MIDF Amanah Investment Bank Berhad

Pillar 3 Disclosure Report
31 December 2020

197501002077 (23878-X)
MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

TABLE OF CONTENTS

PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2020

Overview

To enhance financial reporting disclosure, Bank Negara Malaysia ("BNM") has issued the guidelines on Risk-Weighted Capital Adequacy Framework ("RWCAF") - Disclosure Requirements (Pillar 3) for financial reporting beginning 1 January 2010. The Pillar 3 Disclosure which is synonymous to Basel II issued by the Basel Committee on Banking Supervision consists of the 3 Pillars as 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 ("The Bank" or "MIDF Investment Bank") 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 Investment. The information is not subjected to external audit's review as there is no requirement for external auditing of this disclosure under the BNM's RWCAF. The Pillar 3 Disclosure will be published in the corporate website, www.midf.com.my.

Overview (Cont'd)

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-20		31-Dec-19	
	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	2,197,022	175,760	1,341,358	107,309
Market Risk	126,987	10,158	14,927	1,194
Operational Risk	181,066	14,485	166,741	13,339
Total	**2,505,075**	**200,403**	**1,523,026**	**121,842**

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 Bank only. The infromation of its subsidiary companies are not consolidated herewith. The Islamic banking financial services are offered via the Islamic banking operations under the Skim Perbankan Islam ("SPI") of the Bank.

The basis of consolidation for financial accounting purposes is described in the Notes 2 (b) to the Financial Statements for the year ended 31 December 2020 and differs from that used for regulatory capital reporting purposes. The investment in the subsidiary companies are deducted from the regulatory capital.

The subsidiary companies of the Bank are not subjected to any regulatory capital requirements as at the reporting date.

All information in the following paragraphs are based on the Bank's positions as at the reporting date. 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, 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.

Effective 01 January 2018, capital adequacy ratios are computed based on the Capital Adequacy Framework (Capital Components) policy document issued by BNM on 02 February 2018, including subsequent amendment to the policy document issued on 5 February 2020.

The Bank maintains an actively managed total capital 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 ("RMD") reviews the Risk-Weighted Capital Ratio ("RWCR") and total capital under both normal and stressed conditions. The stress testing process forecast the Bank's total 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 capital target ("ICT"), or minimum total capital requirement of RM500 million, upon receiving the RWCR report from Group Finance, RMD 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-20	**31-Dec-19**
Before deducting proposed dividends:		
CET1 Capital	33.709%	52.116%
Tier 1 Capital	33.709%	52.116%
Total Capital	34.805%	53.217%
After deducting proposed dividends:		
CET1 Capital	32.910%	52.116%
Tier 1 Capital	32.910%	52.116%
Total Capital	34.007%	53.217%

2.0 Capital Management (Cont'd)

2.2 Capital Structure

The Bank's capital structure consist of Common Equity Tier 1 ("CET1"), additional Tier 1 and Tier 2 capital.

CET1 capital comprised ordinary share capital, retained profits as well as other reserves.

Tier 2 capital comprises the collective impairment allowance and regulatory reserve without any complex or hybrid capital instruments.

The following table presents the components of CET1, additional Tier 1 and regulatory adjustments and Tier 2 capital:

	Bank	
	31-Dec-20	**31-Dec-19**
	RM'000	**RM'000**
CET1 Capital		
Ordinary shares	369,111	369,111
Regulatory reserve	16,324	17,430
Fair value through other comprehensive income reserve	15,002	3,687
Retained profits	475,577	429,321
	876,014	819,549
Less: Regulatory adjustments	(31,585)	(25,808)
Total CET1 Capital	**844,429**	**793,741**
Total Tier 1 Capital	**844,429**	**793,741**
Tier 2 Capital		
Collective assessment impairment allowance^ and regulatory reserve	27,463	16,767
Total Tier 2 Capital	**27,463**	**16,767**
	871,892	810,508
Less: Investment in subsidiary companies	(*)	(*)
Total Capital	**871,892**	**810,508**

Note * - Denote RM4.00

Note ^ - Effective 1.1.2018 Tier 2 Capital shall consist of general provisions subject to a maximum of 1.25% of total credit RWA determined under the Standardised Approach for credit risk.

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. It consists of five (5) key components i.e. ERM Framework, Risk Assessment, Risk Action Planning and Implementation, Follow-up on the Risk Action Plan Implementation and Continuous Monitoring and Communication.

The Risk Management Department ("RMD") carries out the risk management function that is independent of the Bank's business units and is guided by the Malaysian Industrial Development Finance Berhad ("MIDF Group") ERM.

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

Board of Directors ("Board")
The Board is primarily responsible for the effective management of all risks across the Bank and decides the risk management policy and set prudential limits as well as to decide on auditing, reporting and review mechanism. The Board also ensures that the Bank's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of the Bank's activities.

Risk Management Committee ("RMC")
The RMC, which comprises members of the Board, is responsible to review and recommend risk strategy and oversees implementation of the risk management framework. The RMC oversees the design and development of the risk management framework and ensure that the framework is effective for controlling risk-taking activities of the Bank in line with the Bank's risk appetite taking into account changes in the business environment. The RMC also ensures adequate infrastructure, resources and systems are in place for risk management.

Credit Committee of the Board ("CCB")
The CCB, which comprises members of the Board, is responsible to review and endorse the Bank's credit strategy, policies and limits governing the Bank's credit operations. The CCB is also responsible to ensure and review a well-defined authority structure of approving credits as well as review and/or endorse credit transactions/exposures with connected parties, credit exposures with uninhibited concerns as well as rescheduling and restructuring of non-performing accounts.

Shariah Committee
Specific to Shariah non-compliance risk, RMC is supported by the Shariah Committee at the MIDF Group level and is guided by the Shariah Policies, Shariah Procedures, Bankwide Risk Management Policies and Risk Management Procedures in relation to the Shariah Risk Management functions as well as other relevant guidelines issued by regulatory authorities.

Audit & Compliance Committee ("ACC")
The role of the ACC is supported by the MIDF's Group Control Assurance Services. The ACC provides independent oversight of the Bank's financial reporting and internal control system to ensure checks and balances within the Bank. The ACC also oversees the Bank's compliance with applicable laws, regulations, rules and guidelines of the regulators.

3.0 Risk Management Framework (Cont'd)

Nomination and Remuneration Committee (“NRC”)

The NRC, which comprises members of the Board, is responsible for the establishment of formal and transparent framework for nomination, appointment and remuneration of directors, Chief Executive Officer and key senior management officers. The NRC provides a mechanism for the formal assessment on the effectiveness of the board as a whole and the contribution of the board’s various committees, including the performance of the chief executive officer and senior management officers. This would ensure the Board members and senior management officers have the required skill sets to align with the strategic direction and emerging challenges faced by the Bank. The NRC also responsible for ensuring that compensation is competitive and consistent with the Bank’s culture, objective and strategies as to ensure that the remuneration package is within the scope of the general business policy and not to be dependent on short-term performance to avoid incentives for excessive risk taking.

Asset & Liability Committee ("ALCO")

The role of the ALCO is to oversee the implementation of the Bank's frameworks, policies and guidelines as approved by the Board for market risk, interest rate risk in the banking book ("IRRBB")/rate of return risk in the banking book ("RORBB"), liquidity risk and capital adequacy. The ALCO periodically reviews the position of the market risk, IRRBB/RORBB, liquidity risk and capital adequacy of the Bank to ensure that the level of risks taken is within the Bank's risk appetite and tolerance. The ALCO also develops the on and off balance sheet strategies to improve balance sheet risk-reward performance.

Credit Committee ("CC")

The CC, which comprises of members of Senior Management of the Bank and is responsible for the effective management of credit risk in line with the Bank’s approved credit risk strategy. This includes approving and/or reviewing new credit facilities, performing and non-performing accounts, credit policies and procedures, recovery as well as credit reporting and monitoring.

Management Committee ("MANCO")

The role of MANCO is to ensure that the day-to-day management of the Bank's activities are consistent with the risk strategy, risk appetite and policies approved by the Board. The MANCO ensures risk management activities are well-integrated throughout the organisation and embedded into the culture and business operations of the Bank. The MANCO also monitors status of corrective actions taken to address issues on the Bank's material risks and controls raised by the regulators and auditors.

Management Investment Committee ("MIC")

The role of MIC is to oversee all matters pertaining to strategies on proprietary trading and investment in non-routine treasury portfolio. This includes periodically review the position of proprietary trading and investment in shares and non-routine treasury portfolio in meeting the performance benchmark while ensuring the level of risk taken is within the Board's risk appetite and tolerance.

4.0 Credit Risk

Credit Risk is defined as the risk of a counterparty failing to perform its obligations.

Credit Risk Management Unit is a control function that is independent from revenue-generating functions and is responsible to provide credit risk perspective and to identify, measure, monitor, control and report the Bank's overall credit risk exposures.

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 exposures RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
31-Dec-20				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	3,342,141	3,342,141	-	-
Bank, Development Financial Institutions & MDBs	31,765	31,765	6,353	508
Corporates	2,561,345	2,561,345	1,822,735	145,818
Regulatory retail	-	-	-	-
Residential mortgages	114	114	39	3
Other assets	92,076	92,076	85,702	6,856
Equity exposure	1,500	1,500	1,500	120
Defaulted exposures				
Corporates	53,717	53,717	66,848	5,348
Residential mortgages	19	19	29	2
Total for on-balance sheet exposures	**6,082,677**	**6,082,677**	**1,983,206**	**158,656**
Off-balance sheet exposures other than OTC derivatives or credit derivatives	657,124	657,124	213,816	17,104
Total for off-balance sheet exposures	**657,124**	**657,124**	**213,816**	**17,104**
Total for on and off-balance sheet exposures	**6,739,801** *	**6,739,801** *	**2,197,022**	**175,760**

* The Bank does not employ any credit risk mitigation technique in calculating the Risk-Weighted Assets for its capital adequacy purposes.

4.0 Credit Risk (Cont'd)

Regulatory Capital Requirement (Cont'd)

The following table presents the minimum regulatory capital requirement for credit risk of the Bank. (Cont'd)

Exposure class	Gross exposures RM'000	Net exposures RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
31-Dec-19				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	2,952,501	2,952,501	-	-
Bank, Development Financial Institutions & MDBs	237,172	237,172	47,434	3,795
Corporates	1,552,550	1,552,550	956,188	76,495
Regulatory retail	-	-	-	-
Residential mortgages	157	157	55	5
Other assets	84,040	84,040	81,545	6,524
Equity exposure	757	757	757	61
Defaulted exposures				
Corporates	71,342	71,342	90,660	7,253
Residential mortgages	19	19	29	2
Other assets	-	-	-	-
Total for on-balance sheet exposures	**4,898,538**	**4,898,538**	**1,176,668**	**94,135**
Off-balance sheet exposures other than OTC derivatives or credit derivatives	594,574	594,574	164,690	13,174
Total for off-balance sheet exposures	**594,574**	**594,574**	**164,690**	**13,174**
Total for on and off-balance sheet exposures	**5,493,112** *	**5,493,112** *	**1,341,358**	**107,309**

* The Bank does not employ any credit risk mitigation technique in calculating the Risk-Weighted Assets for its capital adequacy purposes.

4.0 Credit Risk (Cont'd)

Credit Quality of Loans and Advances

Effective 1 January 2018, the Bank adopted MFRS 9 "Financial Instruments". The Bank's impairment assessment methodologies are disclosed in Note 2 (d) (ii) of the Financial Statements. The credit risk management is disclosed in Note 37 (a) of the Financial Statements.

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

Bank

	Individual Assessment ^				31-Dec-20	31-Dec-19
Economic Sector	**At 1 January RM'000**	**Net Charge for the Year RM'000**	**Amounts Written-back and Other Movements RM'000**	**At 31 Dec RM'000**	**Net Impaired Loans and Advances RM'000**	**Net Impaired Loans and Advances RM'000**
Mining and quarrying	-			-	-	-
Manufacturing	70,967	3,689		74,656	6,667	7,501
Construction	-			-	-	-
Wholesale & retail trade and restaurants & hotels	17,460	814		18,274	-	-
Household	1	-		1	20	20
	88,428	4,503	-	92,931	6,687	7,521
Economic Purpose						
Purchase of securities	-	-	-	-	-	-
Purchase of transport vehicles	-	-	-	-	-	-
Purchase of landed properties	-	-	-	-	-	-
(Of which: residential)	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Other purpose	88,428	4,503		92,931	6,687	7,521
	88,428	4,503	-	92,931	6,687	7,521

^ Includes interest/profit in suspense

197501002077 (23878-X)
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	Household/Individual RM'000	Education/health and others RM'000	Finance, insurance Real estate and business services RM'000	Electricity, Gas and Water RM'000	Government and Central Bank RM'000	Others RM'000	Total RM'000
Bank								
31-Dec-20								
Financial assets								
Cash and short-term funds	-	-	-	308,360			-	308,360
Financial investment instruments at FVOCI								
- Money market instruments	-	-	-	70,000		1,594,027		1,664,027
- Unquoted instruments	3,783	-	-	370,285	185,315		99,866	659,249
Financial investment instruments at amortised cost								
- Money market instruments						563,195		563,195
- Corporate Bonds/Sukuk	73,238	-	430,038	680,868	205,094		347,099	1,736,337
Loans, advances and financing								
Term loans/financing	28,623	-	-	285,804	320,404		187,668	822,499
Margin accounts	-	375,847		152,658			17,903	546,408
Others	-	333	-	-			-	333
Other financial assets	-	-	-	109,420			76,578	185,998
	105,644	376,180	430,038	1,977,395	710,813	2,157,222	729,114	6,486,406
Commitments and contingencies								
Other commitments	3,780	187,457	-	269,152	48,819	-	147,917	657,125
	3,780	187,457	-	269,152	48,819	-	147,917	657,125
	109,424	563,637	430,038	2,246,547	759,632	2,157,222	877,031	7,143,531

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	Household/Individual RM'000	Education/health and others RM'000	Finance, insurance Real estate and business services RM'000	Electricity, Gas and Water RM'000	Government and Central Bank RM'000	Others RM'000	Total RM'000
Bank								
31-Dec-19								
Financial assets								
Cash and short-term funds	-	-	-	571,264			-	571,264
Financial investment instruments at FVOCI								
- Money market instruments	-	-	-	-		1,048,302		1,048,302
- Unquoted instruments	4,260	-	-	206,481	110,984		46,146	367,871
Financial investment instruments at amortised cost								
- Money market instruments						670,663		670,663
- Corporate Bonds/Sukuk	89,568	-	430,071	819,885	160,204		420,437	1,920,165
Loans, advances and financing								
Term loans/financing	20,666	-	-	96,398			59,046	176,110
Margin accounts	4,807	203,100		135,388			35,337	378,632
Others	-	403	-	-	-		-	403
Other financial assets	-	-	-	108,016			68,057	176,073
	119,301	203,503	430,071	1,937,432	271,188	1,718,965	629,023	5,309,483
Commitments and contingencies								
Other commitments	12,897	127,850	-	251,612	50,000		152,215	594,574
	12,897	127,850	-	251,612	50,000		152,215	594,574
	132,198	331,353	430,071	2,189,044	321,188	1,718,965	781,238	5,904,057

4.0 Credit Risk (Cont'd)

Risk Governance

The board has the overall responsibility to promote a sound credit risk management environment to support prudent credit decision - making, while senior management shall be collectively responsible for the effective management of credit risk in line with the Bank's approved credit risk strategy.

The credit risk management is largely performed by the following commitees/unit set up specifically to assist the Board in overseeing the entire credit risk management processes:

i) Risk Management Committee ("RMC")
To oversee the implementation of overall risk management strategies, policies and risk limits, including credit risk.

ii) Credit Committee of the Board ("CCB")
To review and endorse the Bank's credit strategy, policies and limits governing the Bank's credit operations.

iii) Credit Committee ("CC")
To approve credits within the Bank, in accordance with the authority granted by the Board.

iv) Credit Risk Management Unit within Risk Management Department ("CRU")
A control function that is independent from revenue-generating functions and is responsible to provide risk perspectives and to identify, measure, monitor, control and report the Bank's overall credit risk exposures.

Credit Risk Assessment Approach

The authorities for approving credit lies with the CC. Subject to the limit / rating threshold, CCB has the authority to affirm / veto the decision of CC.

i) Lending to Retail, Corporate and Institutional Customers

Credit granting to customers is based on internal credit risk rating that assess the respective customers' general characteristics, financial characteristics, ability to repay, collateral and conduct of account.

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 Bhd ("RAM") and Malaysian Rating Corporation Berhad ("MARC"), and internal credit risk rating model are used for internal credit rating. 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 on derivative financial instruments by restricting transactions only to inter-bank counterparties rated "AA" or better.

4.0 Credit Risk (Cont'd)

4.1 Off-Balance Sheet Exposures and Counterparty Credit Risk

The Bank's off balance sheet exposures are for equity, debt securities, undrawn committed credit facilities and unutilised share margin financing that are secured by quoted shares, cash and fixed deposits.

As at reporting date, the Bank has RM400 million (31 December 2019 : RM100.0 million) exposure to derivatives, specifically on RM denominated interest rate swaps.

Composition of Off-Balance Sheet Exposure
The following table presents a breakdown of the off-balance sheet exposures of the Bank:

31-Dec-20			
Commitments	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM'000**
Direct Credit Substitutes	1,000.00	1,000.00	1,000.00
Obligations under and on-going underwriting agreement			
Interest/Profit Rate related contracts - One year or less	-	-	-
Interest/Profit Rate related contracts - Over one year to five years	400,000	13,244	2,649
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	384,155	76,831	76,831
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	271,969	135,985	135,985
Total Off-Balance Sheet Exposures	**1,057,124**	**227,060**	**216,465**

31-Dec-19			
Commitments	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM'000**
Direct Credit Substitutes	**-**	**-**	**-**
Obligations under and on-going underwriting agreement	-	-	-
Interest/Profit Rate related contracts - One year or less	-	-	-
Interest/Profit Rate related contracts - Over one year to five years	100,000	1,000	200
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	441,992	88,399	88,399
and credit lines, with an original maturity of over one	152,582	76,291	76,291
Total Off-Balance Sheet Exposures	**694,574**	**165,690**	**164,890**

4.0 Credit Risk (Cont'd)

4.2 Credit Risk Mitigation

Any credit facilities 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 External 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

(a) sovereign and central banks;
(b) banking institutions; and
(c) corporates.

4.0 Credit Risk (Cont'd)

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

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

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

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

Rating Category	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)

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 2020

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	1,477,398	-	-	-	-	53,717	1,741,071	3,272,186
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
Sovereigns and Central Banks	-	3,342,141	-	-	-	-	-	3,342,141
(iii) Exposures risk-weighted using ratings of Banking Institutions								
Bank, DFIs and MDBs	31,765	-	-	-	-	-	-	31,765
Total Rated Exposures	1,509,163	3,342,141	-	-	-	53,717	1,741,071	6,646,092
(b) Total Unrated Exposures	-	-	-	-	-	-	93,709	93,709
Total Credit Exposures	1,509,163	3,342,141	-	-	-	53,717	1,834,780	6,739,801

Note #:

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

4.0 Credit Risk (Cont'd)

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

Exposures by Credit Quality (Cont'd)

(ii) Bank - Credit exposures broken down by credit quality rating categories as at 31 December 2019

Exposure Class	Rating Categories 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
On and Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u>								
Corporates	1,282,807	-	-	-	-	71,342	864,316	2,218,465
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks #</u>								
Sovereigns and Central Banks	-	2,952,501	-	-	-	-	-	2,952,501
(iii) <u>Exposures risk-weighted using ratings of Banking Institutions</u>								
Bank, DFIs and MDBs	237,172	-	-	-	-	-	-	237,172
Total Rated Exposures	1,519,979	2,952,501	-	-	-	71,342	864,316	5,408,138
(b) Total Unrated Exposures	-	-	-	-	-	-	84,974	84,974
Total Credit Exposures	1,519,979	2,952,501	-	-	-	71,342	949,290	5,493,112

Note #:

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

4.0 Credit Risk (Cont'd)

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

Exposure by Risk-Weights

(i) Bank - Credit risk disclosure on risk weights as at 31 December 2020

Risk weights	Sovereigns/ Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory retail	Residential mortgages	Other assets	Equity exposures	Total exposures	Total risk-weighted assets
Performing Exposures	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,342,141	-	-	-	-	-	-	3,342,141	-
10%	-	-	-	-	-	-	-	-	-
20%	-	31,765	1,477,398	-	-	7,967	-	1,517,130	303,426
35%	-	-	-	-	114	-	-	114	40
50%	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-
100%	-	-	1,741,071	-	-	84,109	1,500	1,826,680	1,826,680
150%	-	-	-	-	-	-	-	-	-
Total	3,342,141	31,765	3,218,469	-	114	92,076	1,500	6,686,065	2,130,146
Defaulted Exposures									
50%	-	-	13,728	-	-	-	-	13,728	6,864
100%	-	-	-	-	-	-	-	-	-
150%	-	-	39,989	-	19	-	-	40,008	60,012
Total	-	-	53,717	-	19	-	-	53,736	66,876
Grand Total	3,342,141	31,765	3,272,186	-	133	92,076	1,500	6,739,801	2,197,022
Risk Weighted Asset by Exposures	-	6,353	2,103,398	-	68	85,702	1,500	2,197,022	
Average Risk Weights	0.0%	20.0%	64.3%	0.0%	51.1%	93.1%	100.0%	32.6%	
Deduction from Total Capital	-	-	-	-	-	-	-	-	

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)

(ii) Bank - Credit risk disclosure on risk weights as at 31 December 2019

Risk weights	Sovereigns/ Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory retail	Residential mortgages	Other assets	Equity exposures	Total exposures	Total risk-weighted assets
Performing Exposures	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,952,501	-	-	-	-	-	-	2,952,501	-
10%	-	-	-	-	-	-	-	-	-
20%	-	237,172	1,282,807	-	-	3,119	-	1,523,098	304,620
35%	-	-	-	-	157	-	-	157	54
50%	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-
100%	-	-	864,316	-	-	80,922	757	945,995	945,995
150%	-	-	-	-	-	-	-	-	-
Total	2,952,501	237,172	2,147,123	-	157	84,041	757	5,421,751	1,250,669
Defaulted Exposures									
50%	-	-	16,353	-	-	-	-	16,353	8,177
100%	-	-	-	-	-	-	-	-	-
150%	-	-	54,989	-	19	-	-	55,008	82,512
Total	-	-	71,342	-	19	-	-	71,361	90,689
Grand Total	2,952,501	237,172	2,218,465	-	176	84,041	757	5,493,112	1,341,358
Risk Weighted Asset by Exposures	-	47,434	1,211,538	-	83	81,546	757	1,341,358	
Average Risk Weights	0.0%	20.0%	54.6%	0.0%	47.2%	97.0%	100.0%	24.4%	
Deduction from Total Capital	-	-	-	-	-	-	-	-	

5.0 Market Risk

Market Risk is defined as risk of losses in on and off-balance sheet positions arising from movements in market prices. The movements in market prices include foreign exchange rates, interest/profit rates, commodities and equity markets.

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-20				
Interest rate risk	400,828	401,061	126,987	10,159
Equity risk	-	-	-	-
	400,828	401,061	126,987	10,159
31-Dec-19				
Interest rate risk	100,297	101,117	14,927	1,194
Equity risk	-	-	-	-
	100,297	101,117	14,927	1,194

Risk Governance

Market & Risk Analytics 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 risk profile will be updated and reported to the ALCO, MANCO, RMC and the Board on a periodical basis.

Risk Management Approach

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

Portfolio sensitivity analysis measures the impact of the overall portfolio's market value under stressed conditions against the current market value.

Portfolio concentration analysis measures the extent of over concentration in the portfolio such as concentration by type of securities, by investment grades and by the buckets.

Market risk limits such as price value of a basis point (PV01) and loss limits are in place to control extent of the Bank's exposure to market risk.

A valuation of all trading securities is done on a daily basis in accordance with market prices while a valuation for the securities at fair value through other comprehensive income 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.

6.0 Equity Exposures in Banking Book

Equity risk arises from the holding of open positions, either long or short, in equities 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-20**		**31-Dec-19**	
	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	-	-	-	-
Privately held				
For socio-economic purposes	1,500	1,500	757	757
	1,500	**1,500**	**757**	**757**

(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-Dec-20	**31-Dec-19**
Realised gains/(loss) recognised in the income statement		
- Publicly traded equity instruments	-	-
Unrealised gains/(loss) recognised in revaluation reserve		
- Publicly traded equity instruments	-	-

7.0 Interest Rate Risk in Banking Book/Rate of Return Risk in Banking Book

Interest Rate Risk in Banking Book/Rate of Return Risk in Banking Book ("IRRBB/RORBB") is defined as the risk exposure to the Bank's earnings and total capital, as a result of changes in the levels of interest/ profit rates, including the shifts in the composition of assets and liabilities.

Risk Governance

Market & Risk Analytic Unit is responsible for measuring and monitoring IRRBB/RORBB, and has designed and implemented policies and procedures to ensure that IRRBB/RORBB exposures are managed within the appetite and limit framework set by the Board. The IRRBB/RORBB profile will be updated and reported to the ALCO, MANCO, RMC and the Board on a periodical basis.

Risk Management Approach

The Bank is exposed to the Interest Rate Risk in Banking Book/Rate of Return Risk in Banking Book through repricing risk, yield curve risk, basis risk and option risk. The Interest Rate Risk in Banking Book/Rate of Return Risk in Banking Book is measured and managed through the following:

(1) 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 the net imbalance or repricing mismatch) and the length of time the gap is open.

(2) 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 standardised rate shock of 100 basis points.

(3) 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 item changes with the movement in interest rates. The impact to economic value is measured under a standardised rate shock of 100 basis points.

(4) 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.

Risk limit such as Earning at Risk ("EaR") and EVE Loss limits are in place to control the extent of the Bank's exposure to short term and long term interest rate risk in the banking book/rate of return risk in banking book.

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

	31-Dec-20		31-Dec-19	
	+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 (RM'000)	(18,590)	(74,244)	(19,825)	(94,274)

8.0 Liquidity and Funding Risk

Liquidity risk is defined as the risk of losses arising from the inability to meet cash flow obligations in a timely and cost effective manner. It appears in two (2) forms as follows:

- Funding Liquidity Risk
  The risk in which the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank.

- Market Liquidity Risk
  The risk that the Bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.

Risk Governance

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

Risk Management Approach

The liquidity risk management of the Bank is aligned with the BNM's Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") as per the Basel III, and is measured and managed on a projected cash flow basis to ensure compliance with the new liquidity standard.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of high quality liquid assets that can be easily liquidated as protection against any unforseen 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 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 risk limits/ indicators are in place to provide a snapshot view of the liquidity risk profile as well as to evaluate liquidity performance. Liquidity positions and limit compliances are reported to the ALCO and the RMC on a periodical basis.

Liquidity contingency funding plans are in place to identify early warnings 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 is conducted on a regular basis to determined whether the Bank is able to withstand acute liquidity stress scenarios.

9.0 Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Regulatory Capital Requirement

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

	31-Dec-20		31-Dec-19	
	Risk-weighted assets RM'000	Capital requirements RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank	181,066	14,485	166,741	13,339
	181,066	**14,485**	**166,741**	**13,339**

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 Operational Risk and Shariah Non-Compliance Risk, the evaluation on the adequacy for allocation of resources/ capital, appropriateness of qualitative and quantitative measurements, methodologies and tools that are in place for managing prioritised risks'. The Operational Risk exposures information is 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 and limits.

Risk Management Approach

The Bank continues to direct its Bank-wide efforts to maintain the Governance, Risk and Compliance culture in all jurisdictions that it operates in. The Bank seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities among others compliance with regulations governing anti-money laundering and counter financing of terrorism, and cyber threat as well as data integrity.

Business disruption is a critical risk to a bank's ability to operate. The Bank's Business Continuity Management framework establishes building resilience and the capability for an effective response that safeguards the interests of the Bank’s key stakeholders, reputation, brand and value-creating activities. The Business Continuity, Disaster Recovery and Crisis Communication Plans address the work activities required during the recovery of the Bank’s critical business functions and processes as well as Information Technology (“IT”) assets in ensuring the continuity service delivery arising from internal and/or external events.

9.0 Operational Risk (Cont'd)

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

a) Risk Control Self-Assessment ("RCSA")

The Bank assesses its operations and activities over potential and emerging risk vulnerabilities according to its taxonomy of Operational Risk. This process is internally driven and often incorporate workshops and/or checklists to identify the actual, potential and emerging Operational Risk and its mitigating factors.

b) Loss Event Report

Loss event experiences are collected to provide quantitative and qualitative information for assessing the Bank's exposure to Operational Risk and the effectiveness of its internal controls while developing appropriate actions to mitigate any identified gaps.

c) Key Risk Indicators

Key Risk Indicators are statistic and/ or metrics, which can provide insight into the Bank's Operational Risk and are used to monitor the main drivers of exposures associate with the key risks. These indicators are reviewed on a periodic basis to alert the Bank on the changes that may indicate areas of risk concerns.

d) Scenario Analysis

Scenario Analysis is a systematic and forward-looking tool that involves understanding the extreme but plausible events in terms of material Operational Risk and the underlying risk drivers that can affect the Bank’s strategy, reputation, operations and financial health. Scenario Analysis also provides insight into emerging risks and key exposures as well as the facilitation of the management actions while it enhances the design of risk mitigation strategies including the inputs into the Bank’s capital calculation for ensuring sufficient allocation of Operational Risk capital.

197501002077 (23878-X)
MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

ATTESTATION BY CHIEF EXECUTIVE OFFICER

I, Datuk Joseph Dominic Silva, being the Chief Executive Officer of MIDF Amanah Investment Bank Berhad, do hereby attest that the disclosures on Risk-Weighted Capital Adequacy Framework for 31 December 2020 are to the best of my knowledge and belief, accurate, complete and not misleading in any particular manner.

DATUK JOSEPH DOMINIC SILVA

Date: 9 July 2021