MIDF Amanah Investment Bank Berhad

Pillar 3 Disclosure Report
30 June 2013

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

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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 30 June 2013 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)

AMENDED

PILLAR 3 DISCLOSURE
AS AT 30 JUNE 2013

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.

	30-Jun-13		31-Dec-12	
	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	1,455,452	116,436	1,437,371	114,989
Market Risk	348,200	27,856	263,152	21,052
Operational Risk	197,594	15,808	195,019	15,602
Total	**2,001,246**	**160,100**	**1,895,542**	**151,643**

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

1.0 Scope of Application

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

The basis of consolidation for financial accounting purposes is described in the 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.

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	
	30-Jun-13	**31-Dec-12**
Before deducting proposed dividends:		
CET1 Capital	38.39%	41.16%
Total Capital	38.39%	41.16%
After deducting proposed dividends:		
CET1 Capital	36.72%	39.40%
Total Capital	36.72%	39.40%

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2.0 Capital Management (Cont'd)

2.2 Capital Structure

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

Tier 1 capital comprises equity share capital, share premium, 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	
	30-Jun-13	**31-Dec-12**
	RM'000	**RM'000**
CET1 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	147,520	147,520
Unrealised gain/loss on AFS reserve	(6,924)	
Retained profits	84,824	118,199
	744,531	784,830
Less: Deferred Tax assets, net	(5,281)	(309)
CET1 Capital	**739,250**	**784,521**
Less: Capital deduction in excess of Tier II capital	(4,389)	(4,254)
CET1 Capital	**734,861**	**780,267**
Tier II capital		
Collective assessment impairment allowance ^	611	746
General allowance	-	-
Total Tier II capital	**611**	**746**
Total Tier I and Tier II capital	739,861	785,267
Less: Investment in subsidiary companies	(*)	(*)
Less: Holdings of other financial institutions' capital instruments	(5,000)	(5,000)
Total Capital	**734,861**	**780,267**

Note * - Denote RM4.00

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

Capital Adequacy Ratios

	Bank	
	30-Jun-13	**31-Dec-12**
Before deducting proposed/interim dividends:		
CET1 Capital	38.39%	41.16%
Total Capital	38.39%	41.16%
After deducting proposed/interim dividends:		
CET1 Capital	36.72%	39.40%
Total Capital	36.72%	39.40%

3.0 Risk Management Framework

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

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

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

<u>i) Board of Directors ("Board")</u>
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.

<u>ii) Audit & Compliance Committee ("ACC")</u>
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.

<u>iii) Credit Committee of the Board ("CCB")</u>
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.

<u>iv) Risk Management Committee ("RMC")</u>
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.

<u>v) Asset & Liability Committee ("ALCO")</u>
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.

<u>vi) Management Credit Committee ("CC")</u>
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.

<u>vii) Management Committee ("MANCO")</u>
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.

<u>viii) Management Investment Committee ("MIC")</u>
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.

<u>ix) Deals Committee ("DC")</u>
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.

4.0 Credit Risk

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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-13				
On-balance sheet exposures				
Sovereigns/Central Banks	2,094,116	2,094,116	-	-
Banks, Development Financial Institutions & MDBs	981,888	981,888	196,378	15,710
Corporates	1,969,741	1,969,741	893,192	71,455
Regulatory retail	-	-	-	-
Residential mortgages	710	710	315	26
Other assets	186,018	186,018	186,018	14,881
Equity exposure	9,519	9,519	9,519	762
Defaulted exposures				
Corporates	98,607	98,607	109,442	8,755
Regulatory retail	-	-	-	-
Other assets	32	32	32	3
Total for on-balance sheet exposures	**5,340,631**	**5,340,631**	**1,394,896**	**111,592**
Off-balance sheet exposures other than OTC derivatives or credit derivatives	115,618	115,618	60,556	4,844
Total for off-balance sheet exposures	**115,618**	**115,618**	**60,556**	**4,844**
Total for on and off-balance sheet exposures	**5,456,249**	**5,456,249**	**1,455,452**	**116,436**

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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-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**

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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	30-Jun-13							31-Dec-12
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 30-Jun RM'000	Collective Assessment Allowance at 30-Jun RM'000	Total Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Primary agriculture	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	206	206	-
Manufacturing	92,331	70,973	685	869	70,789	405	71,194	92,231
Construction	3,510	3,690	-	180	3,510	-	3,510	3,690
Wholesale & retail trade and restaurants & hotels	12,277	11,335	100	241	11,194	-	11,194	13,489
Transport, storage and communications	-	-	-	-	-	-	-	-
Finance, insurance and business	-	-	-	-	-	-	-	-
Others	646	571	46	2	614	-	614	620
	108,764	86,569	831	1,292	86,107	611	86,718	110,030

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4.0 Credit Risk (Cont'd)

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

Bank	30-Jun-13							31-Dec-12
Economic Purpose	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written-back and Other Movements RM'000	Individual Assessment Allowance at 30-Jun RM'000	Collective Assessment 224,132 30-Jun RM'000	Total Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Purchase of securities	570	544	26	-	570	-	570	544
Purchase of transport vehicles	76	27	20	2	45	-	45	76
Purchase of landed properties	-	-	-	-	-	-	-	-
(Of which: residential)	-	-	-	-	-	-	-	-
Construction	3,510	3,690	-	180	3,510	-	3,510	3,690
Working capital		-	-	-	-	-	-	-
Other purpose	104,608	82,308	785	1,110	81,982	611	82,593	105,720
	108,764	86,569	831	1,292	86,107	611	86,718	110,030

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4.0 Credit Risk (Cont'd)

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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						
30 June 2013						
Financial assets						
Cash and short-term funds	-	-	-	215,042	-	215,042
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Securities held-for-trading						
Money market instruments:	-	-	-		-	-
Unquoted securities	-	-	-	-	-	-
Securities available-for-sale						
Money market instruments:	-	-	-	823,989		823,989
Unquoted securities:	138,915	10,072	161,041	1,260,907	1,482,502	3,053,437
Securities held-to-maturity						
Money market instruments:	-	-	-	-	-	-
Unquoted securities in Malaysia:	130,032	-	144,543	205,976	185,592	666,143
Loans, advances and financing						
Term loans	68,266	1,084	-	40,123	74,192	183,665
Margin accounts	-	-	-	13,804	56,967	70,771
Others	-	-	-	-	764	764
Derivative assets	-	-	-	2,834	-	2,834
Other financial assets	-	-	-	164,705	161,225	325,930
	337,213	11,156	305,584	2,727,380	1,961,242	5,342,575
Commitments and contingencies						
Obligations under an on-going underwriting agreement	-		130,327	-	-	130,327
Other commitments	-	-	7,000	14,379	66,166	87,545
	-	-	137,327	14,379	66,166	217,872
	337,213	11,156	442,911	2,741,759	2,027,408	5,560,447

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4.0 Credit Risk (Cont'd)

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

	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	-	37,372	-	-	-	37,372
Securities available-for-sale						
Money market instruments:	-	-	-	634,212	229,577	863,789
Quoted securities:	-	-	-	-	-	-
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
	390,121	59,724	443,603	2,070,100	2,223,897	5,187,445
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
	380	20,000	79,620	18,360	2,945	121,305
	390,501	79,724	523,223	2,088,460	2,226,842	5,308,750

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.

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4.0 Credit Risk (Cont'd) AMENDED

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 RM1,570.0 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-13			
Commitments	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM,000**
Obligations under an on-going underwriting agreement	130,326	65,163	36,458
Interest/Profit Rate related contracts - Over 1 Year to 5 Years	1,570,000	32,946	6,589
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	87,546	17,509	17,509
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-
Total Off-Balance Sheet Exposures	1,787,872	115,618	60,556

31-Dec-12			
Commitments	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM,000**
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

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.

4.0 Credit Risk (Cont'd)

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

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

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

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

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

In addition to the above, 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%.

4.0 Credit Risk (Cont'd)

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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 2013

Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	Rating Categories							
On and Off- Balance-Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
Corporates	1,241,629	220,090	312,810	-	-	65,964	282,674	2,123,167
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
Sovereigns and Central Banks	-	424,014	-	-	-	-	1,670,102	2,094,116
(iii) Exposure risk-weighted using ratings of Banking Institutions								
Bank, DFIs and MDBs	773,265	209,858	-	-	-	-	31,711	1,014,834
Total Rated Exposures	2,014,894	853,962	312,810	-	-	65,964	1,984,487	5,232,117
(b) Total Unrated Exposures							224,132	224,132
Total Credit Exposures	2,014,894	853,962	312,810	-	-	65,964	2,208,619	5,456,249

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

Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	Rating Categories							
On and Off- Balance-Sheet Exposures								
(a) Rated Exposures								
(i) Credit exposures risk-weighted using ratings of Corporates								
Corporates	1,626,050	211,100	350,000	-	-	126,851	156,634	2,470,635
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks#								
Sovereigns and Central Banks	-	364,001	-	-	-	-	1,187,579	1,551,580
(iii) Exposure risk-weighted using ratings of Banking Institutions								
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

4.0 Credit Risk (Cont'd)

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

Exposure by Risk-Weights

(iiii). Bank - Credit risk disclosure on risk weights as at 30 June 2013

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%	2,094,116	-	-	-	-	-	-	2,094,116	-
10%	-	-	-	-	-	-	-	-	-
20%	-	1,014,834	1,241,629	-	-	-	-	2,256,463	451,293
35%	-	-	-	-	544	-	-	544	190
50%	-	-	223,900	-	-	-	-	223,900	111,950
75%	-	-	-	-	166	-	-	166	125
90%	-	-	-	-	-	-	-	-	-
100%	-	-	559,030	-	-	186,018	37,372	782,420	782,420
150%	-	-	-	-	-	-	-	-	-
Total	2,094,116	1,014,834	2,024,559	-	710	186,018	37,372	5,357,609	1,345,978
Defaulted Exposures									
50%	-	-	32,656	-	-	-	-	32,656	16,328
100%	-	-	11,629	-	-	32	-	11,661	11,661
150%	-	-	54,323	-	-	-	-	54,323	81,485
Total	-	-	98,608	-	-	32	-	98,640	109,474
Grand total	2,094,116	1,014,834	2,123,167	-	710	186,050	37,372	5,456,249	1,455,452
Risk Weighted Asset by Exposures	-	202,967	1,028,748	-	315	186,050	37,372	1,455,452	
Average Risk Weights	0.0%	20.0%	48.5%	0.0%	44.4%	100.0%	100.0%	26.7%	
Deduction from Capital Base	-	5,000	-	-	-	-	-	5,000	

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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 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	

5.0 Market Risk

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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				
30-Jun-13				
Interest rate risk	1,570,000	1,570,000	348,200	27,856
Equity risk	-	-	-	-
	1,570,000	**1,570,000**	**348,200**	**27,856**
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**

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.

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):

	30-June-13		31-Dec-12	
	+ 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	(6,587)	(96,450)	(18,605)	(169,021)

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

	30-Jun-13		31-Dec-12	
	Gross Credit Exposure RM'000	Risk-weighted assets RM'000	Gross Credit Exposure RM'000	Risk-weighted assets RM'000
Publicly traded				
Publicly traded equity investments	8,761	8,761	18,159	18,159
Privately held				
For socio-economic purposes	757	757	757	757
	9,518	**9,518**	**18,916**	**18,916**

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

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

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

	30/06/2013 RM'000	31/12/2012 RM'000
Realised gains/(loss) recognised in the income statement		
- Publicly traded equity investments	-	-
Unrealised (loss)/gains recognised in revaluation reserve		
- Publicly traded equity investments		(93)

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.

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.

	30-Jun-13		31-Dec-12	
	Risk-weighted assets RM'000	Capital requirements RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank	197,594	15,808	195,019	15,602
	197,594	**15,808**	**195,019**	**15,602**

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.