposure Class | Malaysia | | | | | Other Countries | Total |
|--|-----------------|-------------------|----------------|-----------------|---------------|-----------------|----------------|
| | 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 4a: Disclosure on Credit Risk Exposure – Sectoral Analysis as at 31 December 2015 (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 | - | - | 38,011 | - | 883 | 25,791 | - | 3,517 | 706 | - | - | 68,908 |
| Regulatory Retail | - | - | - | - | - | - | - | - | - | - | - | - |
| Sovereigns / Central Banks | - | - | - | - | - | - | - | 22,700 | - | - | - | 22,700 |
| Banks, Development Financial Institutions & MDBs | - | - | - | - | - | - | - | 383,268 | - | - | - | 383,268 |
| Other Assets | - | - | - | - | - | - | - | - | - | - | 7,685 | 7,685 |
| Defaulted Exposures | - | - | - | - | - | 3,355 | - | - | - | - | - | 3,355 |
| Total Credit Exposure | - | - | 38,011 | - | 883 | 29,146 | - | 409,485 | 706 | - | 7,685 | 485,916 |

Table 4b: 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 |
|--|---------------------|----------------------|---------------|-----------------------------------|--------------|---|--------------------------------------|--|------------------------------|-----------|---------------|----------------|
| Exposures under the Standardised Approach | | | | | | | | | | | | |
| 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 5a: Disclosure on Credit Risk Exposure – Maturity Analysis as at 31 December 2015 (RM '000)

| Exposure Class | One Year or Less | One to Five Years | Over Five Years | Total |
|--|------------------|-------------------|-----------------|----------------|
| Exposures under the Standardised Approach | | | | |
| Corporate | 59,493 | - | 9,415 | 68,908 |
| Regulatory Retail | - | - | - | - |
| Sovereigns / Central Banks | 12,784 | 9,916 | - | 22,700 |
| Banks, Development Financial Institutions & MDBs | 383,268 | - | - | 383,268 |
| Other Assets | 7,685 | - | - | 7,685 |
| Defaulted Exposures | 3,355 | - | - | 3,355 |
| Total Credit Exposure | 466,585 | 9,916 | 9,415 | 485,916 |

Table 5b: 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 |

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 2015 (RM '000)

| Purpose of Financing | Collective Impairment | Individual Impairment | Impaired Assets | Write-Offs |
|---|-----------------------|-----------------------|-----------------|--------------|
| Exposures under the Standardised Approach | | | | |
| Purchase of Non-Residential Property | 94 | - | - | - |
| Purchase of Fixed Asset other than Land / Buildings | 56 | - | - | - |
| Working Capital | 640 | 1,644 | 4,999 | 2,055 |
| Total Credit Exposure | 790 | 1,644 | 4,999 | 2,055 |

Table 6b: 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 |
|---|-----------------------|-----------------------|-----------------|------------|
| Exposures under the Standardised Approach | | | | |
| Purchase of Non-Residential Property | 139 | - | - | - |
| Purchase of Fixed Asset other than Land / Buildings | - | - | - | - |
| Working Capital | 576 | 2,287 | 3,130 | - |
| Total Credit Exposure | 715 | 2,287 | 3,130 | - |

Table 7a: Movements in impaired loans, advances and financing as at 31st December 2015 and 31 December 2014 (RM '000)

| Item | 31.12.2015 (RM '000) | 31.12.2014 (RM '000) |
|---|-------------------------|-------------------------|
| Credit Risk | | |
| At beginning of financial period | 3,130 | - |
| Classified as impaired during the financial period | 6,246 | 5,170 |
| Reclassified as non-impaired during the financial period | - | - |
| Amount recovered | (2,322) | (2,040) |
| Amount written off | (2,055) | - |
| At end of financial period | 4,999 | 3,130 |
| Individual impairment provision | (1,644) | (2,287) |
| Net Impaired loans and advances | 3,355 | 843 |
| Ratio of net impaired loans and advances to gross loans and advances less individual impairments provisions | 6.50% | 1.78% |

Table 7b: Movements in allowance for impaired loans, advances and financing as at 31st December 2015 and 31 December 2014 (RM '000)

| Item | 31.12.2015 (RM '000) | 31.12.2014 (RM '000) |
|---|-------------------------|-------------------------|
| Credit Risk | | |
| Individual assessment allowance | | |
| At 1 January | 2,287 | - |
| Allowance made during the financial year | 1,820 | 2,287 |
| Write back made during the financial year | (408) | - |
| Write off made during the financial year | (2,055) | - |
| At 31 December | 1,644 | 2,287 |
| Collective assessment allowance | | |
| At 1 January | 715 | 628 |
| Allowance made during the financial year | 75 | 87 |
| Write back made during the financial year | - | - |
| At 31 December | 790 | 715 |
| As a % of gross loans and advances less individual assessment allowance | 1.53% | 1.51% |

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 2015 (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% | 22,700 | - | - | - | - | - | - | - | 796 | - | - | - | 23,496 | - |
| 20% | - | - | 383,268 | - | - | - | - | - | - | - | - | - | 383,268 | 76,653 |
| 50% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 100% | - | - | - | - | 60,160 | - | - | - | 6,889 | - | - | - | 67,049 | 67,049 |
| Total Exposure | 22,700 | - | 383,268 | - | 60,160 | - | - | - | 7,685 | - | - | - | 473,813 | 143,702 |
| Total RWA | - | - | 76,653 | - | 60,160 | - | - | - | 6,889 | - | - | - | | |
| Average Risk Weight | 0.00% | - | 20.00% | - | 100.00% | - | - | - | 89.64% | - | - | - | | |
| Deduction from Capital Base | - | - | - | - | - | - | - | - | - | - | - | - | | |

Table 8b: 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 | - |
| 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 | - | - | 76,076 | - | 55,474 | - | - | - | 10,352 | - | - | - | | |
| Average Risk Weight | 0% | - | 20% | - | 99.25% | - | - | - | 93.22% | - | - | - | | |
| Deduction from Capital Base | - | - | - | - | - | - | - | - | - | - | - | - | | |

Table 9a: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs as at 31 December 2015 (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 | | | | | | 9,415 |
| Total | | - | - | - | - | 9,415 |

| 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 | | 378,601 | | 4,667 | | |
| 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 | | | | | | 59,493 |
| Total | | 378,601 | - | 4,667 | - | 59,493 |

| 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 | | 22,700 | | | | |
| Total | | 22,700 | - | - | - | - |

| 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 | | | | | | |
| Total | | - | - | - | - | - |

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

| Exposure Class | Ratings of Corporate by Approved ECAs | | | | | |
|--|---------------------------------------|-------------|----------|-------------|---------|---------------|
| | 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 | | - | - | - | - | 69,562 |

| Exposure Class | Short term Ratings of Banking Institutions and Corporate by Approved ECAs | | | | | |
|--|---|----------------|--------|--------------|--------|---------------|
| | 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 | | 377,915 | | 2,468 | | |
| 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 | | 377,915 | - | 2,468 | - | 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 | - | - | - | - |

| 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 | | 302,515 | 75,400 | 2,468 | | |
| Total | | 302,515 | 75,400 | 2,468 | - | - |

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 2015 (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 | 22,700 | - | - | - |
| Banks, Development Financial Institutions & MDBs | 383,097 | - | - | - |
| Corporate | 47,491 | - | 10,192 | - |
| Other Assets | 7,685 | - | - | - |
| Defaulted Exposures | 3,355 | - | - | - |
| Total for On- Balance Sheet Exposures | 464,328 | - | 10,192 | - |
| <u>Off-Balance Sheet Exposures</u> | | | | |
| OTC Credit Derivatives | 171 | - | - | - |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 21,417 | - | 1,911 | - |
| Defaulted Exposures | - | - | - | - |
| Total Off- Balance Sheet Exposures | 21,588 | - | 1,911 | - |
| Total On and Off- Balance Sheet Exposures | 485,916 | - | 12,103 | - |

Table 10b: 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 | - | - | - |
| Banks, Development Financial Institutions & MDBs | 380,272 | - | - | - |
| Corporate | 45,779 | - | 11,956 | - |
| Other Assets | 11,105 | - | 753 | - |
| Defaulted Exposures | 843 | - | - | - |
| Total for On- Balance Sheet Exposures | 460,098 | - | 12,709 | - |
| <u>Off-Balance Sheet Exposures</u> | | | | |
| OTC Credit Derivatives | 111 | - | - | - |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 22,940 | - | 1,711 | - |
| Defaulted Exposures | - | - | - | - |
| Total Off- Balance Sheet Exposures | 23,051 | - | 1,711 | - |
| Total On and Off- Balance Sheet Exposures | 483,149 | - | 14,420 | - |

5.4 Off-Balance Sheet Exposure

Table 11a: Disclosures of Off-Balance Sheet Items as at 31 December 2015 (RM '000)

| Description | Principal Amount | Positive Fair Value of Derivative Contracts | Credit Equivalent Amount | Risk Weighted Assets |
|---|------------------|---|--------------------------|----------------------|
| Credit Substitutes | 14,411 | | 14,411 | 12,500 |
| Short Term Self Liquidating trade related | 1,318 | | 264 | 264 |
| Foreign exchange related contracts | | | | |
| One year or less | 21,246 | 39 | 171 | 34 |
| 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 | 33,710 | | 6,742 | 6,742 |
| 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 | 70,685 | 39 | 21,588 | 19,540 |

Table 11b: 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 |

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) simulation – The NII simulation is performed via interest rate gap and indicates 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 2015 (RM '000) | 31 December 2014 (RM '000) |
|------------------------------------|---------------------------------------|---------------------------------------|
| <i>Movement in basis points</i> | <i>+ / - 100 bps</i> | <i>+ / - 100 bps</i> |
| Effect on Net Interest Income | 1,933 | 1,856 |
| Effect on Economic Value of Equity | 915 | 1,181 |

7.0 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.

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 2015 (RM '000) | 31 December 2014 (RM '000) |
|--------------------------------|---------------------------------------|---------------------------------------|
| Total RWA for Operational Risk | 24,611 | 19,392 |