



MIDF Amanah Investment Bank Berhad

Pillar 3 Disclosure Report 30 June 2012

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

TABLE OF CONTENTS

Section	Page Number
Overview	1
1.0 Scope of Application	2
2.0 Capital Management	3
2.1 Capital Adequacy Ratios	3
2.2 Capital Structure	4
3.0 Risk Management Framework	5
4.0 Credit Risk	6 - 12
4.1 Off-Balance Sheet Exposure and Counterparty Credit Risk	13
4.2 Credit Risk Mitigation	14
4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach	14 - 18
5.0 Market Risk	19
6.0 Equity Exposures in Banking Book	20
7.0 Liquidity and Funding Risk	21
8.0 Operational Risk	22

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

PILLAR 3 DISCLOSURE
AS AT 30 JUNE 2012

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 Chief Executive Officer 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.

	30-Jun-12		31-Dec-11	
	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	1,252,503	100,200	1,194,232	95,538
Market Risk	211,843	16,947	80,852	6,468
Operational Risk	190,448	15,236	197,080	15,766
Total	1,654,794	132,383	1,472,164	117,772

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.

23878-X

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

ATTESTATION BY CHIEF EXECUTIVE OFFICER

I, Datuk Mohd Najib Haji Abdullah, being the Chief Executive Officer of MIDF AMANAH INVESTMENT BANK BERHAD, do hereby attest that the disclosures on Risk-Weighted Capital Adequacy Framework for the year ended 30 June 2012 are to the best of my knowledge and belief, accurate, complete and not misleading in any particular.



DATUK MOHD NAJIB HAJI ABDULLAH

Date : 23 July 2012

L

**MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)**

1.0 Scope of Application

The Pillar 3 Disclosure is prepared based on information pertaining to MIDF Investment only. In this report, the information presented does not include the Bank's group disclosure. The subsidiary companies, which are nominee companies, are not consolidated as these nominee operations do not have a significant impact to the overall risk-weighted capital adequacy ratio on a group basis. 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 capital reporting 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	
	30-Jun-12	31-Dec-11
Before deducting proposed dividends:		
Tier I capital ratio	42.56%	49.39%
Risk-weighted capital ratio	42.56%	49.39%
After deducting proposed dividends:		
Tier I capital ratio	42.56%	47.16%
Risk-weighted capital ratio	42.56%	47.16%

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	
	30-Jun-12 RM'000	31-Dec-11 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	126,520
Retained profits	64,746	97,540
	710,377	743,171
Less: Deferred Tax assets, net	(5,038)	(15,957)
Total Tier I capital	705,339	727,214
Less: Capital deduction in excess of Tier II capital	(1,067)	(170)
Eligible Tier 1 capital	704,272	727,044
Tier II capital		
Collective assessment impairment allowance [^]	3,933	4,830
General allowance	-	-
Total Tier II capital	3,933	4,830
Total Tier I and Tier II capital	709,272	732,044
Less: Investment in subsidiary companies	(*)	(*)
Less: Holdings of other financial institutions' capital instruments	(5,000)	(5,000)
Capital Base	704,272	727,044

Note * - Denote RM4.00

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

**MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)**

3.0 Risk Management Framework

MIDF Investment's Enterprise Risk Management Framework ("ERM"), provides a systematic approach on how to identify, prioritise 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) Deals 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.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

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
30-Jun-12				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	866,909	866,909	-	-
Banks, Development Financial Institutions & MDBs	698,755	698,755	139,751	11,180
Corporates	1,796,263	1,796,263	650,780	52,062
Regulatory retail	-	-	-	-
Residential mortgages	818	818	331	27
Other assets	194,665	194,665	194,665	15,573
Equity exposure	21,642	21,642	21,642	1,731
Defaulted exposures				
Corporates	165,016	165,016	204,796	16,384
Regulatory retail	-	-	-	-
Other assets	52	52	78	6
Total for on-balance sheet exposures	3,744,120	3,744,120	1,212,043	96,963
Off-balance sheet exposures other than OTC derivatives or credit derivatives	108,434	108,434	40,460	3,237
Total for off-balance sheet exposures	108,434	108,434	40,460	3,237
Total for on and off-balance sheet exposures	3,852,554	3,852,554	1,252,503	100,200

**MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)**

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
31-Dec-11				
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	82,854	82,854	26,241	2,099
Total for off-balance sheet exposures	82,854	82,854	26,241	2,099
Total for on and off-balance sheet exposures	5,382,329	5,382,329	1,194,232	95,538

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 MFRS 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. Pending the approval for the Collective Impairment Provision methodology by Bank Negara Malaysia, any subsequent write-back from collective impairment provision, such amount will be transferred to regulatory reserve.

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

Bank	30-Jun-12						31-Dec-11	
	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Written-back and Other Movements RM'000	Individual Assessment Allowance at 30-Jun RM'000	Collective Assessment Allowance at 30-Jun RM'000	Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Sector								
Primary agriculture	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	333	333	-
Manufacturing	92,947	56,937	14,989	97	71,829	914	72,743	92,947
Construction	3,870	4,092	-	222	3,870	-	3,870	11,602
Wholesale & retail trade and restaurants & hotels	15,882	11,583	24	304	11,303	92	11,395	17,271
Transport, storage and communications	-	-	-	-	-	140	140	-
Finance, insurance and business	3,072	3,088	-	15	3,073	2,671	5,744	3,087
Others	595	514	28	-	542	298	840	571
	116,366	76,214	15,041	638	90,617	4,448	95,065	125,478

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

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

Bank	30-Jun-12					31-Dec-11		
	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-Jun RM'000	Collective Assessment Allowance at 30-Jun RM'000	Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Purpose								
Purchase of securities	519	495	24	-	519	2,535	3,054	495
Purchase of transport vehicles	76	20	4	-	24	2	26	76
Purchase of landed properties	-	-	-	-	-	16	16	-
(Of which: residential)	-	-	-	-	-	16	16	-
Construction	3,870	4,092	-	222	3,870	-	3,870	4,092
Working capital	4,821	3,847	24	57	3,814	436	4,250	12,734
Other purpose	107,080	67,760	14,989	359	82,390	1,459	83,849	108,081
	116,366	76,214	15,041	638	90,617	4,448	95,065	125,478

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	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 Jun 2012						
Financial assets						
Cash and short-term funds	-	-	-	162,054	-	162,054
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Securities held-for-trading	-	-	-	368,154	1,016,041	1,384,195
Money market instruments: Unquoted securities	9,984	-	1,983	-	-	11,967
Securities available-for-sale						
Money market instruments: Unquoted securities:						
Unquoted securities:	209,632	20,189	242,669	560,631	194,564	755,195
Securities held-to-maturity						
Money market instruments: Unquoted securities in Malaysia:						
Unquoted securities:	130,047	-	86,633	81,677	94,925	393,282
Loans, advances and financing						
Term loans	45,693	4,579	-	800	16,637	67,709
Margin accounts	-	-	-	12,844	13,978	26,822
Others	-	-	7,014	115,478	909	123,401
Derivative assets	-	-	-	-	-	-
Other financial assets						
	395,356	24,768	338,299	1,674,831	2,705,844	5,139,098
Commitments and contingencies						
Obligations under an on-going underwriting agreement	20,000	10,000	62,567	21,000	14,250	127,817
Other commitments	1,140	-	-	-	61,476	62,616
	21,140	10,000	62,567	21,000	75,726	190,433
	416,496	34,768	400,866	1,695,831	2,781,570	5,329,531

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 31 Dec 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	-	-	-	-	17,294	-	17,294
Money market instruments:	9,979	-	-	-	-	-	9,979
Unquoted securities	-	-	-	-	-	-	-
Securities available-for-sale	-	-	-	-	224,370	596,497	820,867
Money market instruments:	-	-	-	-	-	-	-
Quoted securities:	-	-	-	-	-	-	-
Unquoted securities:	220,844	44,129	209,356	134,856	677,321	1,286,506	1,286,506
Securities held-to-maturity	-	-	-	-	-	1,805,915	1,805,915
Money market instruments:	149,787	-	142,241	82,002	311,163	685,193	685,193
Unquoted securities in Malaysia:	-	-	-	-	-	-	-
Loans, advances and financing							
Term loans	61,335	5,831	-	-	2,107	19,254	88,527
Margin accounts	-	-	-	6,875	14,185	49,533	63,718
Others	-	-	-	-	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	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	165,667
	463,845	59,960	446,098	907,174	3,596,022	5,473,099	5,473,099

**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.

i) Lending to Retail, Corporate and Institutional Customers

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.

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 subjected to regular review.

iii) Counterparty Credit Risk on Derivative Financial Instruments

As at reporting date, the Bank only has RM800.0 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

As at reporting date, the Bank only has RM800.0 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:

30-Jun-12			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM,000
Commitments			
Obligations under an on-going underwriting agreement	127,817	63,908	21,537
Interest/Profit Rate related contracts - Over 1 Year to 5 Years	800,000	32,000	6,400
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	62,607	12,522	12,521
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	990,433	108,434	40,460
31-Dec-11			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM,000
Commitments			
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

**MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)**

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) RAM Rating Services Berhad (RAM); and
- (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; 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.

**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)

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			
	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 Ringgit Malaysia, risk-weighted will be based 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) Bank - Credit exposures broken down by credit quality rating categories as at 30 June 2012

Exposure Class	1 RM'000	2 RM'000	3 RM'000	Rating Categories			Unrated RM'000	Total RM'000
				4 RM'000	5 RM'000	6 RM'000		
On and Off-Balance-Sheet Exposures (a) Rated Exposures	1,397,395	140,604	-	-	-	128,210	364,374	2,030,583
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u> Corporates	-	316,151	-	-	-	-	550,758	866,909
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u> Sovereigns and Central Banks	304,268	426,487	-	-	-	-	-	730,755
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u> Bank, DFIs and MDBs	1,701,663	883,242	-	-	-	128,210	915,132	3,628,247
Total Rated Exposures	1,701,663	883,242	-	-	-	128,210	224,307	2,917,417
(b) Total Unrated Exposures	-	-	-	-	-	-	-	-
Total Credit Exposures	1,701,663	883,242	-	-	-	128,210	1,139,439	3,852,554

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

Exposure Class	1 RM'000	2 RM'000	3 RM'000	Rating Categories			Unrated RM'000	Total RM'000
				4 RM'000	5 RM'000	6 RM'000		
On and Off-Balance-Sheet Exposures (a) Rated Exposures	1,294,010	172,834	-	-	-	124,881	425,234	2,016,959
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u> Corporates	-	2,573,991	-	-	-	-	311,256	2,885,247
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u> Sovereigns and Central Banks	203,472	90,872	-	-	-	-	-	294,344
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u> Bank, DFIs and MDBs	1,497,482	2,837,697	-	-	-	124,881	736,490	5,196,550
Total Rated Exposures	1,497,482	2,837,697	-	-	-	124,881	185,780	4,536,760
(b) Total Unrated Exposures	-	-	-	-	-	-	-	-
Total Credit Exposures	1,497,482	2,837,697	-	-	-	124,881	922,270	5,382,330

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

(iii). Bank - Credit risk disclosure on risk weights as at 30 June 2012

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	866,909	-	-	-	-	-	-	866,909	-
0%	-	-	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-	-
20%	-	730,755	1,397,395	-	-	-	-	2,128,150	425,630
35%	-	-	-	-	657	-	-	657	229
50%	-	-	140,604	-	83	-	-	140,687	70,344
75%	-	-	-	-	82	-	-	82	62
90%	-	-	-	-	-	-	-	-	-
100%	-	-	328,295	-	-	194,665	28,767	551,727	551,727
150%	-	-	-	-	-	-	-	-	-
Total	866,909	730,755	1,866,294	-	822	194,665	28,767	3,688,212	1,047,992
Defaulted Exposures	-	-	-	-	-	-	-	-	-
50%	-	-	36,980	-	-	-	-	36,980	18,490
100%	-	-	10,043	-	-	-	-	10,043	10,043
150%	-	-	117,267	-	-	52	-	117,319	175,979
Total	-	-	164,290	-	-	52	-	164,342	204,512
Grand total	866,909	730,755	2,030,584	-	822	194,717	28,767	3,852,554	1,252,504
Risk Weighted Asset by Exposures	-	146,151	882,510	-	333	194,743	28,767	1,252,504	-
Average Risk Weights	0.0%	20.0%	43.5%	0.0%	40.5%	100.0%	100.0%	32.5%	-
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 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	2,885,247	-	-	-	-	-	-	2,885,247	-
0%	-	-	-	-	-	-	-	-	-
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	-	-	32,313	-	-	-	-	32,313	16,156
50%	-	-	10,020	-	-	-	-	10,020	10,020
100%	-	-	141,776	-	-	56	-	141,832	212,748
150%	-	-	184,109	-	-	56	-	184,165	238,924
Total	-	-	358,198	-	-	112	-	358,310	467,718
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)

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				
30-Jun-12				
Interest rate risk	1,836,311	919,204	211,843	16,947
Equity risk	-	-	-	-
	1,836,311	919,204	211,843	16,947
31-Dec-11				
Interest rate risk	222,273	200,000	80,852	6,468
Equity risk	-	-	-	-
	222,273	200,000	80,852	6,468

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.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

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

	30-Jun-12		31-Dec-11	
	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	20,885	20,885	13,062	13,062
<u>Privately held</u>				
For socio-economic purposes	757	757	757	757
	<u>21,642</u>	<u>21,642</u>	<u>13,819</u>	<u>13,819</u>

(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.

	30-06-12 RM'000	31-12-11 RM'000
Realised gains/(loss) recognised in the income statement		
- Publicly traded equity investments	-	736
Unrealised (loss)/gains recognised in revaluation reserve		
- Publicly traded equity investments	734	(909)

**MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)**

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 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 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 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.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

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 of includes legal, strategic, financial and reputational risks.

Regulatory Capital Requirement

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

	30-Jun-12		31-Dec-11	
	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
	RM'000	RM'000	RM'000	RM'000
Bank	190,448	15,236	197,080	15,766
	190,448	15,236	197,080	15,766

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.

