



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

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

Pillar 3 Disclosure for Financial Year Ended
31 December 2013

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1.0 OVERVIEW

The Pillar 3 Disclosure for the year ended 31 December 2013 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 2013 and is to be read in conjunction with the Bank’s financial statements for financial year ended 31 December 2013.

The disclosures have been reviewed and verified by the IIBM’s internal auditor and approved by the Board of Directors 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.

IIBM capital structure, according to the BNM's "Risk Weighted Capital Adequacy Framework", consists of Common Equity Tier 1, additional Tier 1 and Tier 2 capital. Common Equity Tier 1 capital comprises ordinary paid-up share capital, statutory reserves and retained profits; additional Tier 1 capital consist of additional Tier 1 capital instruments that meets BNM's criteria and share premium resulting from issuance of additional Tier 1 instruments while Tier 2 capital comprises collective impairment provision allocated.

	<u>31 December 2013</u>	<u>31 December 2012</u>
	RM'000	RM'000
<u>Common Equity Tier-1 Capital</u>		
Share capital	320,000 ¹	310,000
Accumulated Loss	(6,445)	(4,246)
	<hr/>	<hr/>
Total CET-1 capital	313,555	305,754
	<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	628	-
	<hr/>	<hr/>
Total Tier-2 capital	628	-
	<hr/>	<hr/>
Total Capital	314,183	305,754
	<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 is in the midst of full ICAAP implementation 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.

¹ Total capital injection of RM10 million by Shareholder Banks was approved by Bank Negara Malaysia on 20th December 2013.

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 2013 and 31 December 2012

Risk Weighted Assets (RWA)	31 Dec 2013 (RM '000)	31 Dec 2012 (RM '000)
Credit RWA	160,232	90,469
Market RWA	3,700	-
Operational RWA	16,241	8,431
Total RWA	180,173	98,900

As at	Capital Adequacy	CET 1	Tier 1 Capital	Total Capital
31 Dec 2013	Capital Base (RM '000)	313,555	313,555	314,183
	Risk Weighted Capital Ratio (RWCR) ²	174.03%	174.03%	174.38%
31 Dec 2012	Capital Base (RM '000)	305,754	305,754	305,754
	Risk Weighted Capital Ratio (RWCR)	309.15%	309.145%	309.15%

² RWCR is computed by taking total capital base divided by total risk weighted asset.

3.0 REGULATORY CAPITAL REQUIREMENT

Tables 2 - 10 present the minimum regulatory capital requirement for credit risk under the Standardised Approach. These tables tabulate the total RWA under the various exposure classes under the Standardised Approach and apply the minimum capital requirement at 8% as set by BNM.

Table 2a: 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	29,838	2,387
Sovereigns/Central Banks	10,790		10,790	0	0
Banks, Development Financial Institutions & MDBs	395,599		395,599	86,247	6,900
Other Assets	14,185		14,185	13,737	1,099
Defaulted Exposures	0		0	0	0
Total for On- Balance Sheet Exposures	462,019		462,019	129,822	10,386
<u>Off-Balance Sheet Exposures</u>					
Credit Derivatives	134		134	27	2
Off balance sheet exposures other than OTC derivatives or credit derivatives	33,065		33,065	30,384	2,431
Defaulted Exposures	0		0	0	0
Total Off- Balance Sheet Exposures	33,199		33,199	30,411	2,433
Total On and Off- Balance Sheet Exposures (A)	495,218		495,218	160,232³	12,819
Market Risk (Standardised Approach)		Long Position	Short Position		
Foreign Currency Risk		3,700	0	3,700	3,700
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

³ Discrepancies between the total and sum of the components in the tables contained in this disclosure are due to actual summation method which is rounded up to the nearest thousands.

Table 2b: Disclosure on Capital Adequacy under Standardised Approach as at 31st December 2012 (RM'000)

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

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 2013
 (RM '000)**

Geographical Exposure as at 31 December 2013	Malaysia					Other Countries	Total
	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 3b: Disclosure on Credit Risk Exposure – Geographical Analysis as at 31 December 2012
 (RM '000)**

Geographical Exposure as at 30 June 2013	Malaysia					Other Countries	Total
	Northern Region	East Coast Region	Central Region	Southern Region	East Malaysia		
Exposures under the Standardised Approach							
Corporate	-	-	1,604	-	-	-	1,604
Regulatory Retail	-	-	-	-	-	-	-
Sovereigns/Central Banks	-	-	3,411	-	-	-	3,411
Banks, Development Financial Institutions & MDBs	-	-	334,274	-	-	125	334,399
Other Assets	-	-	17,171	-	-	-	17,171
Defaulted Exposures	-	-	-	-	-	-	-
Total Credit Exposure	-	-	356,460	-	-	125	356,585

Table 4a: 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 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	-	-	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 4b: Disclosure on Credit Risk Exposure – Sectoral Analysis as at 31 December 2012 (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	-	-	-	-	-	1,204	-	400	-	-	-	1,604
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-
Sovereigns/Central Banks	-	-	-	-	-	-	-	3,411	-	-	-	3,411
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	334,399	-	-	-	334,399
Other Assets	-	-	-	-	-	-	-	-	-	-	17,171	17,171
Defaulted Exposures	-	-	-	-	-	-	-	-	-	-	-	-
Total Credit Exposure	-	-	-	-	-	1,204	-	338,210	-	-	17,171	356,585

Table 5a: 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

Table 5b: Disclosure on Credit Risk Exposure – Maturity Analysis as at 31 December 2012 (RM '000)

Exposure Class	One Year or Less	One to Five Years	Over Five Years	Total
Exposures under the Standardised Approach				
Corporate	1,604	-	-	1,604
Regulatory Retail	-	-	-	-
Sovereigns/Central Banks	3,411	-	-	3,411
Banks, Development Financial Institutions & MDBs	334,399	-	-	334,399
Other Assets	17,171	-	-	17,171
Defaulted Exposures	-	-	-	-
Total Credit Exposure	356,585	-	-	356,585

Table 6: 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	Total
Exposures under the Standardised Approach					
Purchase of Non-Residential Property	58	-	-	-	-
Purchase of Fixed Asset other than Land/Buildings	-	-	-	-	-
Working Capital	570	-	-	-	-
Others	-	-	-	-	-
Total Credit Exposure	628	-	-	-	-

No collective and individual impairment allowance, impaired loans and write-offs as at 31 December 2012.

5.1 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 7a: 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 FDIs	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 7b: Disclosure on Risk Weights under Standardised Approach as at 31 December 2012 (RM'000)

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

Table 8a: 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					
	Moodys	Aaa to Aaa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)						
Insurance Cos, Securities Firms & Fund Managers						
Corporates						74,510
Total		0	0	0	0	74,510

Exposure Class	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moodys	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+,F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	Rating & Investment Inc	a-1+,a-1	a-2	a-3	b,c	Unrated
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		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					
	Moodys	Aaa to Aaa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
On and Off Balance-Sheet Exposures						
Sovereigns and Central Banks		10,790				
Total		10,790	0	0	0	0

Exposure Class	Ratings of Banking Institutions by Approved ECAIs					
	Moodys	Aaa to Aaa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		371,975	20,060	3,698		
Total		371,975	20,060	3,698	0	0

Table 8b: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs as at 31 December 2012 (RM'000)

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

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

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

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

5.2 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 9a: 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
Total On and Off- Balance Sheet Exposures	495,218	2,252	13,610	0

Table 9b: Disclosure on Credit Risk Mitigation Analysis as at 31 December 2012 (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	3,411	0	0	0
Banks, Development Financial Institutions & MDBs	334,399	0	0	0
Corporate	-	-	-	-
Other Assets	17,171	0	0	0
Defaulted Exposures	-	-	-	-
Total for On- Balance Sheet Exposures	354,981	0	0	0
<u>Off-Balance Sheet Exposures</u>				
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,604	400	120	0
Defaulted Exposures	-	-	-	-
Total Off- Balance Sheet Exposures	1,604	400	120	0
Total On and Off- Balance Sheet Exposures	356,585	400	120	0

5.3 Off-Balance Sheet Exposure

Table 10a: 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	30,410

Table 10b: Disclosures of Off-Balance Sheet Items as at 31 December 2012 (RM'000)

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Credit Substitutes	1,604		1,604	1,284
Foreign exchange related contracts				
One year or less				
Over one year to five years				
Over five years				
Interest/Profit rate related contracts				
One year or less				
Over one year to five years				
Over five years				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year				
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness				
Total	1,604	0	1,604	1,284

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

	31 December 2013 (RM '000)	31 December 2012 (RM '000)
<i>Movement in basis points</i>	<i>+/- 100 bps</i>	<i>+/- 100 bps</i>
Effect on Net Interest Income	2,139	2,408
Effect on Economic Value of Equity	431	124

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 12: Disclosure on Operational Risk Weighted Assets

	31 December 2013 (RM '000)	31 December 2012 (RM '000)
Total RWA for Operational Risk	16,241	8,431