



MIDF Amanah Investment Bank Berhad

Pillar 3 Disclosure Report

30 June 2017

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PILLAR 3 DISCLOSURE AS AT 30 JUNE 2017

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") 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.

23878-X

MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

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.

	30-Jun-17		31-Dec-16	
	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	1,512,584	121,007	1,445,132	115,610
Market Risk	14,200	1,136	31,200	2,496
Operational Risk	204,328	16,346	214,477	17,158
Total	1,731,112	138,489	1,690,809	135,264

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.

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MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)

1.0 Scope of Application

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

The basis of consolidation for financial accounting purposes is described in the Notes 2 (b) to the Financial Statements for the year ended 31 December 2016 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.

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 capital fund 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	
	30-Jun-17	31-Dec-16
Before deducting proposed dividends:		
CET1 Capital	42.690%	45.155%
Tier 1 Capital	42.690%	45.155%
Total Capital	42.944%	45.440%
After deducting proposed dividends:		
CET1 Capital	42.690%	42.198%
Tier 1 Capital	42.690%	42.198%
Total Capital	42.944%	42.483%

2.0 Capital Management (Cont'd)

2.2 Capital Structure

The Bank has a simple capital structure with capital base consisting of CET1, additional Tier 1 and Tier 2 capital.

CET1 capital comprised ordinary share capital, share premium, statutory reserve fund, 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	
	30-Jun-17	31-Dec-16
	RM'000	RM'000
CET1 Capital		
Ordinary shares	155,000	155,000
Share premium - ordinary shares	214,111	214,111
Statutory reserve	164,252	164,252
Regulatory reserve	3,281	3,932
Unrealised loss on AFS reserve	(22,886)	(42,535)
Profit equalisation reserve	-	-
Retained profits	241,817	291,181
	<u>755,575</u>	<u>785,941</u>
Less: Regulatory adjustments	(16,564)	(22,460)
Total CET1 Capital	739,011	763,481
Total Tier 1 Capital	739,011	763,481
Tier 2 Capital		
Collective assessment impairment allowance [^] and regulatory reserve	4,406	4,819
Total Tier 2 Capital	4,406	4,819
	<u>743,417</u>	<u>768,300</u>
Less: Investment in subsidiary companies	(*)	(*)
Total Capital	743,417	768,300

Note * - Denote RM4.00

Note ^ - Qualifying collective assessment impairment allowance is restricted to unimpaired portions of loans, financing and advances

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 MIDF Group's 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.

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 and Shariah Procedures Manual 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)

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") and liquidity risk. The ALCO periodically reviews the position of the market risk, IRRBB/RORBB and liquidity 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.

Management Credit Committee ("CC")

The role of the CC is to oversee the development of credit strategy, limits and policies to govern the Bank's credit processes.

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 losses arising from a Bank borrower or counterparty failing to meet its obligation in accordance to the agreed terms and conditions or the risk that the Bank will incur losses from the decline in the value of assets.

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 exposures RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
30-Jun-17				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	1,943,888	1,943,888	-	-
Bank, Development				
Financial Institutions & MDBs	762,701	762,701	152,540	12,203
Corporates	1,674,797	1,674,797	649,397	51,952
Regulatory retail	4	4	3	-
Residential mortgages	356	356	125	10
Other assets	153,484	153,484	150,900	12,072
Equity exposure	21,481	21,481	21,481	1,719
Defaulted exposures				
Corporates	331,221	331,221	476,310	38,105
Regulatory retail	-	-	-	-
Other assets	-	-	-	-
Total for on-balance sheet exposures	4,887,932	4,887,932	1,450,756	116,061
Off-balance sheet exposures other than OTC derivatives or credit derivatives	62,361	62,361	61,828	4,946
Total for off-balance sheet exposures	62,361	62,361	61,828	4,946
Total for on and off-balance sheet exposures	4,950,293	4,950,293	1,512,584	121,007

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-16				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	1,867,096	1,867,096	-	-
Bank, Development				
Financial Institutions & MDBs	282,511	282,511	56,502	4,520
Corporates	1,818,299	1,818,299	859,505	68,760
Regulatory retail	4	4	3	-
Residential mortgages	377	377	132	11
Other assets	112,622	112,622	90,331	7,226
Equity exposure	21,975	21,975	21,975	1,758
Defaulted exposures				
Corporates	260,420	260,420	373,237	29,859
Regulatory retail	-	-	-	-
Other assets	-	-	-	-
Total for on-balance sheet exposures	4,363,304	4,363,304	1,401,685	112,134
Off-balance sheet exposures other than OTC derivatives or credit derivatives	45,013	45,013	43,447	3,476
Total for off-balance sheet exposures	45,013	45,013	43,447	3,476
Total for on and off-balance sheet exposures	4,408,317	4,408,317	1,445,132	115,610

4.0 Credit Risk (Cont'd)**Credit Quality of Loans and Advances**

In accordance with MFRS 139, impairment assessment is performed based on 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 statement of financial position date.

For the purpose of collective impairment assessment, financial assets are grouped on the basis of the internal grading system.

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-17					31-Dec-16		
	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Written-back and Other Movements RM'000	Individual Assessment Allowance at 30 June RM'000	Collective Assessment Allowance at 30 June RM'000	Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Sector								
Mining and quarrying	86,200	-	-	-	-	2,121	2,121	88,730
Manufacturing	57,900	60,435	-	(11,541)	48,894	-	48,894	72,900
Construction	-	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	10,828	10,828	-	-	10,828	-	10,828	10,828
Transport, storage and communications	-	-	-	-	-	-	-	-
Finance, insurance and business services	87,522	914	-	(914)	-	-	-	87,522
Others	23	23	-	-	23	870	893	23
	242,473	72,200	-	(12,455)	59,745	2,991	62,736	260,003

4.0 Credit Risk (Cont'd)

Credit Quality of Loans and Advances (Cont'd)

Bank	30-Jun-17					31-Dec-16	
	Impaired Loans and Advances RM'000	Individual Assessment Allowance at Charge for 1 January RM'000	Net Written-back and Other Movements RM'000	Individual Assessment Allowance at 30 June RM'000	Collective Assessment Allowance at 30 June RM'000	Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Purpose							
Purchase of securities	-	-	-	-	-	-	-
Purchase of transport vehicles	23	-	-	23	-	23	23
Purchase of landed properties	-	-	-	-	-	-	-
(Of which: residential)	-	-	-	-	-	-	-
Construction	34,102	337	(337)	-	-	-	34,102
Other purpose	208,348	71,840	(12,118)	59,722	2,991	62,713	225,878
	242,473	72,200	(12,455)	59,745	2,991	62,736	260,003

4.0 Credit Risk (Cont'd)

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

	Manufacturing RM'000	Wholesale and retail trade and restaurants and hotels RM'000	Transport, storage and communications RM'000	Finance, insurance and business services RM'000	Others RM'000	Total RM'000
Bank						
30-Jun-17						
Financial assets						
Cash and short-term funds	-	-	-	489,403	-	489,403
Securities available-for-sale						
Money market instruments	-	-	-	299,169	1,027,933	1,327,102
Unquoted securities	46,538	9,924	226,025	659,903	1,314,810	2,257,200
Securities held-to-maturity						
Money market instruments	-	-	-	-	-	-
Unquoted securities	-	-	-	-	-	-
Loans, advances and financing						
Term loans	9,006	-	-	87,522	195,972	292,500
Margin accounts	-	-	-	67,434	159,210	226,644
Others	-	-	-	-	474	474
Derivative assets	-	-	-	274	-	274
Other financial assets	-	-	-	116,771	124,210	240,981
	<u>55,544</u>	<u>9,924</u>	<u>226,025</u>	<u>1,720,476</u>	<u>2,822,609</u>	<u>4,834,578</u>
Commitments and contingencies						
Obligations under an on-going underwriting agreement	66,800	-	-	-	-	66,800
Other commitments	-	-	-	34,867	106,623	141,490
	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,867</u>	<u>106,623</u>	<u>208,290</u>
	<u>55,544</u>	<u>9,924</u>	<u>226,025</u>	<u>1,755,343</u>	<u>2,929,232</u>	<u>5,042,868</u>

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 communications RM'000	Finance, insurance and business services RM'000	Others RM'000	Total RM'000
Bank						
31-Dec-16						
Financial assets						
Cash and short-term funds	-	-	-	34,175	-	34,175
Securities available-for-sale						
Money market instruments	-	-	-	248,925	978,493	1,227,418
Unquoted securities	69,432	9,880	229,602	649,216	1,334,840	2,292,970
Securities held-to-maturity						
Money market instruments	-	-	-	-	-	-
Unquoted securities	-	-	-	-	-	-
Loans, advances and financing						
Term loans	12,466	-	-	155,058	127,667	295,191
Margin accounts	-	-	-	56,406	204,742	261,148
Others	-	-	-	-	504	504
Derivative assets	-	-	-	528	-	528
Other financial assets	-	-	-	139,299	56,379	195,678
	<u>81,898</u>	<u>9,880</u>	<u>229,602</u>	<u>1,283,607</u>	<u>2,702,625</u>	<u>4,307,612</u>
Commitments and contingencies						
Obligations under an on-going underwriting agreement	-	-	-	-	10,000	10,000
Other commitments	-	-	-	61,593	83,696	145,289
	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,593</u>	<u>93,696</u>	<u>155,289</u>
	<u>81,898</u>	<u>9,880</u>	<u>229,602</u>	<u>1,345,200</u>	<u>2,796,321</u>	<u>4,462,901</u>

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 credit lies with the CC. The CCB is empowered to affirm / veto credits or modify terms of credit which have been approved by the CC.

i) Lending to Retail, Corporate and Institutional Customers

Credit granting to customers are based on 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 Bhd ("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.

4.0 Credit Risk (Cont'd)

4.1 Off-Balance Sheet Exposures and Counterparty Credit Risk

The Bank's underwriting commitment are only for debt securities, undrawn credit facilities and unutilised share margin financing that are secured by quoted shares, cash and fixed deposits.

As at reporting date, the Bank has RM220.0 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-17			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Commitments			
Obligations under and on-going underwriting agreement	66,800	33,400	33,400
Interest/Profit Rate related contracts - One year or less	220,000	663	133
Interest/Profit Rate related contracts - Over one year to five years	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	141,490	28,298	28,295
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-
Total Off-Balance Sheet Exposures	428,290	62,361	61,828

31-Dec-16			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Commitments			
Obligations under and on-going underwriting agreement	10,000	5,000	5,000
Interest/Profit Rate related contracts - One year or less	220,000	614	123
Interest/Profit Rate related contracts - Over one year to five years	100,000	1,341	268
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	115,289	23,058	23,056
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	30,000	15,000	15,000
Total Off-Balance Sheet Exposures	475,289	45,013	43,447

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 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 is assigned.

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			
	Sovereigns and Central Banks	Corporates	Banking Institutions	
			For Exposure Greater than 6 Months Original Maturity	For Exposure Less than 6 Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

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

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4.0 Credit Risk (Cont'd)

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

Exposures by Credit Quality

(i) Bank - Credit exposures broken down by credit quality rating categories as at 30 June 2017

Exposure Class	1 RM'000	2 RM'000	3 RM'000	Rating Categories			Unrated RM'000	Total RM'000
				4 RM'000	5 RM'000	6 RM'000		
On and Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u> Corporates	1,281,749	-	-	-	-	331,221	421,337	2,034,307
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks #</u> Sovereigns and Central Banks	-	1,170,575	-	-	-	-	773,313	1,943,888
(iii) <u>Exposures risk-weighted using ratings of Banking Institutions</u> Bank, DFIs and MDBs	299,832	-	-	-	-	-	463,532	763,364
Total Rated Exposures	1,581,581	1,170,575	-	-	-	331,221	1,658,182	4,741,559
(b) Total Unrated Exposures	-	-	-	-	-	-	208,734	208,734
Total Credit Exposures	1,581,581	1,170,575	-	-	-	331,221	1,866,916	4,950,293

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%.

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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 2016

Exposure Class	1 RM'000	2 RM'000	3 RM'000	Rating Categories			Unrated RM'000	Total RM'000
				4 RM'000	5 RM'000	6 RM'000		
On and Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u>	1,198,493	-	-	-	-	260,420	657,855	2,116,768
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks #</u>	-	1,093,727	-	-	-	-	773,369	1,867,096
(iii) <u>Exposures risk-weighted using ratings of Banking Institutions</u>								
Bank, DFIs and MDBs	250,880	-	-	-	-	-	33,586	284,466
Total Rated Exposures	1,449,373	1,093,727	-	-	-	260,420	1,464,810	4,268,330
(b) Total Unrated Exposures	-	-	-	-	-	-	139,987	139,987
Total Credit Exposures	1,449,373	1,093,727	-	-	-	260,420	1,604,797	4,408,317

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 30 June 2017

Risk weights	Sovereigns/ Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory retail	Residential mortgages	Other assets	Equity exposures	Total exposures	Total risk- weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Performing Exposures	1,943,888	-	-	-	-	-	-	1,943,888	-
0%	-	-	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-	-
20%	-	763,364	1,281,749	-	-	3,230	-	2,048,343	409,667
35%	-	-	-	-	356	-	-	356	125
50%	-	-	-	-	-	-	-	-	-
75%	-	-	-	13	-	-	-	13	10
90%	-	-	-	-	-	-	-	-	-
100%	-	-	421,337	-	-	150,254	54,881	626,472	626,472
150%	-	-	-	-	-	-	-	-	-
Total	1,943,888	763,364	1,703,086	13	356	153,484	54,881	4,619,072	1,036,274
Defaulted Exposures	-	-	20,522	-	-	-	-	20,522	10,261
50%	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-
150%	-	-	310,699	-	-	-	-	310,699	466,049
Total	-	-	331,221	-	-	-	-	331,221	476,310
Grand Total	1,943,888	763,364	2,034,307	13	356	153,484	54,881	4,950,293	1,512,584
Risk Weighted Asset by Exposures	-	152,673	1,153,995	10	125	150,900	54,881	1,512,584	-
Average Risk Weights	0.0%	20.0%	56.7%	76.9%	35.1%	98.3%	100.0%	30.6%	-
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 2016

Risk weights	Sovereigns/ Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory retail	Residential mortgages	Other assets	Equity exposures	Total exposures	Total risk- weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Performing Exposures	1,867,096	-	-	-	-	-	-	1,867,096	-
0%	-	-	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-	-
20%	-	284,466	1,198,493	-	-	27,864	-	1,510,823	302,165
35%	-	-	-	-	377	-	-	377	132
50%	-	-	-	-	-	-	-	-	-
75%	-	-	-	13	-	-	-	13	10
90%	-	-	-	-	-	-	-	-	-
100%	-	-	657,855	-	-	84,758	26,975	769,588	769,588
150%	-	-	-	-	-	-	-	-	-
Total	1,867,096	284,466	1,856,348	13	377	112,622	26,975	4,147,897	1,071,895
Defaulted Exposures									
50%	-	-	17,393	-	-	-	-	17,393	8,696
100%	-	-	-	-	-	-	-	-	-
150%	-	-	243,027	-	-	-	-	243,027	364,541
Total	-	-	260,420	-	-	-	-	260,420	373,237
Grand Total	1,867,096	284,466	2,116,768	13	377	112,622	26,975	4,408,317	1,445,132
Risk Weighted Asset by Exposures	-	56,893	1,270,791	10	132	90,331	26,975	1,445,132	
Average Risk Weights	0.0%	20.0%	60.0%	76.9%	35.0%	80.2%	100.0%	32.8%	
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				
30-Jun-17				
Interest rate risk	220,000	220,000	14,200	1,136
Equity risk	-	-	-	-
	<u>220,000</u>	<u>220,000</u>	<u>14,200</u>	<u>1,136</u>
31-Dec-16				
Interest rate risk	320,000	320,000	31,200	2,496
Equity risk	-	-	-	-
	<u>320,000</u>	<u>320,000</u>	<u>31,200</u>	<u>2,496</u>

Risk Governance

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 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 Treasury 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 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.

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	30-Jun-17		31-Dec-16	
	Gross Credit Exposure RM'000	Risk- weighted assets RM'000	Gross Credit Exposure RM'000	Risk- weighted assets RM'000
<u>Publicly traded</u>				
Publicly traded equity investments	20,724	20,724	21,218	21,218
<u>Privately held</u>				
For socio-economic purposes	757	757	757	757
	<u>21,481</u>	<u>21,481</u>	<u>21,975</u>	<u>21,975</u>

- (i) Publicly traded equity investments comprise mainly holdings of shares listed on stock exchange. All publicly traded equity exposures are stated at fair value.
- (ii) The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any.
- (iii) The tables below present the gains and losses on equity exposures in the banking book.

	30-Jun-17	31-Dec-16
Realised gains/(loss) recognised in the income statement		
- Publicly traded equity instruments	-	-
Unrealised gains/(loss) recognised in revaluation reserve		
- Publicly traded equity instruments	(8,882)	(8,388)

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):

	30-Jun-17		31-Dec-16	
	+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)	(19,272)	(116,890)	(21,618)	(129,472)

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 new 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 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 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 determine 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.

	30-Jun-17		31-Dec-16	
	Risk-weighted assets RM'000	Capital requirements RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank	204,328	16,346	214,477	17,158
	204,328	16,346	214,477	17,158

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.

9.0 Operational Risk (Cont'd)

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 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.

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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 2017 are to the best of my knowledge and belief, accurate, complete and not misleading in any particular manner.



DATUK MOHD NAJIB HAJI ABDULLAH

Date: