



MIDF Amanah Investment Bank Berhad

**Pillar 3 Disclosure Report
31 December 2018**

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PILLAR 3 DISCLOSURE AS AT 31 DECEMBER 2018

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.

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-18		31-Dec-17	
	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	1,145,097	91,608	1,507,454	120,596
Market Risk	22,359	1,788	4,750	380
Operational Risk	177,761	14,221	202,479	16,198
Total	1,345,217	107,617	1,714,683	137,174

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

1.0 Scope of Application

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

The basis of consolidation for financial accounting purposes is described in the Notes 2 (b) to the Financial Statements for the year ended 31 December 2018 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 1 January 2018, capital adequacy ratios are computed based on the Capital Adequacy Framework (Capital Components) issued by BNM.

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-18	31-Dec-17
Before deducting proposed dividends:		
CET1 Capital	55.442%	44.599%
Tier 1 Capital	55.442%	44.599%
Total Capital	56.506%	44.789%
After deducting proposed dividends:		
CET1 Capital	55.442%	44.599%
Tier 1 Capital	55.442%	44.599%
Total Capital	56.506%	44.789%

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	
	31-Dec-18	31-Dec-17
	RM'000	RM'000
CET1 Capital		
Ordinary shares	369,111	369,111
Share premium - ordinary shares	-	-
Statutory reserve	-	-
Regulatory reserve	19,389	2,573
Fair value through other comprehensive income reserve	(2,114)	-
Available-for-sale reserves	-	(18,576)
Retained profits	390,214	427,563
	776,600	780,671
Less: Regulatory adjustments	(30,790)	(15,939)
Total CET1 Capital	745,810	764,732
Total Tier 1 Capital	745,810	764,732
Tier 2 Capital		
Collective assessment impairment allowance [^] and regulatory reserve	14,314	3,265
Total Tier 2 Capital	14,314	3,265
	760,124	767,997
Less: Investment in subsidiary companies	(*)	(*)
Total Capital	760,124	767,997

Note * - Denote RM4.00

Note ^ - Qualifying collective assessment impairment allowance is restricted to unimpaired portions of loans, financing and advances (FY2017). 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 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")

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")

Refers to a group of individuals that has been granted the authority by the board to approve credits within the Bank.

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 charged with the responsibility to provide credit risk perspective and to identify, measure, monitor, control and report the financial institution's overall 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-18				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	2,411,494	2,411,494	-	-
Bank, Development				
Financial Institutions & MDBs	57,864	57,864	11,573	926
Corporates	1,825,323	1,825,323	789,679	63,174
Regulatory retail	-	-	-	-
Residential mortgages	219	219	77	6
Other assets	112,007	112,007	82,409	6,593
Equity exposure	757	757	757	61
Defaulted exposures				
Corporates	133,022	133,022	157,299	12,584
Regulatory retail	-	-	-	-
Other assets	-	-	-	-
Total for on-balance sheet exposures	4,540,686	4,540,686	1,041,794	83,344
Off-balance sheet exposures other than OTC derivatives or credit derivatives	104,903	104,903	103,303	8,264
Total for off-balance sheet exposures	104,903	104,903	103,303	8,264
Total for on and off-balance sheet exposures	4,645,589	4,645,589	1,145,097	91,608

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-17				
On-balance sheet exposures				
Performing exposures				
Sovereigns/Central Banks	1,836,234	1,836,234	-	-
Bank, Development				
Financial Institutions & MDBs	611,020	611,020	122,204	9,776
Corporates	1,873,523	1,873,523	723,467	57,877
Regulatory retail	-	-	-	-
Residential mortgages	250	250	88	7
Other assets	226,097	226,097	181,594	14,528
Equity exposure	20,494	20,494	20,494	1,640
Defaulted exposures				
Corporates	242,721	242,721	320,465	25,637
Regulatory retail	-	-	-	-
Other assets	-	-	-	-
Total for on-balance sheet exposures	<u>4,810,339</u>	<u>4,810,339</u>	<u>1,368,312</u>	<u>109,465</u>
Off-balance sheet exposures other than OTC derivatives or credit derivatives	<u>139,297</u>	<u>139,297</u>	<u>139,142</u>	<u>11,131</u>
Total for off-balance sheet exposures	<u>139,297</u>	<u>139,297</u>	<u>139,142</u>	<u>11,131</u>
Total for on and off-balance sheet exposures	<u><u>4,949,636</u></u>	<u><u>4,949,636</u></u>	<u><u>1,507,454</u></u>	<u><u>120,596</u></u>

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

Effective 1 January 2018, the Bank adopted MFRS 9 "Financial Instruments", while 31 December 2017 is based on MFRS 139 "Financial Instruments". In accordance with MFRS 9 and 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

Bank	31-Dec-18					31-Dec-17		
	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written-back and Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Sector								
Mining and quarrying	50,951	5,136	54,973	(2,846)	57,263	-	57,263	98,048
Manufacturing	7,568	79,084	4,509	(24)	83,569	-	83,569	57,900
Construction	-	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	15,884	830	(68)	16,646	-	16,646	10,827
Transport, storage and communications	-	-	-	-	-	-	-	-
Finance, insurance and business services	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	24
	58,519	100,104	60,312	(2,938)	157,478	-	157,478	166,799

4.0 Credit Risk (Cont'd)

Credit Quality of Loans and Advances (Cont'd)

Bank	31-Dec-18					31-Dec-17		
	Impaired Loans and Advances RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written-back and Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans and Advances RM'000	Impaired Loans and Advances RM'000
Economic Purpose								
Purchase of securities	-	-	-	-	-	-	-	-
Purchase of transport vehic	-	-	-	-	-	-	-	24
Purchase of landed proper	-	-	-	-	-	-	-	-
(Of which: residential)	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Other purpose	58,519	100,104	60,312	(2,938)	157,478	-	157,478	166,775
	58,519	100,104	60,312	(2,938)	157,478	-	157,478	166,799

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						
31-Dec-18						
Financial assets						
Cash and short-term funds	-	-	-	105,426	-	105,426
Financial assets at FVTPL						
- Unquoted instruments	-	-	-	11	-	11
Financial investment instruments at FVOCI						
Money market instruments	-	-	-	-	720,075	720,075
- Unquoted instruments	4,325	-	-	104,979	95,638	204,942
Financial investment instruments at amortised cost						
- Corporate Bonds/Sukuk	99,532	-	210,143	725,623	1,749,798	2,785,096
Loans, advances and financing						
Term loans/financing	7,568	-	-	34,014	93,034	134,616
Margin accounts	-	-	-	143,724	205,664	349,388
Others	-	-	-	-	350	350
Derivative assets	-	-	-	-	-	-
Other financial assets	-	-	-	161,085	52,562	213,647
	<u>111,425</u>	<u>-</u>	<u>210,143</u>	<u>1,274,862</u>	<u>2,917,121</u>	<u>4,513,551</u>
Commitments and contingencies						
Other commitments	-	-	-	56,276	229,729	286,005
	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,276</u>	<u>229,729</u>	<u>286,005</u>
	<u>111,425</u>	<u>-</u>	<u>210,143</u>	<u>1,331,138</u>	<u>3,146,850</u>	<u>4,799,556</u>

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MIDF Amanah Investment Bank Berhad
(Incorporated in Malaysia)**4.0 Credit Risk (Cont'd)****Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements (Cont'd)**

	Manufacturing RM'000	Wholesale and retail trade and restaurants and hotels RM'000	Transport, storage and communications RM'000	Finance, insurance and business services RM'000	Others RM'000	Total RM'000
Bank						
31-Dec-17						
Financial assets						
Cash and short-term funds	-	-	-	140,690	-	140,690
Securities available-for-sale	-	-	-	497,021	865,625	1,362,646
Money market instruments	171,786	9,965	197,854	736,670	1,322,623	2,438,898
Unquoted securities						
Loans, advances and financing						
Term loans	7,986	6	-	-	178,438	186,430
Margin accounts	-	-	-	121,806	195,232	317,038
Others	-	-	-	-	356	356
Derivative assets	-	-	-	78	-	78
Other financial assets	-	-	-	166,681	147,989	314,670
	<u>179,772</u>	<u>9,971</u>	<u>197,854</u>	<u>1,662,946</u>	<u>2,710,263</u>	<u>4,760,806</u>
Commitments and contingencies						
Obligations under an on-going underwriting agreement	-	-	-	-	-	-
Other commitments	-	-	115,000	45,494	287,520	448,014
	<u>-</u>	<u>-</u>	<u>115,000</u>	<u>45,494</u>	<u>287,520</u>	<u>448,014</u>
	<u>179,772</u>	<u>9,971</u>	<u>312,854</u>	<u>1,708,440</u>	<u>2,997,783</u>	<u>5,208,820</u>

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 oversight is largely performed by the following committees set up specifically to assist the Board in overseeing the entire credit risk management processes:

i) Risk Management Committee ("RMC")

To monitor the implementation of credit risk management strategies, policies and risk limits.

ii) Credit Committee of the Board ("CCB")

To oversee, 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 charged with the responsibility to provide risk perspectives and to identify, measure, monitor, control and report the Bank's overall 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 are used as benchmarking of the internal rating model. 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 RM100 million (31 December 2017 : 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-18			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Commitments			
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	2,000	400
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	152,340	76,170	76,170
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	133,664	26,733	26,733
Total Off-Balance Sheet Exposures	386,004	104,903	103,303

31-Dec-17			
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Commitments			
Obligations under and on-going underwriting agreement	-	-	-
Interest/Profit Rate related contracts - One year or less	100,000	194	39
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	283,014	56,603	56,603
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	165,000	82,500	82,500
Total Off-Balance Sheet Exposures	548,014	139,297	139,142

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 31 December 2018

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	6 RM'000		
On and Off-Balance Sheet Exposures									
(a) Rated Exposures									
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u> Corporates	1,296,555	16,444	633,671	51,581	-	64,997	-	2,063,248	
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks #</u> Sovereigns and Central Banks	-	2,411,493	-	-	-	-	-	2,411,493	
(iii) <u>Exposures risk-weighted using ratings of Banking Institutions</u> Bank, DFIs and MDBs	57,864	-	-	-	-	-	-	57,864	
Total Rated Exposures	1,354,419	2,427,937	633,671	51,581	-	64,997	-	4,532,605	
(b) Total Unrated Exposures	-	-	-	-	-	-	112,984	112,984	
Total Credit Exposures	1,354,419	2,427,937	633,671	51,581	-	64,997	112,984	4,645,589	

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 2017

Exposure Class	Rating Categories						Total RM'000
	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	
On and Off-Balance Sheet Exposures							
(a) Rated Exposures							
(i) <u>Credit exposures risk-weighted using ratings of Corporates</u>							
Corporates	1,437,570	-	-	-	-	-	817,777
(ii) <u>Exposures risk-weighted using ratings of Sovereigns and Central Banks #</u>							
Sovereigns and Central Banks	-	1,006,598	-	-	-	-	829,636
(iii) <u>Exposures risk-weighted using ratings of Banking Institutions</u>							
Bank, DFIs and MDBs	398,005	99,210	-	-	-	-	113,999
Total Rated Exposures	1,835,575	1,105,808	-	-	-	-	1,761,412
(b) Total Unrated Exposures	-	-	-	-	-	-	246,841
Total Credit Exposures	1,835,575	1,105,808	-	-	-	-	2,008,253
Total Credit Exposures	1,835,575	1,105,808	-	-	-	-	4,949,636

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 2018

Risk weights	Sovereigns/ Central Banks	RM'000	Banks, MDBs and DFIs	RM'000	Corporates	RM'000	Regulatory retail	RM'000	Residential mortgages	RM'000	Other assets	RM'000	Equity exposures	RM'000	Total exposures	RM'000	Total risk- weighted assets	RM'000
Performing Exposures	2,411,494	2,411,494	-	-	-	-	-	-	-	-	-	-	-	-	2,411,494	-	-	-
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	57,864	1,296,555	-	-	-	-	-	-	36,997	-	-	-	1,391,416	278,283	-	
35%	-	-	-	-	-	-	-	219	-	-	-	-	-	-	219	77	-	
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
100%	-	-	-	-	633,671	-	-	-	-	-	75,010	-	757	-	709,438	709,438	-	
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	2,411,494	57,864	1,930,226	-	219	112,007	757	4,512,567	987,798	-	-	-	-	-	-	-	-	
Defaulted Exposures	-	-	16,444	-	-	-	-	-	-	-	-	-	-	-	16,444	8,222	-	
50%	-	-	51,581	-	-	-	-	-	-	-	-	-	-	-	51,581	51,581	-	
100%	-	-	64,997	-	-	-	-	-	-	-	-	-	-	-	64,997	64,997	-	
150%	-	-	133,022	-	-	-	-	-	-	-	-	-	-	-	133,022	157,299	-	
Total	2,411,494	57,864	2,063,248	-	219	112,007	757	4,645,589	1,145,097	-	-	-	-	-	-	-	-	
Risk Weighted Asset by Exposures	-	11,573	1,050,281	-	77	82,410	757	1,145,097	-	-	-	-	-	-	-	-	-	
Average Risk Weights	0.0%	20.0%	50.9%	0.0%	35.2%	73.6%	100.0%	24.6%	-	-	-	-	-	-	-	-	-	
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 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	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Performing Exposures	1,836,234	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,836,234	-	-
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	611,214	-	1,437,570	-	-	-	-	-	55,629	-	-	-	2,104,413	420,883	-	-
35%	-	-	-	-	-	-	-	-	250	-	-	-	-	-	250	88	-	-
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	575,056	-	-	-	-	-	170,468	-	20,494	-	766,018	766,018	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,836,234	611,214	2,012,626	-	-	250	226,097	20,494	4,706,915	1,186,989	-	-	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	12,556	-	-	-	-	-	-	-	-	-	12,556	6,278	-	-
100%	-	-	-	-	62,122	-	-	-	-	-	-	-	-	-	62,122	62,122	-	-
150%	-	-	-	-	168,043	-	-	-	-	-	-	-	-	-	168,043	252,065	-	-
Total	-	-	-	-	242,721	-	-	-	-	-	-	-	-	-	242,721	320,465	-	-
Grand Total	1,836,234	611,214	2,255,347	-	-	250	226,097	20,494	4,949,636	1,507,454	-	-	-	-	-	-	-	-
Risk Weighted Asset by Exposures	-	122,243	1,183,035	-	-	88	181,594	20,494	1,507,454	-	-	-	-	-	-	-	-	-
Average Risk Weights	0.0%	20.0%	52.5%	0.0%	35.2%	80.3%	100.0%	30.5%	-	-	-	-	-	-	-	-	-	-
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-18				
Interest rate risk	100,326	100,445	22,359	1,789
Equity risk	-	-	-	-
	100,326	100,445	22,359	1,789
31-Dec-17				
Interest rate risk	100,000	100,000	4,750	380
Equity risk	-	-	-	-
	100,000	100,000	4,750	380

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-18		31-Dec-17	
	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	-	-	19,737	19,737
<u>Privately held</u>				
For socio-economic purposes	<u>757</u>	<u>757</u>	<u>757</u>	<u>757</u>
	<u>757</u>	<u>757</u>	<u>20,494</u>	<u>20,494</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.

	31-Dec-18	31-Dec-17
Realised gains/(loss) recognised in the income statement		
- Publicly traded equity instruments	<u>-</u>	<u>(9,869) ^</u>
Unrealised gains/(loss) recognised in revaluation reserve		
- Publicly traded equity instruments	<u>-</u>	<u>-</u>

^ denotes impairment loss

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-18		31-Dec-17	
	+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)	(26,271)	(128,009)	(22,767)	(118,893)

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 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.

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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-18		31-Dec-17	
	Risk-weighted assets RM'000	Capital requirements RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Bank	177,761	14,221	202,479	16,198
	<u>177,761</u>	<u>14,221</u>	<u>202,479</u>	<u>16,198</u>

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.

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ATTESTATION BY CHIEF EXECUTIVE OFFICER

I, Dato' Charon Wardini Bin Mokhzani, 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 2018 are to the best of my knowledge and belief, accurate, complete and not misleading in any particular manner.



DATO' CHARON WARDINI BIN MOKHZANI

Date: 25 February 2019



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