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MIDF Amanah Investment Bank Berhad

Pillar 3 Disclosure Report
31 December 2011

23878 -X
MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

TABLE OF CONTENTS

23878-X
MIDF AMANAH INVESTMENT BANK BERHAD
(A Participating Organisation of Bursa Malaysia Securities Berhad)

ATTESTATION BY EXECUTIVE COMMITTEE

We, Megat Osman bin Megat Shamsuddin and Mahayudin bin Ismail, being two of the members of the Executive Committee of MIDF AMANAH INVESTMENT BANK BERHAD, do hereby attest that the disclosures on Risk-Weighted Capital Adequacy Framework for the year ended 31 December 2011 are to the best of our knowledge and belief, accurate, complete and not misleading in any particular.

MEGAT OSMAN BIN MEGAT SHAMSUDDIN

MAHAYUDIN BIN ISMAIL

Kuala Lumpur

Date : 27 FEB 2012

23878-X

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

PILLAR 3 DISCLOSURE
AS AT 31 DECEMBER 2011

Overview
To enhance financial reporting disclosure, Bank Negara Malaysia ("BNM") has issued the guidelines on Risk-Weighted Capital Adequacy Framework ("RWCAF") - Disclosure Requirements (Pillar 3) for financial reporting beginning 1 January 2010. The Pillar 3 Disclosure which is synonymous to Basel II issued by the Basel Committee on Banking Supervision consists of the 3 Pillars as follow:

(i) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against market, credit and operational risks they assume.

(ii) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices. This is to ensure that the banking institutions have an appropriate level and quality of capital commensurating with their risk profile and business plan at all times.

(iii) Pillar 3 aims to harness the power of market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

MIDF Amanah Investment Bank Berhad adopts the Standardised Approach in determining the capital requirements for market risk and credit risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 under BNM's RWCAF. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk whilst the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the Bank's average gross income for a fixed number of quarterly periods.

The Bank's Pillar 3 Disclosure is governed by the Policy on BNM's Risk-Weighted Capital Adequacy Framework - Basel II (Pillar 3) Disclosure, which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by the Executive Committee of MIDF Amanah Investment Bank Berhad ("MIDF Investment"). The information is not subjected to external audit's review as there is no requirement for external auditing of this disclosure under the BNM's RWCAF. The Pillar 3 Disclosure will be published in MIDF Investment's holding company corporate website, www.midf.com.my.

The Bank's main business activity is investment banking and financial related services. The following table presents the minimum regulatory capital requirement to support the Bank's risk-weighted assets.

	2011		2010	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Bank				
Credit Risk	1,194,232	95,538	1,154,946	92,395
Market Risk	80,852	6,468	9,184	735
Operational Risk	197,080	15,766	192,568	15,405
Total	**1,472,164**	**117,772**	**1,356,698**	**108,535**

The Bank does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

1.0 Scope of Application

The Pillar 3 Disclosure is prepared based on information pertaining to MIDF Investment only, and its subsidiary companies are not consolidated. MIDF Investment offers Islamic banking financial services via its Islamic banking operations under the Skim Perbankan Islam ("SPI").

The basis of consolidation for financial accounting purposes is described in the Note to the Financial Statements and differs from that used for regulatory purposes. The investment in the subsidiary companies is deducted from the regulatory capital.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

The subsidiary companies of the Bank are not subjected to any regulatory capital requirements as at financial year end.

All information in the following paragraphs are based on the Bank's positions as at financial year end. Certain information on the capital adequacy relating to the Bank is presented on a voluntary basis to provide additional information to its users. The capital adequacy related information of the Bank is disclosed based on BNM's RWCAF.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

2.0 Capital Management

The review of the capital requirements for the Bank are based on the following requirements and consideration:

(a) Minimum statutory capital requirements pursuant to the prescriptive capital framework issued by BNM, the Securities Commission and/or other regulatory authorities;

(b) Capital efficiency measured by the Return of Equity ("ROE") ratio; and

(c) Funding requirements for its business operations.

The Bank maintains an actively managed capital base to cover risks which are inherent in the business. The adequacy of the Bank's Capital is monitored using, among other measures, the rules and ratios in the Basel II Framework established by the Basel Committee on Banking Supervision and adopted by the BNM.

Risk Management Department reviews the Risks-Weighted Capital Ratio ("RWCR") and capital base under both normal and stressed conditions. The stress testing process forecast the Bank's capital requirements under exceptional but plausible and worst case stress events to assess the Bank's ability, that is, Bank's capital, to withstand market shocks. The results of the stress test are also to facilitate the formulation of action plans in advanced if the stress test reveals that the Bank's capital will be adversely affected under such events. The results of the stress test together with the action plans, if any, are tabled to the Risk Management Committee ("RMC") and the Board for deliberation and review.

Internally, if the RWCR approaches the internal trigger limit of 12%, or capital fund requirement of RM500 million, upon receiving the RWCR report from the Head of Finance, the Head of Risk Management Department must escalate the current state of the RWCR to the CEO and an Asset & Liability Management Committee ("ALCO") meeting will be convened immediately.

The ALCO is to deliberate and decide on the next course of action to regularise the RWCR to a higher and more comfortable level. The status of action plans should also be escalated to the RMC and the Board.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains a healthy RWCR in order to support its business and to maximise shareholder's value.

2.1 Capital Adequacy Ratios

The table below presents the capital adequacy ratios of the Bank.

	Bank	
	2011	**2010**
Before deducting proposed dividends:		
Tier I capital ratio	48.60%	48.59%
Risk-weighted capital ratio	48.60%	48.59%
After deducting proposed dividends:		
Tier I capital ratio	46.37%	48.59%
Risk-weighted capital ratio	46.37%	48.59%

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

2.0 Capital Management (Cont'd)

2.2 Capital Structure

The Bank has a simple capital structure with capital base consisting of Tier 1 and Tier 2 capital.

Tier 1 capital comprises equity share capital, share premium, statutory reserve fund, retained profits and as well as other items, which is the redeemable preference shares. The Bank currently has no innovative and non-innovative Tier 1 instruments.

Tier 2 capital comprises the collective impairment provision without any complex or hybrid capital instruments.

The following table presents the components of Tier I and Tier II capital and deductions of capital.

	Bank	
	2011	**2010**
	RM'000	**RM'000**
Tier I capital		
Paid-up share capital	155,000	155,000
Paid-up non-cumulative perpetual preference share	1,500	1,500
Share premium	362,611	362,611
Statutory reserve	126,520	115,520
Retained profits	97,540	64,706
	743,171	699,337
Less: Deferred Tax assets, net	(27,541)	(37,600)
Total Tier I capital	**715,630**	**661,737**
Less: Capital deduction in excess of Tier II capital	(170)	(2,557)
Eligible Tier 1 capital	**715,460**	**659,180**
Tier II capital		
Collective assessment impairment allowance ^	4,830	2,443
General allowance	-	-
Total Tier II capital	**4,830**	**2,443**
Total Tier I and Tier II capital	720,460	664,180
Less: Investment in subsidiary companies	(*)	(*)
Less: Holdings of other financial institutions' capital instruments	(5,000)	(5,000)
Capital Base	**715,460**	**659,180**

Note * - Denote RM4.00

Note ^ - Qualifying collective assessment impairment allowance is restricted to unimpaired portion of loans and advances.

3.0 Risk Management Framework

MIDF Investment's Enterprise Risk Management Framework ("ERM"), provides a systematic approach on how to identify, priortise and manage the Bank's overall risk. The ERM involves six essential activities, namely establishing business risk management process, assessing business risks, developing business risk management strategies, implementing risk management capabilities, monitoring risk management performance and continuously improving risk management capabilities.

The Risk Management Department carries out the risk control function that is independent of the Bank's business units and is guided by the MIDF Group's ERM.

The risk governance of MIDF Investment is as set out below:

i) Board of Directors ("Board")
The Board is primarily responsible for the effective management of all risks across the Bank and decides on the risk management policy and procedures, which includes risk reporting and reviewing mechanism, setting risk appetite and defines the risk philosophy of the Bank which is inline with its business strategy and direction.

ii) Audit & Compliance Committee ("ACC")
The role of the ACC is supported by the MIDF's Group Control Assurance Services. The ACC provides an independent assessment on the adequacy and reliability of the risk management processes and internal controls and compliance with risk policies, procedures, laws, rules and regulations.

iii) Credit Committee of the Board ("CCB")
The role of the CCB is to review the adequacy of credit policy and procedures and to ensure that the credit operations are inline with the approved credit strategy, policy and procedures.

iv) Risk Management Committee ("RMC")
The RMC is responsible for the overall risk oversight covering credit, market, liquidity and operational risks. The RMC also ensures that sufficient infrastructure, resources and systems are in place for risk management activities.

v) Asset & Liability Committee ("ALCO")
The role of the ALCO is to review periodically the position of the market and liquidity of the Bank to ensure that the level of risk taken is within the Board's risk appetite and tolerance and the development of the on and off balance sheet strategies to improve balance sheet risk-reward performance.

vi) Management Credit Committee ("CC")
The role of the CC is to review and evaluate the various credit products engaged by the banking institution to ensure that it is conducted within the standards and policies set by the Board as well as reviewing the effectiveness of the Bank's system for credit monitoring, supervision, recovery and financial reporting.

vii) Management Committee ("MANCO")
The role of MANCO is to ensure compliance to regulatory requirements and internal policies in respect of the Bank's activities as well as to ensure that the corrective actions are taken effectively and efficiently to address risk and controls issues raised by the regulators and auditors.

Viii) Management Investment Committee ("MIC")
The MIC is responsible for all matters pertaining to strategies on trading and investment in shares to meet the performance benchmark as set by the Board and to serve as the decision-making authority on the conduct of the activities on Proprietary Equities.

ix) Deal Committee ("DC")
The role of the DC is to ensure that any potential deal pursued creates value to the Bank, safeguards the Bank's reputation and aligns with the business strategies and risk appetite.

4.0 Credit Risk

Credit risk is the potential loss as a result of defaults by borrowers or when counterparties to a transaction fail to perform according to the terms and conditions of the contract thus causing losses to the Bank.

Credit Risk Management Unit is involved in the formulation and implementation of appropriate credit risk adjusted capital allocation as well as in the development and maintenance of the Bank's credit risk management capabilities, i.e. internal credit risk rating system, collateral management system, single counterparty exposure, sensitivity analysis and simulation analysis.

All new and existing businesses must be assigned an external or internal credit risk rating. The granting of credits shall always be considered on a prudent basis with high importance placed on credit quality.

Regulatory Capital Requirement
The following table presents the minimum regulatory capital requirement for credit risk of the Bank.

Exposure class	Gross exposures RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
2011				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	2,885,247	2,885,247	-	-
Banks, Development Financial Institutions & MDBs	286,213	286,213	57,243	4,579
Corporates	1,761,131	1,761,131	689,613	55,169
Regulatory retail	-	-	-	-
Residential mortgages	851	851	343	27
Other assets	168,049	168,049	168,049	13,444
Equity exposure	13,819	13,819	13,819	1,106
Defaulted exposures				
Corporates	184,109	184,109	238,840	19,107
Regulatory retail	-	-	-	-
Other assets	56	56	84	7
Total for on-balance sheet exposures	**5,299,475**	**5,299,475**	**1,167,991**	**93,439**
Off-balance sheet exposures other than OTC derivatives or credit derivatives	82,855	82,855	26,241	2,099
Total for off-balance sheet exposures	**82,855**	**82,855**	**26,241**	**2,099**
Total for on and off-balance sheet exposures	**5,382,330**	**5,382,330**	**1,194,232**	**95,538**

4.0 Credit Risk (Cont'd)

Regulatory Capital Requirement (Cont'd)
The following table presents the minimum regulatory capital requirement on credit risk for the Bank. (Cont'd)

Exposure Class	Gross exposures RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
2010				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	667,636	667,636	-	-
Banks, Development Financial Institutions & MDBs	824,696	824,696	164,939	13,195
Corporates	1,106,938	1,106,938	364,782	29,183
Regulatory retail	22	22	17	1
Residential mortgages	1,091	1,091	454	36
Other assets	159,513	159,513	159,513	12,761
Equity exposure	11,613	11,613	11,613	929
Defaulted exposures				
Corporates	298,357	298,357	413,046	33,043
Regulatory retail	69	69	34	3
Other assets	56	56	84	7
Total for on-balance sheet exposures	**3,069,991**	**3,069,991**	**1,114,482**	**89,158**
Off-balance sheet exposures other than OTC derivatives or credit derivatives	138,239	138,239	40,464	3,237
Total for off-balance sheet exposures	**138,239**	**138,239**	**40,464**	**3,237**
Total for on and off-balance sheet exposures	**3,208,230**	**3,208,230**	**1,154,946**	**92,395**

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

Credit Quality of Gross Loans and Advances

As prescribed by the FRS 139, impairment testing requires both individual and collective assessment. A financial asset is impaired and impairment loss is incurred when there is objective evidence of impairment, which is the result of one or more events (called trigger events) occurring subsequent to the initial recognition of the financial asset.

The individual impairment provision for loans, advances and financing is measured as the difference between the carrying (amortised) amount and the present value of estimated future cash flow, i.e discounted at the financial assets' original effective interest rate.

The process for estimating the amount of individual impairment provision shall be equal to the best estimate, taking into account all relevant information available about conditions existing at the balance sheet date.

Based on the transitional provision in BNM/GP3, the Bank maintains collective impairment provision for items where no individual impairment exist, of at least 2.0% of total loans, advances and financing, net of individual impairment provision.

The following tables presents an analysis of the impaired loans and advances and the related impairment allowances by economic sector and purposes.

Bank

	2011							2010
Economic Sector	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written-back and Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Primary agriculture	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	393	393	-
Manufacturing	92,947	24,845	33,133	1,041	56,937	1,252	58,189	80,633
Construction	11,602	4,947	-	855	4,092	150	4,242	18,997
Wholesale & retail trade and restaurants & hotels	17,271	12,497	144	1,058	11,583	119	11,702	19,385
Transport, storage and communications	-	-	-	-	-	140	140	-
Finance, insurance and business	3,087	9,978	253	7,143	3,088	2,731	5,819	12,229
Others	571	507	46	39	514	1,031	1,545	634
	125,478	52,774	33,576	10,136	76,214	5,816	82,030	131,878

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

Credit Quality of Gross Loans and Advances (cont'd)

Bank

	2011							2010
Economic Purpose	**Impaired Loans and Advances RM'000**	**Individual Assessment Allowance at 1 January RM'000**	**Net Charge for the Year RM'000**	**Amounts Written-back and Other Movements RM'000**	**Individual Assessment Allowance at 31 December RM'000**	**Collective Assessment Allowance at 31 December RM'000**	**Total Impairment Allowances for Loans and Advances RM'000**	**Impaired Loans and Advances RM'000**
Purchase of securities	495	488	46	39	495	3,299	3,794	558
Purchase of transport vehicles	76	20	-	-	20	2	22	76
Purchase of landed properties	-	-	-	-	-	17	17	-
(Of which: residential)	-	-	-	-	-	-	-	-
Construction	4,092	4,947	-	855	4,092	-	4,092	4,947
Working capital	12,734	10,752	318	7,223	3,847	626	4,473	38,106
Other purpose	108,081	36,567	33,212	2,019	67,760	1,872	69,632	88,191
	125,478	52,774	33,576	10,136	76,214	5,816	82,030	131,878

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Bank 2011	Manufacturing RM'000	Wholesale and retail trade and restaurants and hotels RM'000	Transport, storage and communi-cations RM'000	Finance, insurance and business services RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and short-term funds	-	-	-	61,927	-	61,927
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Securities held-for-trading						
Money market instruments:	-	-	-	17,294	-	17,294
Unquoted securities	9,979	-	-	-	-	9,979
Securities available-for-sale						
Money market instruments:	-	-	-	224,370	596,497	820,867
Unquoted securities:	220,844	44,129	209,356	134,856	677,321	1,286,506
Securities held-to-maturity						
Money market instruments:	-	-	-	-	1,805,915	1,805,915
Unquoted securities in Malaysia:	149,787	-	142,241	82,002	311,163	685,193
Loans, advances and financing						
Term loans	61,335	5,831	-	2,107	19,254	88,527
Margin accounts	-	-	-	14,185	49,533	63,718
Others	-	-	6,875	117,531	8,298	132,704
Derivative assets	-	-	-	131	-	131
Other financial assets	-	-	-	231,771	102,900	334,671
	441,945	49,960	358,472	886,174	3,570,881	5,307,432
Commitments and contingencies						
Obligations under an on-going underwriting agreement	20,000	10,000	87,626	21,000	-	138,626
Other commitments	1,900	-	-	-	25,141	27,041
	21,900	10,000	87,626	21,000	25,141	165,667
	463,845	59,960	446,098	907,174	3,596,022	5,473,099

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements (Cont'd)

Bank 2010	Manufacturing RM'000	Wholesale and retail trade and restaurants and hotels RM'000	Transport, storage and communi-cations RM'000	Finance, insurance and business services RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and short-term funds	-	-	-	216,277	-	216,277
Deposits and placements with banks and other financial institutions	-	-	-	100,000	-	100,000
Securities held-for-trading						
Money market instruments:	-	-	-	229,008	-	229,008
Unquoted securities	85,113	-	9,983	-	-	95,096
Securities available-for-sale						
Money market instruments:	-	-	-	508,579	465,676	974,255
Quoted securities:	-	-	-	-	8,010	8,010
Unquoted securities:	278,151	24,058	247,295	221,759	323,143	1,094,406
Securities held-to-maturity						
Money market instruments:	-	-	-	-	182,717	182,717
Unquoted securities in Malaysia:	-	-	5,000	5,000	98,000	108,000
Loans, advances and financing						
Term loans	84,416	7,624	1,982	12,715	18,391	125,128
Margin accounts	-	-	-	28,809	28,276	57,085
Others	-	-	-	-	15,034	15,034
Derivative assets	-	-	-	-	1,385	1,385
Other financial assets	-	-	-	70,693	104,186	174,879
	447,680	31,682	264,260	1,392,840	1,244,818	3,381,280
Commitments and contingencies						
Obligations under an on-going underwriting agreement	86,142	10,000	94,627	5,455	61,640	257,864
Other commitments	3,420	-	7,000	1,582	34,501	46,503
	89,562	10,000	101,627	7,037	96,141	304,367
	537,242	41,682	365,887	1,399,877	1,340,959	3,685,647

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

Risk Governance

The oversight function of the credit risk management of the Bank is provided by the Management Credit Committee ("CC") that supports the Credit Committee of the Board ("CCB"). The CC reviews and evaluates the various credit products engaged by the banking institution to ensure that it is conducted within the standards and policies set by the Board as well as review the effectiveness of the Bank's system for credit monitoring, supervision, recovery and financial reporting. The Credit Risk Management Unit in the Risk Management Department of the Bank provides independent risk assessment in managing the credit portfolios and ensure that the risk policies are implemented and complied with.

Risk Management Approach

The authorities for approving credits lies with the Management Credit Committee and Credit Committee of the Board based on the assigned discretionary powers approved by the Board.

<u>i) Lending to Retail, Corporate and Institutional Customers</u>
Credit granting to customers is based on the internal credit risk rating that assess the respective customers' general characteristic, financial characteristic, ability to repay, collateral and conduct of account. The Credit Risk Management Unit has the responsibility to ensure that the credit risk is properly assessed and risk mitigation strategy is in place in order to protect the Bank's interest.

<u>ii) Credit Risk from Investment Activities</u>
As for the debt securities, acceptable grade of credit rating from two External Credit Assessment Institutions, namely RAM Rating Services Berhad ("RAM") and Malaysian Rating Corporation Berhad ("MARC"), and internal credit risk rating are used. The credit policy stipulates the minimum investment grade for debt securities and is subjected to regular review.

<u>iii) Counterparty Credit Risk on Derivative Financial Instruments</u>
As at reporting date, the Bank only has RM 200.0 million of exposure to derivatives, specifically on RM-denominated interest rate swaps.

The Bank mitigates its counterparty credit risk by restricting transactions only to inter-bank counterparties rated "AA" or better,

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

4.1 Off-Balance Sheet Exposures and Counterparty Credit Risk

The Bank's underwriting commitment are only for debt securities, undrawn credit facilities and unutilised share margin financing that are secured by quoted shares, cash and fixed deposits

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As at reporting date, the Bank only has RM 200.0 million of exposure to derivatives, specifically on RM-denominated interest rate swaps.

The Bank mitigates its counterparty credit risk by restricting transactions only to inter-bank counterparties rated "AA" or better,

Composition of Off-Balance Sheet Exposure

The following table presents a breakdown of the off-balance sheet exposures of the Bank:

2011			
Commitments	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM,000**
Obligations under an on-going underwriting agreement	138,626	69,313	19,207
Interest/Profit Rate related contracts - Over 1 Year to 5 Years	200,000	8,131	1,626
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	27,032	5,406	5,406
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	9	4	2
Total Off-Balance Sheet Exposures	365,667	82,854	26,241
2010			
Commitments	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM,000**
Obligations under an on-going underwriting agreement	257,864	128,932	31,426
Interest/Profit Rate related contracts - Over 1 Year to 5 Years	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	46,481	9,296	9,032
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	22	11	7
Total Off-Balance Sheet Exposures	304,367	138,239	40,464

4.0 Credit Risk (Cont'd)

4.2 Credit Risk Mitigation

Any credit facilities granted by the Bank are primarily based on the customer's credit standing and repayment capability. In addition, collateral is used to mitigate credit risk in the event that the counterparty is unable to meet its contractual repayment obligations. Collateral offered by the customer will be assessed thoroughly to ensure its marketability, measurability, stability, transferability and enforceability.

Types of collateral typically taken by the Bank include cash, fixed deposits, quoted shares, real property, bank guarantees, standby letters of credit, standby credit facilities, debenture, assignments and corporate guarantees. Currently, the Bank does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Bank's credit exposure.

However, for conservative reason, the Bank does not employ any credit risk mitigation technique in calculating the Risk-Weighted Assets for its capital adequacy purposes.

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Bank uses the credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions' (ECAI) ratings used by the Bank and are recognised by BNM in the RWCAF:

(a) Standard & Poor's (S & P);
(b) RAM Rating Services Berhad (RAM); and
(c) Malaysian Rating Corporation Berhad (MARC).

The ECAI ratings accorded the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereign and central banks;
(b) Banking institutions; and
(c) Corporates.

In general, the rating specific to the credit exposure is used, i.e. the issue rating by the relevant ECAI. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the RWCAF. Where counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar of that guarantor are assigned.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each exposure must be assigned to one of the credit quality rating categories as prescribed below.

4.0 Credit Risk (Cont'd)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd)

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each exposure must be assigned to one of the credit quality rating categories as prescribe below.

Rating Category	Long-Term Rating			Short-Term Rating	
	S & P	RAM	MARC	RAM	MARC
1	AAA to AA-	AAA to AA3	AAA to AA-	P1	MARC-1
2	A+ to A	A1 to A3	A+ to A-	P2	MARC-2
3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-	P3	MARC-3
4	BB+ to BB-	BB1 to BB3	BB+ to BB-		
5	B+ to B-	B1 to B3	B+ to B-	NP and below	MARC-4 and below
6	CCC+ and below	C1 and below	C+ and below		

The following table is a simplified version of the risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class			
			Banking Institutions	
	Sovereigns and Central Banks	Corporates	For Exposure Greater than 6 Months Original Maturity	For Exposure Less than 6 Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

In addition to the above, credit exposures under the counterparty exposure class of Banking Institutions, with original maturity of below 3 months and denominated in Ringgit Malaysia, risk-weighted will be based at 20% regardless of credit rating.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (cont'd)

Exposures by Credit Quality

(i) Bank - Credit exposures broken down by credit quality rating categories as at 31 December 2011

Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
On and Off- Balance-Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
Corporates	1,294,010	172,834	-	-	-	124,881	425,234	2,016,959
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
Sovereigns and Central Banks	-	2,573,991	-	-	-	-	311,256	2,885,247
(iii) Exposure risk-weighted using ratings of Banking Institutions								
Bank, DFIs and MDBs	203,472	90,872	-	-	-	-	-	294,344
Total Rated Exposures	1,497,482	2,837,697	-	-	-	124,881	736,490	5,196,550
(b) Total Unrated Exposures							185,780	185,780
Total Credit Exposures	1,497,482	2,837,697	-	-	-	124,881	922,270	5,382,330

(ii) Bank - Credit exposures broken down by credit quality rating categories as at 31 December 2010

Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
On and Off- Balance-Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
Corporates	940,611	203,830	129,847	10,010	-	258,863	-	1,543,161
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
Sovereigns and Central Banks	-	667,636	-	-	-	-	-	667,636
(iii) Exposure risk-weighted using ratings of Banking Institutions								
Bank, DFIs and MDBs	825,012		-	-	-	-	-	825,012
Total Rated Exposures	1,765,623	871,466	129,847	10,010	-	258,863	-	3,035,809
(b) Total Unrated Exposures							172,421	172,421
Total Credit Exposures	1,765,623	871,466	129,847	10,010	-	258,863	172,421	3,208,230

Under the RWCAF, exposure to and or guaranteed by the Federal Government of Malaysia and BNM are accorded a preferential risk-weight of 0%.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (cont'd)

Exposure by Risk-Weights

(iiii). Bank - Credit risk disclosure on risk weights as at 31 December 2011

Risk weights	Sovereigns/ Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Other assets RM'000	Equity exposures RM'000	Total exposures RM'000	Total risk-weighted assets RM,000
Performing Exposures									
0%	2,885,247	-	-	-	-	-	-	2,885,247	-
10%	-	-	-	-	-	-	-	-	-
20%	-	294,344	1,294,010	-	-	-	-	1,588,354	317,671
35%	-	-	-	-	689	-	-	689	241
50%	-	-	172,834	-	83	-	-	172,917	86,459
75%	-	-	-	-	83	-	-	83	62
90%	-	-	-	-	-	-	-	-	-
100%	-	-	366,007	-	-	168,049	16,819	550,875	550,875
150%	-	-	-	-	-	-	-	-	-
Total	2,885,247	294,344	1,832,851	-	855	168,049	16,819	5,198,165	955,308
Defaulted Exposures									
50%	-	-	32,313	-	-	-	-	32,313	16,156
100%	-	-	10,020	-	-	-	-	10,020	10,020
150%	-	-	141,776	-	-	56	-	141,832	212,748
Total	-	-	184,109	-	-	56	-	184,165	238,924
Grand total	2,885,247	294,344	2,016,960	-	855	168,105	16,819	5,382,330	1,194,232
Risk Weighted Asset by Exposures	-	58,869	950,066	-	345	168,133	16,819	1,194,232	
Average Risk Weights	0.0%	20.0%	47.1%	0.0%	40.4%	100.0%	100.0%	22.2%	
Deduction from Capital Base	-	5,000	-	-	-	-	-	5,000	

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (cont'd)

Exposure by Risk-Weights (cont'd)

(viii). Bank - Credit risk disclosure on risk weights as at 31 December 2010

Risk weights	Sovereigns/ Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Other assets RM'000	Equity exposures RM'000	Total exposures RM'000	Total risk-weighted assets RM,000
Performing Exposures									
0%	667,636	-	-	-	-	-	-	667,636	-
10%	-	-	-	-	-	-	-	-	-
20%	-	825,012	940,611	-	-	-	-	1,765,623	353,124
35%	-	-	-	-	736	-	-	736	257
50%	-	-	174,346	-	287	-	-	174,633	87,317
75%	-	-	-	68	79	-	-	147	110
90%	-	-	-	-	-	-	-	-	-
100%	-	-	129,847	-	-	159,513	11,613	300,973	300,973
150%	-	-	-	-	-	-	-	-	-
Total	667,636	825,012	1,244,804	68	1,102	159,513	11,613	2,909,748	741,781
Defaulted Exposures									
50%	-	-	29,484	69	-	-	-	29,553	14,776
100%	-	-	10,010	-	-	-	-	10,010	10,010
150%	-	-	258,863	-	-	56	-	258,919	388,379
Total	-	-	298,357	69	-	56	-	298,482	413,165
Grand total	667,636	825,012	1,543,161	137	1,102	159,569	11,613	3,208,230	1,154,946
Risk Weighted Asset by Exposures	-	165,002	818,188	85	461	159,597	11,613	1,154,946	
Average Risk Weights	0.0%	20.0%	53.0%	62.0%	41.8%	100.0%	100.0%	36.0%	
Deduction from Capital Base	-	5,000	-	-	-	-	-	5,000	

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

5.0 Market Risk

Market risk is risk of loss arising from adverse movements in the interest rates and equity prices. The Bank uses the Standard Approach to measure market risk.

Regulatory Capital Requirement

The following table presents the minimum regulatory capital requirement for market risk.

	Long positions RM'000	Short positions RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank				
2011				
Interest rate risk	222,273	200,000	80,852	6,468
Equity risk	-	-	-	-
	222,273	**200,000**	**80,852**	**6,468**
2010				
Interest rate risk	329,087	4,984	5,377	430
Equity risk	1,384	-	3,807	305
	330,471	**4,984**	**9,184**	**735**

Market & Risk Analytic Unit is responsible for measuring and monitoring market risk, and has designed and implemented policies and procedures to ensure that market risk exposures are managed within the appetite and limit framework set by the Board. The market and liquidity risk profile will be updated and reported to the Asset & Liability Committee, Management Committee, Board Risk Management Committee and the Board on a periodical basis.

Modified Duration method is used to compute the entire Treasury Portfolio to measure the change in market value of the portfolio to a change in interest rate.

Sensitivity analysis is also done to measure the impact on overall portfolio's market value under stress conditions against the current market value.

A valuation of all trading securities is done on a daily basis in accordance with market prices while a valuation for the Available for Sale Securities is done on a weekly and on a monthly basis as per the Bid-Price provided by Bond Pricing Agency (BPAM).

Risk Management Department, through their daily monitoring will ensure that proper procedures are followed through and adhered with when financial instruments are allocated to the trading or banking book.

6.0 Equity Exposures in Banking Book

Equity risk arises from the holding of open positions, either long or short, in equities or equity based instruments, which creates exposure to a change in the market price of the equities or underlying equity instruments.

Investments in Equity instrument are primarily made through managed funds that are subjected to limits and is closely managed by Management Investment Committee ("MIC").

The valuation of Equity Investment is done on a daily basis and is subjected to a strict cut-loss limit .

Bank

	2011		2010	
	Gross Credit Exposure RM'000	Risk-weighted assets RM'000	Gross Credit Exposure RM'000	Risk-weighted assets RM'000
<u>Publicly traded</u>				
Publicly traded equity investments	13,062	13,062	10,855	10,855
<u>Privately held</u>				
For socio-economic purposes	757	757	757	757
	13,819	13,819	11,612	11,612

(i) Publicly traded equity investments comprise mainly holdings of shares listed on exchange. All publicly traded equity exposures are stated at fair value.

(ii) The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any.

(iii) The tables below present the gains and losses on equity exposures in the banking book.

	2011 RM'000	2010 RM'000
Realised gains/(loss) recognised in the income statement		
- Publicly traded equity investments	736	(35)
Unrealised (loss)/gains recognised in revaluation reserve		
- Publicly traded equity investments	(909)	339

7.0 Liquidity and Funding Risk

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or having to secure the funding requirement at excessive cost. Funding risk is that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governances
The management of the Bank liquidity is under the purview ALCO based on the guidelines approved by RMC. Liquidity policies and framework are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approaches
The liquidity risk management of the Bank is aligned with the New Liquidity Framework (NLF) issued by BNM, and is measured and managed on a projected cash flow basis. In addition to ensuring the compliance with the NLF, the Bank maintains a liquidity compliance buffer to meet unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they mature or are borrowed by customers.

The Bank's liquidity and funding position is supported by the Bank's significant customer deposit base from corporate depositors. The Bank's corporate deposit base comprises short term deposits and fixed deposits. The Bank's reputation, earnings generation capacity, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The Bank accesses interbank money markets through interbank borrowing/acceptance to meet short-term obligations.

The primary tools for monitoring liquidity is the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problem. Liquidity positions are reported to the ALCO and to the RMC on a periodical basis.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed to determine the cash flow mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible source of funding to meet the shortfalls during a liquidity crisis.

8.0 Operational Risk

The Bank has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk but excludes strategic and reputational risk.

Regulatory Capital Requirement

The following table presents the minimum regulatory capital requirement on operational risk, computed using the Basic Indicator Approach.

	2011		2010	
	Risk-weighted assets RM'000	Capital requirements RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank	197,080	15,766	192,568	15,405
	197,080	**15,766**	**192,568**	**15,405**

Risk Governance

Operational Risk Management Unit is responsible for exercising governance over operational risk through the management of the operational risk framework. Operational Risk Management Unit facilitates the assessment of business risks and the evaluation of adequacy of allocation of resources/ capital, appropriateness of measurement methodologies and effectiveness of infrastructure that are in place for managing prioritised risks. The operational risks are updated and reported to the Management Committee, Board Risk Management Committee and the Board on a periodical basis.

The various business units are responsible for identifying, managing and mitigating operational risks within their line of businesses and ensure that their business activities are carried out within the established policies, procedures, guidelines and limits.

Risk Management Approach

The Bank continues to direct Bank-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Bank operates in. The Bank seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to support compliance with regulations governing anti-money laundering and counter financing of terrorism.

Business disruption is a critical risk to a bank's ability to operate. The Bank has comprehensive business continuity and disaster recovery plans. The intention of the business continuity and disaster recovery plans are to ensure that the critical business functions can be maintained, or restored in a timely manner, in the event of material disruption arising from internal or external events.

To manage and mitigate the operational risk, the Bank uses various tools including:

a) Self Risk Assessment
The Bank assesses its operations and activities against a list of potential risk vulnerabilities. This process is internally driven and often incorporate workshops or checklists to identify the strengths and operational risk environment.

b) Loss Event Report
Loss event experiences are collected to provide meaningful information for assessing the Bank's exposure to operational risk and developing appropriate actions to mitigate and control the risk.

c) Key Risk Indicators
Key Risk Indicators are statistic and/ or metrics, which can provide insight into the Bank's operational risk position. These indicators are reviewed on a periodic basis to alert the Bank the changes that may be indicative of risk concerns.