

Company No.

911666-D



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

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

RISK WEIGHTED CAPITAL ADEQUACY (BASEL II)

PILLAR 3 DISCLOSURE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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1.0 OVERVIEW

The Pillar 3 Disclosure for the financial year ended 31 December 2017 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 financial year ended 31 December 2017 and is to be read in conjunction with the Bank’s annual financial statements for the financial year ended 31 December 2017.

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) "Capital Adequacy Framework (Capital Components)", financial institutions capital structure consists of Common Equity Tier 1, additional Tier 1 and Tier 2 capital. IIBM's capital structure is solely 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 Dec 2017</u> <u>(RM '000)</u>	<u>31 Dec 2016</u> <u>(RM '000)</u>
<u>Common Equity Tier-1 Capital</u>		
Share Capital	330,000	330,000
Accumulated Loss	(10,389)	(10,971)
Total Common Equity Tier-1 Capital	<u>319,611</u>	<u>319,029</u>
<u>Additional Tier-1 Capital</u>		
Additional Tier 1 Capital Instruments	-	-
Share Premium	-	-
Total Tier-1 Capital	<u>319,611</u>	<u>319,029</u>
<u>Tier-2 Capital</u>		
Collective Impairment Provision	788	975
Total Tier-2 Capital	<u>788</u>	<u>975</u>
Total Capital	<u>320,399</u>	<u>320,004</u>

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 for the assessment of the Bank's capital adequacy and the Bank's ability to meet its obligations and the 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 risks 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 the risk appetite into risk limits and tolerance.

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

- To express 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 assess 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 impact.

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

2.3 Capital Adequacy Ratio

The breakdown of risk-weighted assets by major category is as follows:

<u>Risk Weighted Assets (RWA)</u>	<u>31 Dec 2017</u> <u>(RM '000)</u>	<u>31 Dec 2016</u> <u>(RM '000)</u>
Credit RWA	133,920	150,144
Market RWA	4,858	4,120
Operational RWA	27,435	26,947
Total Risk-Weighted Assets	166,213	181,211

<u>Capital Ratios</u>	<u>31 Dec 2017</u> <u>(RM '000)</u>	<u>31 Dec 2016</u> <u>(RM '000)</u>
Core Capital Ratio	192.3%	176.1%
Risk-Weighted Capital Ratio	192.8%	176.6%

The Bank does not have any innovative, non-innovative, complex or hybrid capital instruments.

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 31 December 2017 (RM '000)

<u>Exposure Class</u>	<u>Gross Exposures / EAD Before CRM</u>	<u>Net Exposures / EAD After CRM</u>	<u>Risk Weighted Assets</u>	<u>Minimum Capital Requirement at 8%</u>
Credit Risk				
Exposures under the Standardised Approach				
<u>On-Balance Sheet Exposures</u>				
Corporate	64,836	55,018	42,728	3,418
Sovereigns & Central Banks	30,829	30,829	-	-
Banks, Development Financial Institutions & MDBs	345,164	345,164	69,033	5,523
Other Assets	2,390	2,390	1,655	132
Defaulted Exposures	2,272	2,272	2,272	182
Total for On- Balance Sheet Exposures	445,491	435,673	115,688	9,255
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	-	-	-	-
Credit Derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	21,810	18,232	18,232	1,459
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	21,810	18,232	18,232	1,459
Total On and Off- Balance Sheet Exposures (A)	467,301	453,905	133,920	10,714
Market Risk (Standardised Approach)				
	Long Position	Short Position		
Foreign Currency Risk	4,858	-	4,858	389
Total Market Exposures (B)			4,858	389
Operational Risk (Basic Indicator Approach) (C)			27,435	2,195
Total RWA and Capital Requirements (A+B+C)			166,213	13,298

Table 2b: Disclosure on Capital Adequacy under Standardised Approach as at 31 December 2016 (RM '000)

<u>Exposure Class</u>	<u>Gross Exposures / EAD Before CRM</u>	<u>Net Exposures / EAD After CRM</u>	<u>Risk Weighted Assets</u>	<u>Minimum Capital Requirement at 8%</u>
Credit Risk				
Exposures under the Standardised Approach				
<u>On-Balance Sheet Exposures</u>				
Corporate	58,219	48,723	48,723	3,898
Sovereigns & Central Banks	21,638	21,638	-	-
Banks, Development Financial Institutions & MDBs	388,714	388,714	77,743	6,219
Other Assets	3,663	3,663	3,298	264
Defaulted Exposures	2,638	2,638	2,905	232
Total for On- Balance Sheet Exposures	474,872	465,376	132,669	10,613
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	91	91	18	1
Credit Derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	19,448	17,457	17,457	1,397
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	19,539	17,548	17,475	1,398
Total On and Off- Balance Sheet Exposures (A)	494,411	482,924	150,144	12,011
Market Risk (Standardised Approach)	Long Position	Short Position		
Foreign Currency Risk	4,120	-	4,120	330
Total Market Exposures (B)			4,120	330
Operational Risk (Basic Indicator Approach) (C)			26,947	2,156
Total RWA and Capital Requirements (A+B+C)			181,211	14,497

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 2017
 (RM '000)

<u>Geographical Exposure</u>	<u>Malaysia</u>	<u>Other Countries</u>	<u>Total</u>
<u>Exposures under the Standardised Approach</u>			
Corporate	86,646	-	86,646
Regulatory Retail	-	-	-
Sovereigns & Central Banks	30,829	-	30,829
Banks, Development Financial Institutions & MDBs	342,938	2,226	345,164
Other Assets	2,390	-	2,390
Defaulted Exposures	2,272	-	2,272
Total Credit Exposure	465,075	2,226	467,301

Table 3b: Disclosure on Credit Risk Exposure – Geographical Analysis as at 31 December 2016
 (RM '000)

<u>Geographical Exposure</u>	<u>Malaysia</u>	<u>Other Countries</u>	<u>Total</u>
<u>Exposures under the Standardised Approach</u>			
Corporate	77,667	-	77,667
Regulatory Retail	-	-	-
Sovereigns & Central Banks	21,638	-	21,638
Banks, Development Financial Institutions & MDBs	377,360	11,445	388,805
Other Assets	3,663	-	3,663
Defaulted Exposures	2,638	-	2,638
Total Credit Exposure	482,966	11,445	494,411

Table 4a: Disclosure on Credit Risk Exposure – Sectoral Analysis as at 31 December 2017 (RM '000)

<u>Exposure Class</u>	<u>Corporate</u>	<u>Regulatory Retail</u>	<u>Sovereigns & Central Banks</u>	<u>Banks, Development Financial Inst. & MDBs</u>	<u>Other Assets</u>	<u>Defaulted Exposures</u>	<u>Total Credit Exposure</u>
<u>Exposures under the Standardised Approach</u>							
Primary Agriculture	-	-	-	-	-	-	-
Mining & Quarrying	-	-	-	-	-	-	-
Manufacturing	39,629	-	-	-	-	-	39,629
Electricity, Gas & Water Supply	-	-	-	-	-	-	-
Construction	798	-	-	-	-	-	798
Wholesale, Retail Trade and Restaurant & Hotels	23,015	-	-	-	-	2,272	25,287
Transport, Storage and Communication	200	-	-	-	-	-	200
Finance, Insurance, Real Estate & Business Activities	22,204	-	30,829	345,164	-	-	398,197
Education, Health & Others	800	-	-	-	-	-	800
Household	-	-	-	-	-	-	-
Sector N.E.C.	-	-	-	-	2,390	-	2,390
Total	86,646	-	30,829	345,164	2,390	2,272	467,301

Table 4b: Disclosure on Credit Risk Exposure – Sectoral Analysis as at 31 December 2016 (RM '000)

<u>Exposure Class</u>	<u>Corporate</u>	<u>Regulatory Retail</u>	<u>Sovereigns & Central Banks</u>	<u>Banks, Development Financial Inst. & MDBs</u>	<u>Other Assets</u>	<u>Defaulted Exposures</u>	<u>Total Credit Exposure</u>
<u>Exposures under the Standardised Approach</u>							
Primary Agriculture	-	-	-	-	-	-	-
Mining & Quarrying	-	-	-	-	-	-	-
Manufacturing	34,383	-	-	-	-	-	34,383
Electricity, Gas & Water Supply	-	-	-	-	-	-	-
Construction	935	-	-	-	-	-	935
Wholesale, Retail Trade and Restaurant & Hotels	31,039	-	-	-	-	2,638	33,677
Transport, Storage and Communication	-	-	-	-	-	-	-
Finance, Insurance, Real Estate & Business Activities	10,554	-	21,638	388,805	-	-	420,997
Education, Health & Others	756	-	-	-	-	-	756
Household	-	-	-	-	-	-	-
Sector N.E.C.	-	-	-	-	3,663	-	3,663
Total	77,667	-	21,638	388,805	3,663	2,638	494,411

Table 5a: Disclosure on Credit Risk Exposure – Maturity Analysis as at 31 December 2017 (RM '000)

<u>Exposure Class</u>	<u>One Year or Less</u>	<u>One to Five Years</u>	<u>Over Five Years</u>	<u>Total</u>
<u>Exposures under the Standardised Approach</u>				
Corporate	61,611	18,592	6,443	86,646
Regulatory Retail	-	-	-	-
Sovereigns & Central Banks	10,580	20,249	-	30,829
Banks, Development Financial Institutions & MDBs	345,164	-	-	345,164
Other Assets	2,390	-	-	2,390
Defaulted Exposures	2,272	-	-	2,272
Total Credit Exposure	422,017	38,841	6,443	467,301

Table 5b: Disclosure on Credit Risk Exposure – Maturity Analysis as at 31 December 2016 (RM '000)

<u>Exposure Class</u>	<u>One Year or Less</u>	<u>One to Five Years</u>	<u>Over Five Years</u>	<u>Total</u>
<u>Exposures under the Standardised Approach</u>				
Corporate	63,277	-	14,390	77,667
Regulatory Retail	-	-	-	-
Sovereigns & Central Banks	1,344	20,294	-	21,638
Banks, Development Financial Institutions & MDBs	388,805	-	-	388,805
Other Assets	3,663	-	-	3,663
Defaulted Exposures	2,361	-	277	2,638
Total Credit Exposure	459,450	20,294	14,667	494,411

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 any other manner of 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: Net Impaired Loans, Collective Impairment Allowance, Individual Impairment Allowance and Write-offs as at 31 December 2017 **(RM '000)**

<u>Purpose of Financing</u>	<u>Collective Impairment</u>	<u>Individual Impairment</u>	<u>Net Impaired Assets</u>	<u>Write-Offs</u>
<u>Exposures under the Standardised Approach</u>				
Purchase of Residential Property	4	-	-	-
Purchase of Non-Residential Property	91	-	-	-
Purchase of Fixed Asset other than Land / Buildings	49	-	-	-
Working Capital	644	1,265	2,272	-
Total Credit Exposure	788	1,265	2,272	-

Table 6b: Net Impaired Loans, Collective Impairment Allowance, Individual Impairment Allowance and Write-offs as at 31 December 2016 **(RM '000)**

<u>Purpose of Financing</u>	<u>Collective Impairment</u>	<u>Individual Impairment</u>	<u>Net Impaired Assets</u>	<u>Write-Offs</u>
<u>Exposures under the Standardised Approach</u>				
Purchase of Non-Residential Property	100	-	-	-
Purchase of Fixed Asset other than Land / Buildings	53	-	-	-
Working Capital	822	1,504	2,638	-
Total Credit Exposure	975	1,504	2,638	-

Table 7a: Movements in impaired loans, advances and financing as at 31 December 2017 and 31 December 2016 (RM '000)

<u>Item</u>	<u>31 Dec 2017</u> <u>(RM '000)</u>	<u>31 Dec 2016</u> <u>(RM '000)</u>
Credit Risk		
At beginning of the financial period	4,142	4,999
Classified as impaired during the financial period	-	533
Reclassified as non-impaired during the financial period	-	-
Interest reversal	-	(64)
Amount recovered	(605)	(1,326)
Amount written off	-	-
At end of the financial period	3,537	4,142
Individual impairment provision	(1,265)	(1,504)
Net Impaired loans and advances	2,272	2,638
Ratio of net impaired loans and advances to gross loans and advances less individual impairments provisions	4.32%	4.27%

Table 7b: Movements in allowance for impaired loans, advances and financing as at 31 December 2017 and 31 December 2016 (RM '000)

<u>Item</u>	<u>31 Dec 2017</u> <u>(RM '000)</u>	<u>31 Dec 2016</u> <u>(RM '000)</u>
Credit Risk		
<u>Individual assessment allowance</u>		
At 1 January	1,504	1,644
Allowance made during the financial year	-	-
Write back made during the financial year	(239)	(140)
Write off made during the financial year	-	-
At end of the financial period	1,265	1,504
<u>Collective assessment allowance</u>		
At 1 January	975	790
Allowance made during the financial year	-	185
Write back made during the financial year	(187)	-
At end of the financial period	788	975
As a % of gross loans and advances less individual assessment allowance	1.50%	1.58%

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 2017 (RM '000)

Risk Weights	<u>Exposures after Netting and Credit Risk Mitigation</u>												Total Risk Weighted Assets	
	<u>Sovereigns & Central Banks</u>	<u>PSEs</u>	<u>Banks, MDBs and DFIs</u>	<u>Insurance Cos, Securities Firms & Fund Managers</u>	<u>Corporates</u>	<u>Regulatory Retail</u>	<u>Residential Mortgages</u>	<u>Higher Risk Assets</u>	<u>Other Assets</u>	<u>Specialised Financing / Investment</u>	<u>Securitisation</u>	<u>Equity</u>		<u>Total Exposures after Netting & Credit Risk Mitigation</u>
0%	30,829	-	-	-	-	-	-	-	735	-	-	-	31,564	-
20%	-	-	345,164	-	15,363	-	-	-	-	-	-	-	360,527	72,106
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	60,159	-	-	-	1,655	-	-	-	61,814	61,814
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposure	30,829	-	345,164	-	75,522	-	-	-	2,390	-	-	-	453,905	133,920
Total RWA	-	-	69,033	-	63,232	-	-	-	1,655	-	-	-	-	133,920
Average Risk Weight	0.00%		20.00%		83.73%				69.25%					
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 8b: Disclosure on Risk Weights under Standardised Approach as at 31 December 2016 (RM '000)

Risk Weights	<u>Exposures after Netting and Credit Risk Mitigation</u>												Total Risk Weighted Assets	
	<u>Sovereigns & Central Banks</u>	<u>PSEs</u>	<u>Banks, MDBs and DFIs</u>	<u>Insurance Cos. Securities Firms & Fund Managers</u>	<u>Corporates</u>	<u>Regulatory Retail</u>	<u>Residential Mortgages</u>	<u>Higher Risk Assets</u>	<u>Other Assets</u>	<u>Specialised Financing/ Investment</u>	<u>Securitisation</u>	<u>Equity</u>		<u>Total Exposures after Netting & Credit Risk Mitigation</u>
0%	21,638	-	-	-	-	-	-	-	365	-	-	-	22,003	-
20%	-	-	388,805	-	-	-	-	-	-	-	-	-	388,805	77,761
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	68,285	-	-	-	3,298	-	-	-	71,583	71,583
150%	-	-	-	-	533	-	-	-	-	-	-	-	533	800
Total Exposure	21,638	-	388,805	-	68,818	-	-	-	3,663	-	-	-	482,924	150,144
Total RWA	-	-	77,761	-	69,085	-	-	-	3,298	-	-	-	-	150,144
Average Risk Weight	0.00%		20.00%		100.39%				90.04%					
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 9a: Disclosure on Rated and Unrated Exposures for Corporates According to Ratings by ECAIs (RM '000)

	<u>Moody's</u>	<u>Ratings of Corporates by Approved ECAIs</u>				
		<u>Aaa to Aaa3</u>	<u>A1 to A3</u>	<u>Baa1 to Ba3</u>	<u>B1 to C</u>	
<u>Corporates</u>	<u>S&P</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
	<u>Fitch</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
	<u>RAM</u>	<u>AAA to AA3</u>	<u>A to A3</u>	<u>BBB1 to BB3</u>	<u>B to D</u>	<u>Unrated</u>
	<u>MARC</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
	<u>Rating & Investment Inc.</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
31 Dec 2017		15,363	-	-	-	73,555
31 Dec 2016		-	-	-	-	80,305

Table 9b: Disclosure on Rated and Unrated Exposures for Banks according to Ratings by ECAIs (RM '000)

	<u>Moody's</u>	<u>Short Term Ratings of Banking Institutions by Approved ECAIs</u>				
		<u>P-1</u>	<u>P-2</u>	<u>P-3</u>	<u>Others</u>	
<u>Banks</u>	<u>S&P</u>	<u>A-1</u>	<u>A-2</u>	<u>A-3</u>	<u>Others</u>	
	<u>Fitch</u>	<u>F1+, F1</u>	<u>F2</u>	<u>F3</u>	<u>B to D</u>	
	<u>RAM</u>	<u>P-1</u>	<u>P-2</u>	<u>P-3</u>	<u>NP</u>	<u>Unrated</u>
	<u>MARC</u>	<u>MARC -1</u>	<u>MARC -2</u>	<u>MARC -3</u>	<u>MARC -4</u>	
	<u>Rating & Investment Inc.</u>	<u>a-1+, a-1</u>	<u>a-2</u>	<u>a-3</u>	<u>b, c</u>	
31 Dec 2017		342,938	-	2,226	-	-
31 Dec 2016		377,360	-	11,445	-	-

Table 9c: Disclosure on Rated and Unrated Exposures for Sovereigns According to Ratings by ECAIs (RM '000)

	<u>Moody's</u>	<u>Ratings of Sovereigns by Approved ECAIs</u>				
		<u>Aaa to Aaa3</u>	<u>A1 to A3</u>	<u>Baa1 to Ba3</u>	<u>B1 to C</u>	
<u>Sovereigns</u>	<u>S&P</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
	<u>Fitch</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
	<u>RAM</u>	<u>AAA to AA3</u>	<u>A to A3</u>	<u>BBB1 to BB3</u>	<u>B to D</u>	<u>Unrated</u>
	<u>MARC</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
	<u>Rating & Investment Inc.</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	
31 Dec 2017		30,829	-	-	-	-
31 Dec 2016		21,638	-	-	-	-

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 2017 (RM '000)

<u>Exposure Class (RM '000)</u>	<u>Exposures Before CRM</u>	<u>Exposures Covered by Guarantees / Credit Derivatives</u>	<u>Exposures Covered by Eligible Financial Collateral</u>	<u>Exposures Covered by Other Eligible Collateral</u>
Credit Risk				
Exposures under the Standardised Approach				
<u>On-Balance Sheet Exposures</u>				
Sovereigns & Central Banks	30,829	-	-	-
Banks, Development Financial Institutions & MDBs	345,164		-	-
Corporate	64,836		9,816	-
Other Assets	2,390	-	-	-
Defaulted Exposures	2,272	-	-	-
Total for On- Balance Sheet Exposures	445,491	-	9,816	-
<u>Off-Balance Sheet Exposures</u>				
OTC Credit Derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	21,810		3,579	-
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	21,810	-	3,579	-
Total On and Off- Balance Sheet Exposures	467,301	-	13,395	-

Table 10b: Disclosure on Credit Risk Mitigation Analysis as at 31 December 2016 (RM '000)

<u>Exposure Class (RM '000)</u>	<u>Exposures Before CRM</u>	<u>Exposures Covered by Guarantees / Credit Derivatives</u>	<u>Exposures Covered by Eligible Financial Collateral</u>	<u>Exposures Covered by Other Eligible Collateral</u>
Credit Risk				
Exposures under the Standardised Approach				
<u>On-Balance Sheet Exposures</u>				
Sovereigns & Central Banks	21,638	-	-	-
Banks, Development Financial Institutions & MDBs	388,714		-	-
Corporate	58,219		9,496	-
Other Assets	3,663	-	-	-
Defaulted Exposures	2,638	-	-	-
Total for On- Balance Sheet Exposures	474,872	-	9,496	-
<u>Off-Balance Sheet Exposures</u>				
OTC Credit Derivatives	91	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	19,448		1,991	-
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	19,539	-	1,991	-
Total On and Off- Balance Sheet Exposures	494,411	-	11,487	-

5.4 Off-Balance Sheet Exposure

Table 11a: Disclosures of Off-Balance Sheet Items as at 31 December 2017 (RM '000)

<u>Description</u>	<u>Principal Amount</u>	<u>Positive Fair Value of Derivative Contracts</u>	<u>Credit Equivalent Amount</u>	<u>Risk Weighted Assets</u>
Credit Substitutes	12,011		12,011	10,708
Transaction Related Contingent Items	584		292	277
Short Term Self Liquidating Trade Related Contingencies	780		156	148
Foreign exchange related contracts				
One year or less	5,407	8	-	-
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	298		149	149
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	46,009		9,202	6,950
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	65,089	8	21,810	18,232

Table 11b: Disclosures of Off-Balance Sheet Items as at 31 December 2016 (RM '000)

<u>Description</u>	<u>Principal Amount</u>	<u>Positive Fair Value of Derivative Contracts</u>	<u>Credit Equivalent Amount</u>	<u>Risk Weighted Assets</u>
Credit Substitutes	12,746		12,746	10,814
Transaction Related Contingent Items	-		-	-
Short Term Self Liquidating Trade Related Contingencies	1,136		227	227
Foreign exchange related contracts				
One year or less	16,100	-	91	18
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	32,373		6,475	6,416
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	62,355	-	19,539	17,475

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 the liquidity requirement as set forth by BNM, the generation of income from prudent risk-taking activities in underlying interest rate and foreign exchange market on the approval of ALCO, and for managing the 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 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

	<u>31 December 2017</u>	<u>31 December 2016</u>
	<u>(RM '000)</u>	<u>(RM '000)</u>
<u>Movement in Basis Points</u>	<u>+ 100 bps</u>	<u>+ 100 bps</u>
Effect on Net Interest Income	1,862	1,564
Effect on Economic Value of Equity	1,317	1,104

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 it in various ways. These include breakdowns, errors and business interruptions, 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

	<u>31 December 2017</u> (RM '000)	<u>31 December 2016</u> (RM '000)
Total RWA for Operational Risk	27,435	26,947