



MIDF Amanah Investment Bank Berhad

Pillar 3 Disclosure Report 31 December 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 - 20
6.0 Equity Exposures in Banking Book	21
7.0 Liquidity and Funding Risk	22
8.0 Operational Risk	23

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 31 December 2012 are to the best of my knowledge and belief, accurate, complete and not misleading in any particular.

DATUK MOHD NAJIB HAJI ABDULLAH

Date :

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

PILLAR 3 DISCLOSURE
AS AT 31 DECEMBER 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 is 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 ("MIDF Investment") adopts the Standardised Approach in determining the capital requirements for market risk and credit risk and applies the Basic Indicator Approach for operational risk of 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 BNM's Risk-Weighted Capital Adequacy Framework (Basel III) -Disclosure Requirement (Pillar 3) 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. 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.

In this Pillar 3 Disclosure, information on the Bank's subsidiary companies are not consolidated due to its insignificance, and as agreed with BNM. The basis on consolidation for financial accounting purposes is described in the Notes 2 (c) to the financial statements for the year ended 31 December 2012, and differs from that used for regulatory capital reporting

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

	31-Dec-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	1,437,371	114,989	1,193,658	95,492
Market Risk	263,152	21,052	80,852	6,468
Operational Risk	195,019	15,602	197,080	15,766
Total	1,895,542	151,643	1,471,590	117,726

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.

**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, and its subsidiary companies are not consolidated. MIDF Investment offers Islamic banking financial services via its Islamic banking operations under the Skim Perbankan Islam ("SPI").

The basis of consolidation for financial accounting purposes is described in the Notes 2 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 Risk-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 used 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 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 will 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	
	31-Dec-12	31-Dec-11
Before deducting proposed dividends:		
Tier I capital ratio	41.16%	49.47%
Risk-weighted capital ratio	41.16%	49.47%
<hr/>		
After deducting proposed dividends:		
Tier I capital ratio	39.40%	47.24%
Risk-weighted capital ratio	39.40%	47.24%
<hr/>		

**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 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	
	31-Dec-12	31-Dec-11
	RM'000	RM'000
Tier I capital		
Paid-up share capital	155,000	155,000
Paid-up non-cumulative perpetual preference shares	1,500	1,500
Share premium	362,611	362,611
Statutory reserve	147,520	126,520
Retained profits	118,199	93,255
	784,830	738,886
Less: Deferred Tax assets, net	(309)	(16,187)
Total Tier I capital	784,521	722,699
Less: Capital deduction in excess of Tier II capital	(4,254)	5,331
Eligible Tier 1 capital	780,267	728,030
Tier II capital		
Collective assessment impairment allowance ^	746	10,331
General allowance	-	-
Total Tier II capital	746	10,331
Total Tier I and Tier II capital	785,267	733,030
Less: Investment in subsidiary companies	(*)	(*)
Less: Holdings of other financial institutions' capital instruments	(5,000)	(5,000)
Capital Base	780,267	728,030

Note * - Denote RM4.00

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

Capital Adequacy Ratios

	Bank	
	31-Dec-12	31-Dec-11
Before deducting proposed/interim dividends:		
Tier I capital ratio	41.16%	49.47%
Risk-weighted capital ratio	41.16%	49.47%
After deducting proposed/interim dividends:		
Tier I capital ratio	39.40%	47.24%
Risk-weighted capital ratio	39.40%	47.24%

**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 Bank'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 Bank 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 Trading.

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 Bank's 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
31-Dec-12				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	1,551,580	1,551,580	-	-
Banks, Development Financial Institutions & MDBs	592,080	592,080	118,416	9,473
Corporates	2,146,699	2,146,699	775,787	62,063
Regulatory retail	-	-	-	-
Residential mortgages	727	727	298	24
Other assets	185,529	185,529	185,529	14,842
Equity exposure	18,916	18,916	18,916	1,513
Defaulted exposures				
Corporates	271,891	271,891	311,720	24,938
Regulatory retail	-	-	-	-
Other assets	49	49	74	6
Total for on-balance sheet exposures	4,767,471	4,767,471	1,410,740	112,859
Off-balance sheet exposures other than OTC derivatives or credit derivatives				
	89,492	89,492	26,631	2,130
Total for off-balance sheet exposures	89,492	89,492	26,631	2,130
Total for on and off-balance sheet exposures	4,856,963	4,856,963	1,437,371	114,989

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	282,777	282,777	56,555	4,524
Corporates	1,761,272	1,761,272	689,754	55,180
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	5,296,180	5,296,180	1,167,444	93,395
Off-balance sheet exposures other than OTC derivatives or credit derivatives	82,827	82,827	26,214	2,097
Total for off-balance sheet exposures	82,827	82,827	26,214	2,097
Total for on and off-balance sheet exposures	5,379,007	5,379,007	1,193,658	95,492

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.

The Bank's accounting policy on loan collective impairment assessment has been changed to comply with MFRS 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been accounted for retrospectively and has resulted in an increase in the collective assessment allowance charged in income statement and opening collective assessment allowance and a reduction of opening retained profits in the statement of financial position.

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

Bank	31-Dec-12						31-Dec-11	
Economic Sector	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written-back and Other Movements RM'000	Individual Assessment Allowance at 31-Dec RM'000	Collective Assessment Allowance at 31-Dec RM'000	Total Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Primary agriculture	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	92,231	56,937	15,251	1,215	70,973	282	71,255	92,947
Construction	3,690	4,092	-	402	3,690	464	4,154	11,602
Wholesale & retail trade and restaurants & hotels	13,489	11,583	430	678	11,335	-	11,335	17,271
Transport, storage and communications	-	-	-	-	-	-	-	-
Finance, insurance and business	-	3,087	-	3,087	-	-	-	3,087
Others	620	515	59	3	571	-	571	571
	110,030	76,214	15,740	5,385	86,569	746	87,315	125,478

23878-X

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

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

Bank	31-Dec-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 31-Dec RM'000	Collective Assessment Allowance at 31-Dec RM'000	Total Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Purpose								
Purchase of securities	544	495	49	-	544	-	544	495
Purchase of transport vehicles	76	20	10	3	27	-	27	76
Purchase of landed properties	-	-	-	-	-	-	-	-
(Of which: residential)	-	-	-	-	-	-	-	-
Construction	3,690	4,092	-	402	3,690	-	3,690	4,092
Working capital	-	3,847	28	3,875	-	-	-	12,734
Other purpose	105,720	67,760	15,653	1,105	82,308	746	83,054	108,081
	110,030	76,214	15,740	5,385	86,569	746	87,315	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

	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
Bank						
31 Dec 2012						
Financial assets						
Cash and short-term funds	-	-	-	36,402	-	36,402
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Securities held-for-trading						
Money market instruments:				400,170	-	400,170
Unquoted securities	-	-	-	-	-	-
Securities available-for-sale						
Money market instruments:				634,212	229,577	863,789
Unquoted securities:	217,286	20,197	367,572	431,745	1,748,636	2,785,436
Securities held-to-maturity						
Money market instruments:						
Unquoted securities in Malaysia:	130,225	-	76,031	311,353	85,580	603,189
Loans, advances and financing						
Term loans	42,610	2,155	-	-	33,053	77,818
Margin accounts	-	-	-	11,440	54,414	65,854
Others	-	-	-	-	805	805
Derivative assets	-	-	-	644	-	644
Other financial assets	-	-	-	244,134	71,832	315,966
	<u>390,121</u>	<u>22,352</u>	<u>443,603</u>	<u>2,070,100</u>	<u>2,223,897</u>	<u>5,150,073</u>
Commitments and contingencies						
Obligations under an on-going underwriting agreement	-	20,000	72,620	-	-	92,620
Other commitments	380	-	7,000	18,360	2,945	28,685
	<u>380</u>	<u>20,000</u>	<u>79,620</u>	<u>18,360</u>	<u>2,945</u>	<u>121,305</u>
	<u>390,501</u>	<u>42,352</u>	<u>523,223</u>	<u>2,088,460</u>	<u>2,226,842</u>	<u>5,271,378</u>

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)

	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
Bank						
31 Dec 2011						
Financial assets						
Cash and short-term funds	-	-	-	58,490	-	58,490
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Securities held-for-trading						
Money market instruments:	-	-	-	17,294	-	17,294
Unquoted securities	9,979	-	-	-	-	9,979
Securities available-for-sale						
Money market instruments:	-	-	-	224,370	2,445,265	2,669,635
Quoted securities:	-	-	-	-	-	-
Unquoted securities:	231,071	44,129	264,832	134,856	911,223	1,586,111
Securities held-to-maturity						
Money market instruments:	-	-	-	-	-	-
Unquoted securities in Malaysia:	139,546	-	87,170	82,002	80,350	389,068
Loans, advances and financing						
Term loans	62,022	5,949	-	2,104	19,229	89,304
Margin accounts	-	-	-	14,614	50,545	65,159
Others	-	-	6,867	110,780	8,466	126,113
Derivative assets	-	-	-	131	-	131
Other financial assets	-	-	-	231,771	102,900	334,671
	<u>442,618</u>	<u>50,078</u>	<u>358,869</u>	<u>876,412</u>	<u>3,617,978</u>	<u>5,345,955</u>
Commitments and contingencies						
Obligations under an on-going underwriting agreement	26,000	10,000	87,626	-	15,001	138,627
Other commitments	1,900	-	-	18,186	6,815	26,901
	<u>27,900</u>	<u>10,000</u>	<u>87,626</u>	<u>18,186</u>	<u>21,816</u>	<u>165,528</u>
	<u>470,518</u>	<u>60,078</u>	<u>446,495</u>	<u>894,598</u>	<u>3,639,794</u>	<u>5,511,483</u>

**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 Bank 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 CC and CCB has the Veto Authority to reject credits or modify terms of credits which have been approved by CC .

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 characteristics, financial characteristics, 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 subject to regular review.

iii) Counterparty Credit Risk on Derivative Financial Instruments

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 has RM920.0 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:

31-Dec-12			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM,000
<u>Commitments</u>			
Obligations under an on-going underwriting agreement	92,620	46,310	13,405
Interest/Profit Rate related contracts - Over 1 Year to 5 Years	920,000	37,443	7,489
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	28,676	5,735	5,735
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	1,041,305	89,492	26,631
31-Dec-11			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM,000
<u>Commitments</u>			
Obligations under an on-going underwriting agreement	138,627	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	26,892	5,378	5,378
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	365,528	82,826	26,213

**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, for the credit exposures with Banking Institutions and with original maturity of below 3 months and denominated in Ringgit Malaysia, the risk-weight will be at 20%.

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

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

Exposures by Credit Quality

(i) Bank - Credit exposures broken down by credit quality rating categories as at 31 December 2012

Exposure Class	Rating Categories						Unrated RM'000	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>								
Corporates	1,626,050	211,100	350,000	-	-	126,851	156,634	2,470,635
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u>								
Sovereigns and Central Banks	-	364,001	-	-	-	-	1,187,579	1,551,580
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u>								
Bank, DFIs and MDBs	388,693	238,843	-	-	-	-	1,987	629,523
Total Rated Exposures	2,014,743	813,944	350,000	-	-	126,851	1,346,200	4,651,738
(b) Total Unrated Exposures								
							205,225	205,225
Total Credit Exposures	2,014,743	813,944	350,000	-	-	126,851	1,551,425	4,856,963

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

Exposure Class	Rating Categories						Unrated RM'000	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>								
Corporates	1,294,010	172,834	-	-	-	124,881	425,348	2,017,073
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks#</u>								
Sovereigns and Central Banks	-	2,573,991	-	-	-	-	311,256	2,885,247
(iii) <u>Exposure risk-weighted using ratings of Banking Institutions</u>								
Bank, DFIs and MDBs	200,036	90,872	-	-	-	-	-	290,908
Total Rated Exposures	1,494,046	2,837,697	-	-	-	124,881	736,604	5,193,228
(b) Total Unrated Exposures								
							185,779	185,779
Total Credit Exposures	1,494,046	2,837,697	-	-	-	124,881	922,383	5,379,007

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 31 December 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									
0%	1,551,580	-	-	-	-	-	-	1,551,580	-
10%	-	-	-	-	-	-	-	-	-
20%	-	629,523	1,626,050	-	-	-	-	2,255,573	451,115
35%	-	-	-	-	568	-	-	568	198
50%	-	-	211,100	-	82	-	-	211,182	105,591
75%	-	-	-	-	81	-	-	81	61
90%	-	-	-	-	-	-	-	-	-
100%	-	-	476,741	-	-	185,529	18,916	681,186	681,186
150%	-	-	-	-	-	-	-	-	-
Total	1,551,580	629,523	2,313,891	-	731	185,529	18,916	4,700,170	1,238,151
Defaulted Exposures									
50%	-	-	30,156	-	-	-	-	30,156	15,078
100%	-	-	11,628	-	-	-	-	11,628	11,628
150%	-	-	114,960	-	-	49	-	115,009	172,514
Total	-	-	156,744	-	-	49	-	156,793	199,220
Grand total	1,551,580	629,523	2,470,635	-	731	185,578	18,916	4,856,963	1,437,371
Risk Weighted Asset by Exposures	-	125,905	1,106,647	-	301	185,603	18,916	1,437,372	
Average Risk Weights	0.0%	20.0%	44.8%	0.0%	41.2%	100.0%	100.0%	29.6%	
Deduction from Capital Base	-	5,000	-	-	-	-	-	5,000	

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

4.0 Credit Risk (Cont'd)

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

Exposure by Risk-Weights (cont'd)

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

Risk weights	Sovereigns/ Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Other assets RM'000	Equity exposures RM'000	Total exposures RM'000	Total risk- weighted assets RM,000
Performing Exposures									
0%	2,885,247	-	-	-	-	-	-	2,885,247	-
10%	-	-	-	-	-	-	-	-	-
20%	-	290,908	1,294,010	-	-	-	-	1,584,918	316,984
35%	-	-	-	-	689	-	-	689	241
50%	-	-	172,834	-	83	-	-	172,917	86,459
75%	-	-	-	-	83	-	-	83	62
90%	-	-	-	-	-	-	-	-	-
100%	-	-	366,120	-	-	168,049	16,819	550,988	550,988
150%	-	-	-	-	-	-	-	-	-
Total	2,885,247	290,908	1,832,964	-	855	168,049	16,819	5,194,842	954,734
Defaulted Exposures									
50%	-	-	32,313	-	-	-	-	32,313	16,156
100%	-	-	10,020	-	-	-	-	10,020	10,020
150%	-	-	141,776	-	-	56	-	141,832	212,748
Total	-	-	184,109	-	-	56	-	184,165	238,924
Grand total	2,885,247	290,908	2,017,073	-	855	168,105	16,819	5,379,007	1,193,658
Risk Weighted Asset by Exposures	-	58,182	950,179	-	345	168,133	16,819	1,193,658	
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 Standardised 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				
31-Dec-12				
Interest rate risk	1,200,171	920,000	263,152	21,052
Equity risk	-	-	-	-
	1,200,171	920,000	263,152	21,052
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 ALCO, MANCO, RMC 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.

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)**

Interest Rate Risk in Banking Book

Interest rate risk in banking book is defined as the risk exposure to the Bank's earnings and capital base, as a result of changes in the levels of interest rates, including the shifts in the composition of assets and liabilities. The Bank emphasizes on the importance of managing interest rate risk in banking book as the change in interest rates affects both earnings and economic value of the Bank. Fluctuations in interest rates may pose a threat to the Bank's reported earnings while economic value reflects the potential long-term impact on the Bank's overall capital adequacy.

The Bank is exposed to the interest rate risk in banking book through repricing risk, yield curve risk, basis risk and option risk. The interest rate risk in banking book is measured and managed through the following:

Repricing Gap Analysis

Gap analysis is employed by the Bank to measure interest rate risk arising from the mismatch in repricing balances. The analysis allows the Bank to identify the level of repricing risk by the size of the gap (the amount of net imbalance or repricing mismatch) and the length of time the gap is open.

Net Income Analysis

The analysis focuses on risk to earnings in the near term, typically up to 1-year. The Bank measures sensitivity of the projected net income by applying a standardized rate shock of 100 basis points.

Economic Value of Equity ("EVE") Analysis

In contrast to the net income analysis, the EVE analysis identifies risk arising from long-term repricing or maturity gaps. This measurement focuses on how the economic value of assets, liabilities and off balance sheet items changes with the movement in interest rates. The impact to economic value is measured under a standardized rate shock of 100 basis points.

Stress Testing

The impact of the Bank's earnings and capital positions arising from interest rates movements under stressed events or future changes in the economic conditions are also measured by conducting stress testing on a regular basis.

Table below shows the projected impact of interest rate risk in banking book for the Bank (RM'000):

	<u>31-Dec-12</u>		<u>31-Dec-11</u>	
	+ 100 bps parallel shock		+ 100 bps parallel shock	
	Increase / (Decrease) in Earnings	Increase / (Decrease) in Economic Value	Increase / (Decrease) in Earnings	Increase / (Decrease) in Economic Value
Total	(18,605)	(169,021)	(25,330)	(241,331)

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

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

Bank

	31-Dec-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	18,159	18,159	13,062	13,062
<u>Privately held</u>				
For socio-economic purposes	757	757	757	757
	18,916	18,916	13,819	13,819

(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.

	31/12/2012 RM'000	31/12/2011 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	(93)	(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 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 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 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.

	31-Dec-12		31-Dec-11	
	Risk-weighted assets RM'000	Capital requirements RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank	195,019	15,602	197,080	15,766
	195,019	15,602	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 MANCO, RMC 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 on the changes that may be indicative of risk concerns.