

23878-X

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

ATTESTATION BY CHIEF EXECUTIVE OFFICER

I, Dato' Megat Hisham bin Megat Mahmud, being the Chief Executive Officer/Director of MIDF Amanah Investment Bank Berhad, do hereby attest that the disclosures on Risk-Weighted Capital Adequacy Framework for the six month ended 30 June 2011 are to the best of my knowledge and belief, accurate, complete and not misleading in any particular.



DATO' MEGAT HISHAM BIN MEGAT MAHMUD
Kuala Lumpur

Date : 25 July 2011

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**MIDF Amanah Investment Bank Berhad
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**PILLAR 3 DISCLOSURE
AS AT 30 JUNE 2011**

Overview

To enhance financial reporting disclosure, Bank Negara Malaysia ("BNM") has issued the guidelines on Risk-Weighted Risk Capital Adequacy Framework ("RWCAF") - Disclosure Requirement (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 follows:

- (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 Group'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 MIDF Investment's Chief Executive Officer ("CEO"). The information is not subject to external audit as there is no requirement for external auditing of these disclosures under the BNM's RWCAF. The Pillar 3 Disclosure will be published in MIDF Amanah Investment Bank Berhad ("MIDF Investment")'s holding company corporate website, www.midf.com.my.

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

	30-Jun-11		31-Dec-10	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
Credit Risk	1,369,278	109,542	1,154,884	92,390
Market Risk	8,595	688	9,184	735
Operational Risk	188,761	15,101	192,568	15,405
Total	1,566,634	125,331	1,356,636	108,530
Bank				
Credit Risk	1,369,300	109,544	1,154,946	92,395
Market Risk	8,595	688	9,184	735
Operational Risk	188,761	15,101	192,568	15,405
Total	1,566,656	125,333	1,356,698	108,535

The Group's 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.

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1.0 Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the MIDF Investment and its subsidiary companies. 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 Notes 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 Group are not subject to any regulatory capital requirement as at the financial period end.

All information in the ensuing paragraphs is based on the Group's positions. Certain information on capital adequacy relating to the Bank is presented on a voluntary basis to provide additional information to users. The capital adequacy related information of the Bank is presented as determined under the RWCAF.

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2.0 Capital Management

The review of capital requirements for the Bank is 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 business operations.

The Bank maintains an actively managed capital base to cover risk 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 BNM.

Risk Management Department reviews the Risk Weighted Capital Ratio ("RWCR") and capital base both under normal and stressed conditions. The stress testing process forecasts the Bank's capital requirements under exceptional but plausible and worst case, stress events to assess the ability of the Bank's capital to withstand market shocks. The results of the stress test are also to facilitate the formulation of action plans in advance 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 remedial actions, if any, are tabled to 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 shall escalate the condition 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 Risk Management Committee and the Board of Directors.

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 healthy RWCR in order to support its business and to maximize shareholder's value.

2.1 Capital Adequacy Ratios

The tables below present the capital adequacy ratios of the Group and the Bank.

	Group		Bank	
	30-06-11	31-12-10	30-06-11	31-12-10
Before deducting interim dividends:				
Tier I capital ratio	42.71%	51.05%	42.71%	51.05%
Risk-weighted capital ratio	42.84%	51.05%	42.84%	51.05%
After deducting interim dividends:				
Tier I capital ratio	42.71%	48.59%	42.71%	48.59%
Risk-weighted capital ratio	42.84%	48.59%	42.84%	48.59%

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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, profit and loss and statutory reserve fund as well as other items, which is the redeemable preference shares only. The Bank currently has no innovative and non-innovative Tier 1 instruments.

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

The following tables present the components of Tier I and Tier II capital and deductions of capital.

	Group		Bank	
	30-06-11 RM'000	31-12-10 RM'000	30-06-11 RM'000	31-12-10 RM'000
Tier I capital				
Paid-up share capital	155,000	155,000	155,000	155,000
Paid-up non-cumulative perpetual preference share	1,500	1,500	1,500	1,500
Share premium	362,611	362,611	362,611	362,611
Statutory reserve	115,520	115,520	115,520	115,520
Retained profits	64,722	64,722	64,706	64,706
	699,353	699,353	699,337	699,337
Less: Deferred Tax assets, net	(30,287)	(37,600)	(30,287)	(37,600)
Total Tier I capital	669,066	661,753	669,050	661,737
Less: Capital deduction in excess of Tier II capital	-	(2,557)	-	(2,557)
Eligible Tier 1 capital	669,066	659,196	669,050	659,180
Tier II capital				
Collective assessment impairment allowance ^	7,155	2,443	7,155	2,443
General allowance	-	-	-	-
Total Tier II capital	7,155	2,443	7,155	2,443
Total Tier I and Tier II capital	676,221	664,196	676,205	664,180
Less: Investment in subsidiary companies	-	-	(*)	(*)
Less: Holdings of other financial institutions' capital instruments	(5,000)	(5,000)	(5,000)	(5,000)
Capital Base	671,221	659,196	671,205	659,180

Note * - Denote RM4.00

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

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3.0 Risk Management Framework

MIDF Amanah Investment Bank Berhad's Enterprise Risk Management Framework, which provides a systematic approach on how to identify and manage the Bank's overall risk, 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 Enterprise Risk Management Framework.

The risk governance of MIDF Amanah Investment Bank 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, set prudent limits, auditing, reporting and reviewing mechanism as well as defines the risk philosophy of the Bank to be in line with its business strategy and direction.

ii) Audit & Compliance Committee ("ACC")

The role of ACC which is supported by the MIDF's Group Control Assurance Services is to provide 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 CCB is to review the adequacy of credit policies and procedures and to ensure that credit operations are in line with approved credit strategy, policies and procedures.

iv) Risk Management Committee ("RMC")

The RMC is responsible for the overall risk oversight covering credit, market, liquidity and operational risks. RMC also ensures that infrastructure, resources and systems are in place for risk management activities.

v) Asset & Liability Committee ("ALCO")

The role of 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 develop on and off balance sheet strategies to improve balance sheet risk-reward performance.

vi) Management Credit Committee ("CC")

The role of 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 review 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 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 role of MIC is to serve as the decision-making authority on the conduct of the activities on Proprietary Equities. It is responsible, for all matters pertaining to strategies on trading and investment in shares, to meet the performance benchmark as set by the Board.

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4.0 Credit Risk

Credit risk is the potential loss as a result of defaults by borrowers or where 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 business 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 tables present the minimum regulatory capital requirement on credit risk of the Group

Exposure class	Gross exposures RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
30-Jun-2011				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	2,198,864	2,198,864	-	-
Banks, Development Financial Institutions & MDBs	538,637	538,637	107,727	8,618
Corporates	1,702,765	1,702,765	619,682	49,575
Regulatory retail	37	37	28	2
Residential mortgages	977	977	396	32
Other assets	229,054	229,054	229,054	18,324
Equity exposure	12,550	12,550	12,550	1,004
Defaulted exposures				
Corporates	266,305	266,305	365,516	29,241
Regulatory retail	18	18	9	1
Other assets	56	56	85	7
Total for on-balance sheet exposures	4,949,263	4,949,263	1,335,047	106,804
Off-balance sheet exposures other than OTC derivatives or credit derivatives				
	116,197	116,197	34,231	2,738
Total for off-balance sheet exposures	116,197	116,197	34,231	2,738
Total for on and off-balance sheet exposures	5,065,460	5,065,460	1,369,278	109,542

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4.0 Credit Risk (Cont'd)

Regulatory Capital Requirement (Cont'd)

The following tables present the minimum regulatory capital requirement on credit risk of the Group (Cont'd)

Exposure class	Gross exposures RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
31-Dec-2010				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	667,636	667,636	-	-
Banks, Development Financial Institutions & MDBs	824,813	824,813	164,962	13,197
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	159,428	159,428	159,428	12,754
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	3,070,023	3,070,023	1,114,420	89,153
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	3,208,262	3,208,262	1,154,884	92,390

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4.0 Credit Risk (Cont'd)

Regulatory Capital Requirement (Cont'd)

The following tables present the minimum regulatory capital requirement on credit risk of the Bank.

Exposure class	Gross exposures RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
30-Jun-2011				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	2,198,864	2,198,864	-	-
Banks, Development Financial Institutions & MDBs	538,559	538,559	107,712	8,617
Corporates	1,702,765	1,702,765	619,682	49,575
Regulatory retail	37	37	28	2
Residential mortgages	977	977	396	32
Other assets	229,092	229,092	229,092	18,327
Equity exposure	12,550	12,550	12,550	1,004
Defaulted exposures				
Corporates	266,305	266,305	365,516	29,241
Regulatory retail	18	18	9	1
Other assets	56	56	85	7
Total for on-balance sheet exposures	4,949,223	4,949,223	1,335,070	106,806
Off-balance sheet exposures other than OTC derivatives or credit derivatives	116,197	116,197	34,231	2,738
Total for off-balance sheet exposures	116,197	116,197	34,231	2,738
Total for on and off-balance sheet exposures	5,065,420	5,065,420	1,369,301	109,544

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4.0 Credit Risk (Cont'd)

Regulatory Capital Requirement (Cont'd)

The following tables present the minimum regulatory capital requirement on credit risk of the Bank. (Cont'd)

Exposure Class	Gross exposures RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
31-Dec-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

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4.0 Credit Risk (Cont'd)

Credit Quality of Gross Loans and Advances

As prescribed by FRS 139, impairment testing requires both individual and collective assessments. 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, 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 present an analysis of the impaired loans and advances and the related impairment allowances by economic sector and purposes.

Group and Bank	30-Jun-11					31-Dec-10		
	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 30 June 2011 RM'000	Collective Assessment Allowance at 30 June 2011 RM'000	Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Sector								
Primary agriculture	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	449	449	-
Manufacturing	79,726	26,727	10,515	3,047	34,195	3,893	38,088	82,515
Construction	22,883	9,349	679	1,195	8,833	281	9,114	23,398
Wholesale & retail trade and restaurants & hotels	19,125	12,892	813	1,298	12,407	145	12,552	19,781
Transport, storage and communications	-	-	-	-	-	-	-	-
Finance, insurance and business	13,348	11,215	212	333	11,094	3,308	14,402	13,468
Others	584	523	26	39	510	452	962	648
	135,666	60,706	12,245	5,912	67,039	8,528	75,567	139,810

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4.0 Credit Risk (Cont'd)

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

Group and Bank	30-Jun-11					31-Dec-10		
	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 30 June 2011 RM'000	Collective Assessment Allowance at 30 June 2011 RM'000	Impairment Allowances for Loans and Advances RM'000	Total Impaired Loans and Advances RM'000
Economic Purpose								
Purchase of securities	490	489	22	39	472	3,223	3,695	557
Purchase of transport vehicles	94	34	4	-	38	3	41	90
Purchase of landed properties	-	-	-	-	-	20	20	-
(Of which: residential)	-	-	-	-	-	20	20	-
Construction	8,402	8,813	41	452	8,402	-	8,402	8,813
Working capital	37,905	13,260	998	1,253	13,005	3,388	16,393	40,615
Other purpose	88,775	38,110	11,180	4,168	45,122	1,894	47,016	89,735
	135,666	60,706	12,245	5,912	67,039	8,528	75,567	139,810

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4.0 Credit Risk (Cont'd)

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

Group	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
30 June 2011						
Financial assets						
Cash and short-term funds	-	-	-	126,086	-	126,086
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Securities held-for-trading						
Money market instruments:						
Quoted securities	-	-	-	96,935	-	96,935
Unquoted securities	80,313	-	6,934	-	-	87,247
Securities available-for-sale						
Money market instruments:						
Quoted securities:	-	-	-	474,739	428,008	902,747
Unquoted securities:	257,642	24,137	212,677	213,015	4,379	1,062,217
Securities held-to-maturity						
Money market instruments:						
Unquoted securities in Malaysia:	-	12,945	42,894	-	1,611,457	1,611,457
Loans, advances and financing						
Term loans	108,319	19,702	-	16,699	30,851	175,571
Revolving credits	120,515	-	-	120,419	14,481	255,415
Margin accounts	-	-	-	39,369	21,895	61,264
Others	-	-	-	-	1,179	1,179
Derivative assets	-	-	-	-	494	494
Other assets	-	-	-	247,271	75,933	323,204
	566,789	56,784	262,505	1,385,418	2,944,612	5,216,108

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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 30 June 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	-	-	-	-	126,086	-	126,086
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-
Securities held-for-trading	-	-	-	-	96,935	-	96,935
Money market instruments:	-	-	-	-	-	-	-
Quoted securities	-	-	-	6,934	-	-	-
Unquoted securities	80,313	-	-	-	-	-	87,247
Securities available-for-sale	-	-	-	-	474,739	428,008	902,747
Money market instruments:	-	-	-	-	-	4,379	4,379
Quoted securities:	-	-	-	-	-	-	-
Unquoted securities:	257,642	24,137	212,677	213,015	354,746	1,062,217	1,062,217
Securities held-to-maturity	-	-	-	-	-	1,611,457	1,611,457
Money market instruments:	-	-	12,945	42,894	50,885	401,189	507,913
Unquoted securities in Malaysia:	-	-	-	-	-	-	-
Loans, advances and financing							
Term loans	108,319	19,702	-	-	16,699	30,851	175,571
Revolving credits	120,515	-	-	-	120,419	14,481	255,415
Margin accounts	-	-	-	-	39,369	21,895	61,264
Others	-	-	-	-	-	1,179	1,179
Derivative assets	-	-	-	-	-	494	494
Other assets	-	-	-	-	247,271	75,925	323,196
	<u>566,789</u>	<u>56,784</u>	<u>262,506</u>	<u>1,385,418</u>	<u>2,944,604</u>	<u>5,216,100</u>	<u>14</u>

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4.0 Credit Risk (Cont'd)

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

Group	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
31 December 2010						
Financial assets						
Cash and short-term funds	-	-	-	216,394	-	216,394
Deposits and placements with banks and other financial institutions	-	-	-	100,000	-	100,000
Securities held-for-trading						
Money market instruments:						
Quoted securities	-	-	-	229,008	-	229,008
Unquoted securities	85,113	-	9,983	-	-	95,096
Securities available-for-sale						
Money market instruments:						
Quoted securities:	-	-	-	508,579	465,676	974,255
Unquoted securities:	278,151	24,058	247,295	221,759	8,010	1,094,406
Securities held-to-maturity						
Money market instruments:						
Unquoted securities in Malaysia:	-	-	5,000	-	182,717	182,717
Loans, advances and financing						
Term loans	112,866	20,672	2,022	17,544	34,226	187,330
Margin accounts	-	-	-	29,397	29,341	58,738
Others	-	-	-	-	15,911	15,911
Derivative assets	-	-	-	-	1,385	1,385
Other assets	-	-	-	70,693	104,095	174,788
	<u>476,130</u>	<u>44,730</u>	<u>264,300</u>	<u>1,398,374</u>	<u>1,288,479</u>	<u>3,472,013</u>

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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	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
31 December 2010							
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:							
Quoted securities	-	-	-	-	229,008	-	229,008
Unquoted securities	85,113	-	-	9,983	-	-	95,096
Securities available-for-sale							
Money market instruments:							
Quoted securities:							
Unquoted securities:	278,151	24,058	247,295	508,579	465,676	8,010	974,255
Securities held-to-maturity							
Money market instruments:							
Unquoted securities in Malaysia:	-	-	-	-	-	182,717	182,717
Loans, advances and financing							
Term loans	112,866	20,672	2,022	17,544	34,226	58,738	187,330
Margin accounts	-	-	-	29,397	29,341	15,911	58,738
Others	-	-	-	-	-	-	15,911
Derivative assets							
Other assets	-	-	-	-	-	1,385	1,385
	<u>476,130</u>	<u>44,730</u>	<u>264,300</u>	<u>1,398,257</u>	<u>104,186</u>	<u>1,288,570</u>	<u>3,471,987</u>

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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 the risk policies are implemented and complied with.

Risk Management Approach

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

i) Lending to Retail, Corporate and Institutional Customers

Credit granting to customers is based on the internal credit risk rating that assess tthe customer's general characteristic, financial characteristic, ability to repay, collateral and conduct of account. The credit risk management unit' has the responsibility to ensure that credit risk is properly assessed and risk mitigation strategy is in place in order to protect the Bank's interest.

ii) Credit Risk from Investment Activities

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 subject to regular review.

iii) Counterparty Credit Risk on Derivative Financial Instruments

The Bank does not have any derivative financial instruments as at the reporting date.

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4.0 Credit Risk (Cont'd)

4.1 Off-Balance Sheet Exposures and Counterparty Credit Risk

The Bank has only underwriting commitment for debt securities and undrawn credit facilities as well as unutilised share margin financing that is secured by quoted shares, cash and fixed deposits.

The Bank does not have any credit exposures for Over-The-Counter derivatives transactions and repo-style transactions.

Composition of Off-Balance Sheet Exposure

The following tables present a breakdown of the off-balance sheet exposures of the Group and Bank

30-Jun-2011			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM,000
Commitments			
Obligations under an on-going underwriting agreement	189,991	94,995	21,904
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	105,967	21,193	12,322
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	17	9	5
Total Off-Balance Sheet Exposures	295,975	116,197	34,231
31-Dec-2010			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM,000
Commitments			
Obligations under an on-going underwriting agreement	257,864	128,932	31,426
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	6
Total Off-Balance Sheet Exposures	304,367	138,239	40,464

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4.0 Credit Risk (Cont'd)

4.2 Credit Risk Mitigation

Any credit facilities granted by the Bank is 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 makes use of 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)
- (a) RAM Rating Services Berhad (RAM)
- (b) 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
- (c) Corporates

In general, the rating specific to the credit exposure is used, i.e. the issue rating. 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 prescribe below.

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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 prescribed 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			
	Sovereigns and Central Banks	Corporates	Banking Institutions	
			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 RM, are all risk-weighted at 20% regardless of credit rating.

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) Group - Credit exposures broken down by credit quality rating categories as at 30 June 2011

Exposure Class	Rating Categories						Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	
On and Off-Balance-Sheet Exposures (a) Rated Exposures	1,052,351	153,532	-	-	4,379	164,233	1,834,322
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u> Corporates	-	2,198,864	-	-	-	-	2,198,864
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u> Sovereigns and Central Banks	549,714	-	-	-	-	-	549,714
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u> Bank, DFIs and MDBs	1,602,065	2,352,396	-	-	4,379	164,233	4,822,719
Total Rated Exposures	1,602,065	2,352,396	-	-	4,379	164,233	242,743
(b) Total Unrated Exposures	-	-	-	-	-	-	942,389
Total Credit Exposures							5,065,462

(ii) Bank - Credit exposures broken down by credit quality rating categories as at 30 June 2011

Exposure Class	Rating Categories						Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	
On and Off-Balance-Sheet Exposures (a) Rated Exposures	1,052,351	153,532	-	-	4,379	164,233	1,834,322
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u> Corporates	-	2,198,864	-	-	-	-	2,198,864
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u> Sovereigns and Central Banks	549,636	-	-	-	-	-	549,636
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u> Bank, DFIs and MDBs	1,601,987	2,352,396	-	-	4,379	164,233	4,822,641
Total Rated Exposures	1,601,987	2,352,396	-	-	4,379	164,233	242,782
(b) Total Unrated Exposures	-	-	-	-	-	-	942,428
Total Credit Exposures							5,065,423

4.0 Credit Risk (Cont'd)

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

Exposures by Credit Quality (cont'd.)

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

Exposure Class	Rating Categories						Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	
On and Off- Balance-Sheet Exposures							
(a) Rated Exposures							
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u>	940,611	203,830	129,847	10,010	-	258,863	1,543,161
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u>	-	667,636	-	-	-	-	667,636
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u>	825,129	-	-	-	-	-	825,129
Bank, DFIs and MDBs	1,765,740	871,466	129,847	10,010	-	258,863	3,035,926
(b) Total Rated Exposures	1,765,740	871,466	129,847	10,010	-	258,863	3,035,926
Total Unrated Exposures	-	-	-	-	-	-	172,336
Total Credit Exposures	1,765,740	871,466	129,847	10,010	-	258,863	3,208,262

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

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

4.0 Credit Risk (Cont'd)

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

Exposure by Risk-Weights

(v) Group - Credit risk disclosure on risk weights as at 30 June 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	2,438,683	-	-	-	-	-	-	2,438,683	-
0%	-	-	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-	-
20%	-	549,713	1,052,351	-	-	-	-	1,602,064	320,413
35%	-	-	-	-	742	-	-	742	260
50%	-	-	153,531	-	165	-	-	153,696	76,848
75%	-	-	-	80	79	-	-	159	119
90%	-	-	-	-	-	-	-	-	-
100%	-	-	366,715	-	-	229,054	12,550	608,319	608,319
150%	-	-	-	-	-	-	-	-	-
Total	2,438,683	549,713	1,572,597	80	986	229,054	12,550	4,803,663	1,005,959
Defaulted Exposures	-	-	-	-	-	-	-	-	-
50%	-	-	27,172	18	-	-	-	27,190	13,595
100%	-	-	4,379	-	-	-	-	4,379	4,379
150%	-	-	230,174	-	-	56	-	230,230	345,345
Total	-	-	261,725	18	-	56	-	261,799	363,319
Grand total	2,438,683	549,713	1,834,322	98	986	229,110	12,550	5,065,462	1,369,278
Risk Weighted Asset by Exposures	-	109,943	1,017,176	69	402	229,138	12,550	1,369,278	-
Average Risk Weights	0.0%	20.0%	55.5%	70.4%	40.8%	100.0%	100.0%	27.0%	-
Deduction from Capital Base	-	5,000	-	-	-	-	-	5,000	-

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)

(vi). Bank - Credit risk disclosure on risk weights as at 30 June 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%	2,438,683	-	-	-	-	-	-	2,438,683	-
10%	-	-	-	-	-	-	-	-	-
20%	-	549,636	1,052,351	-	-	-	-	1,601,987	320,397
35%	-	-	-	-	742	-	-	742	260
50%	-	-	153,531	-	165	-	-	153,696	76,848
75%	-	-	-	80	79	-	-	159	119
90%	-	-	-	-	-	-	-	-	-
100%	-	-	366,715	-	-	229,092	12,550	608,357	608,357
150%	-	-	-	-	-	-	-	-	-
Total	2,438,683	549,636	1,572,587	80	986	229,092	12,550	4,803,624	1,005,981
Defaulted Exposures									
50%	-	-	27,172	18	-	-	-	27,190	13,595
100%	-	-	4,379	-	-	-	-	4,379	4,379
150%	-	-	230,174	-	-	56	-	230,230	345,345
Total	-	-	261,725	18	-	56	-	261,799	363,319
Grand total	2,438,683	549,636	1,834,322	98	986	229,148	12,550	5,065,423	1,369,300
Risk Weighted Asset by Exposures	-	109,927	1,017,176	69	402	229,176	12,550	1,369,300	
Average Risk Weights	0.0%	20.0%	55.5%	70.4%	40.8%	100.0%	100.0%	27.0%	
Deduction from Capital Base	-	5,000	-	-	-	-	-	5,000	

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)

(vii). Group - 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%	-	825,129	940,611	-	-	-	-	1,765,740	353,148
35%	-	-	-	-	736	-	-	736	257
50%	-	-	174,346	-	287	-	-	174,633	87,316
75%	-	-	-	68	79	-	-	147	110
90%	-	-	-	-	-	-	-	-	-
100%	-	-	129,847	-	-	159,428	11,613	300,888	300,888
150%	-	-	-	-	-	-	-	-	-
Total	667,636	825,129	1,244,804	68	1,102	159,428	11,613	2,309,780	741,719
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	825,129	1,543,161	137	1,102	159,484	11,613	3,208,262	1,154,884
Risk Weighted Asset by Exposures	-	165,025	818,188	85	461	159,512	11,613	1,154,884	
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	

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	481	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	

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5.0 Market Risk

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

Regulatory Capital Requirement

The following tables present the minimum regulatory capital requirement on market risk.

	Long positions RM'000	Short positions RM'000	Risk- weighted assets RM'000	Capital requirements RM'000
Group and Bank				
30-Jun-11				
Interest rate risk	184,182	-	7,237	430
Equity risk	494	-	1,358	305
	184,676	-	8,595	735
31-Dec-10				
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 Asset & Liability Committee, Management Committee, Board Risk Management Committee and Board of Directors on a periodic basis.

Modified duration method is used to compute the entire Treasury Portfolio to measure the change in market value of the portfolio due 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 to when financial instruments are allocated to the trading or banking book.

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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 create 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 subject to limits and is closely managed by Management Investment Committee ("MIC").

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

Group and Bank

	30-Jun-2011		31-Dec-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	11,793	11,793	10,855	10,855
<u>Privately held</u>				
For socio-economic purposes	757	757	757	757
	<u>12,550</u>	<u>12,550</u>	<u>11,612</u>	<u>11,612</u>

- (i) Publicly traded equity investments comprise mainly holdings of shares listed on stock 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.

	30-Jun-2011 RM'000	31-Dec-2010 RM'000
Realised (loss)/gains recognised in the income statement		
- Publicly traded equity investments	321	(35)
Unrealised gains recognised in revaluation reserve		
- Publicly traded equity investments	359	339

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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 Governance

The management of the Bank's liquidity is under the purview of 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 Approach

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 periodic 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.

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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 tables present the minimum regulatory capital requirement on operational risk, computed using the Basic Indicator Approach.

	30-Jun-2011		31-Dec-2010	
	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
	RM'000	RM'000	RM'000	RM'000
Group and Bank	188,761	15,101	192,568	15,405
	188,761	15,101	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 Management Committee, Board Risk Management Committee and Board of Directors on a periodic basis.

The various business units are responsible for identifying, managing and mitigating operational risks within their lines of business 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. 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 the 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 is to ensure 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 menu of potential risk vulnerabilities. This process is internally driven and often incorporates workshop or checklist 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 periodic basis to alert the Bank to changes that may be indicative of risk concerns.