FIT22
Fund. Invest. Transform

OUR WAY FORWARD

ANNUAL REPORT 2017

RHB

RHB INVESTMENT BANK BERHAD

OUR WAY FORWARD

Having gained tremendous traction and momentum in our transformation journey, our way forward is guided by an enhanced set of strategies that will strengthen our core competencies and drive our performance. To propel our way forward, we have charted a 5-year strategy known as "FIT22" comprising 22 initiatives, driven by three key pillars, namely:

- **F**und our Journey
- **I**nvest to Win
- **T**ransform for Success

Under this strategic plan, our priorities will be to strengthen Malaysia as our core and win in our targeted segments, focus on our niche and strengths overseas while we explore partnerships, and build a winning operating model.

While scale effects are still important, we aim to differentiate ourselves and win through Digital initiatives, customer intimacy and an Agile way of working.

In driving digitalisation, we aim to strengthen our digital capabilities by introducing market-leading features and providing superior customer experiences. Our customers are our priority, therefore we are constantly enhancing our product and service offering to deliver customised innovative solutions. We are adopting the Agile way of working which is a working culture that brings together key resources from multiple disciplines to achieve common goals and to reimagine customer journeys to deliver superior performance by responding to the market faster while increasing productivity customer centricity and new talent acquisition and development.

AGILITY:
MANAGING CHANGE

VALUES

PROFESSIONAL	RESPECT	INTEGRITY	DYNAMIC	EXCELLENCE
We are committed to maintain a high level of proficiency, competency and reliability in all that we do.	We are courteous, humble and we show empathy to everyone through our actions and interactions.	We are honest, ethical and we uphold a high standard of governance.	We are proactive, responsive and forward thinking.	We will continuously achieve high standards of performance and service deliverables.

VISION

To be a Top 3 Bank by Performance

FIT22: Our Way Forward

BRAND PROMISE

Together We Progress

Being your trusted partner

Delivering simple, fast and seamless experiences

Providing solutions that help achieve your goals

Nurturing future generations

CORE BUSINESSES

Group Retail Banking	Group Business & Transaction Banking	Group Wholesale Banking	Singapore Business Operations	Group International Business	Group Insurance	Group Shariah Business

CONTENTS

ABOUT OUR REPORT

CORPORATE GOVERNANCE

STATUTORY FINANCIAL STATEMENTS

BASEL II PILLAR 3 DISCLOSURES

BRANCH NETWORK

Our Report provides cross-references to our suite of reporting publications:

AR

Annual Report
Our annual report is issued in accordance with the Bursa Main Market Listing requirements.

FR

Financial Report
The financial statements and remuneration report are prepared in accordance with International Financial Reporting Standards, together with the report of the Audit Committee.

PDF Version
These reports are available on our website
www.rhbgroup.com

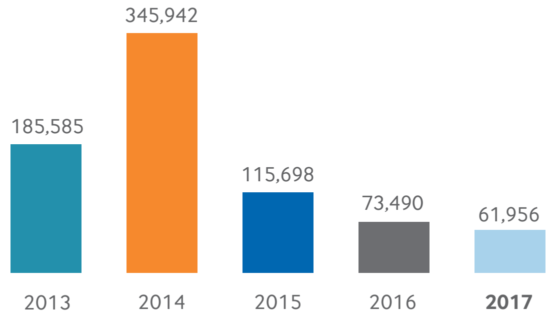
FIVE-YEAR FINANCIAL SUMMARY

	2017	2016	2015	2014	2013
RESULTS (RM'000)					
Profit before tax	**61,956**	73,490	115,698	345,942	185,585
Net profit for the financial year	**21,203**	31,334	72,510	285,072	141,067
Net dividend	–	–	–	14,200	–
STATEMENTS OF FINANCIAL POSITION (RM'000)					
Share capital	**1,487,773**[N1]	818,646	818,646	818,646	818,646
Shareholder's equity (attributable to owner of the Bank)	**2,309,821**	3,158,039	3,104,259	2,951,088	2,770,363
Total assets	**9,100,604**	10,058,173	11,183,542	12,388,741	13,945,383
Loans and advances	**1,753,928**	1,792,172	2,069,802	2,285,890	2,393,747
Total deposits	**3,658,734**	3,375,653	4,753,162	6,646,316	7,105,107
RATIOS					
Basic earnings per share (sen)	**3.2**	3.7	8.7	32.6	19.8
Gross dividends per share (sen)	–	–	–	1.7	–
Net tangible assets per share (sen)	**279.1**	225.4	218.7	199.6	244.6
Return on shareholder's equity (%)	**0.9**	1.0	2.3	9.0	4.7

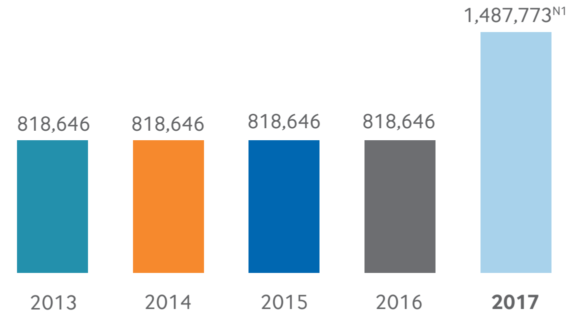
N1 During the financial year, the Bank has transferred a total of RM1,515,150,000 from its share premium account to the share capital pursuant to the Companies Act 2016 and cancellation of 718,646,000 shares of the Bank amounting to RM846,023,000 from the entire consolidated issued capital of RM2,333,796,000.

SUMMARY OF FIVE-YEAR FINANCIAL HIGHLIGHTS

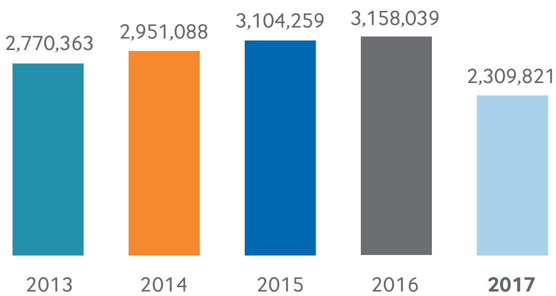
Profit Before Tax (RM'000)



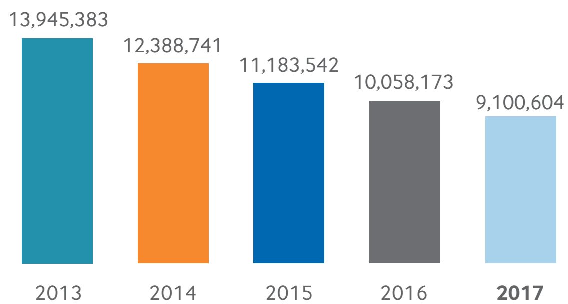
Share Capital (RM'000)



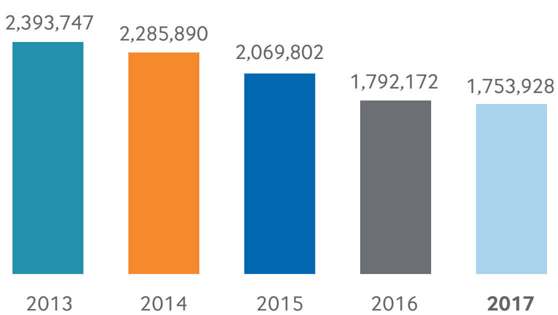
Shareholders' Equity (RM'000)
(attributable to owner of the Bank)



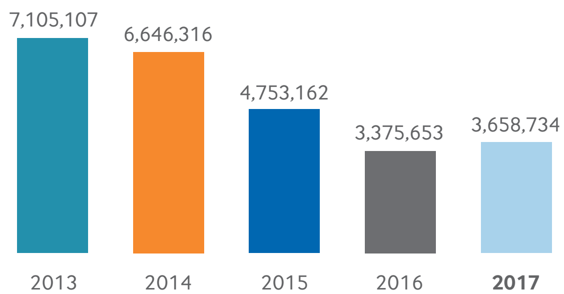
Total Assets (RM'000)



Loan and Advances (RM'000)



Total Deposits (RM'000)



N1 During the financial year, the Bank has transferred a total of RM1,515,150,000 from its share premium account to the share capital pursuant to the Companies Act 2016 and cancellation of 718,646,000 shares of the Bank amounting to RM846,023,000 from the entire consolidated issued capital of RM2,333,796,000.

CI CORPORATE INFORMATION
AS AT 15 FEBRUARY 2018

BOARD OF DIRECTORS

01 **Tan Sri Azlan Zainol**
Non-Independent
Non-Executive Chairman

02 **Chin Yoong Kheong**
Senior Independent
Non-Executive Director

03 **Tan Sri Ong Leong Huat @ Wong Joo Hwa**
Non-Independent
Non-Executive Director

04 **Patrick Chin Yoke Chung**
Non-Independent
Non-Executive Director

05 **Yap Chee Meng**
Independent
Non-Executive Director

06 **Tan Sri Dr Rebecca Fatima Sta Maria**
Independent
Non-Executive Director

07 **Datuk Nozirah Bahari**
Independent
Non-Executive Director

08 **Dato' Darawati Hussain**
Independent
Non-Executive Director

BOARD RISK COMMITTEE#

Tan Sri Saw Choo Boon
Senior Independent
Non-Executive Director/Chairman

Patrick Chin Yoke Chung
Non-Independent
Non-Executive Director

Chin Yoong Kheong
Independent
Non-Executive Director

Ong Ai Lin
Independent
Non-Executive Director

BOARD NOMINATING & REMUNERATION COMMITTEE#

Tan Sri Saw Choo Boon
Senior Independent
Non-Executive Director/Chairman

Tan Sri Azlan Zainol
Non-Independent
Non-Executive Director

Tan Sri Ong Leong Huat @ Wong Joo Hwa
Non-Independent
Non-Executive Director

Ong Ai Lin
Independent
Non-Executive Director

Tan Sri Dr Rebecca Fatima Sta Maria
Independent
Non-Executive Director

BOARD AUDIT COMMITTEE#

Tan Sri Dr Rebecca Fatima Sta Maria
Independent
Non-Executive Director/Chairman

Tan Sri Saw Choo Boon
Senior Independent
Non-Executive Director

Ong Ai Lin
Independent
Non-Executive Director

BOARD CREDIT COMMITTEE#

Patrick Chin Yoke Chung
Non-Independent
Non-Executive Director/Chairman

Tan Sri Ong Leong Huat @ Wong Joo Hwa
Non-Independent
Non-Executive Director

Dato' Abd Rahman Dato' Md Khalid
Independent
Non-Executive Director

BOARD TECHNOLOGY COMMITTEE**

Chin Yoong Kheong
Independent
Non-Executive Director/Chairman

Ong Seng Pheow
Independent
Non-Executive Director

Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
Independent
Non-Executive Director

Note:
\# The Committee is shared with the relevant subsidiaries of the Group.
* Dissolved on 1 May 2017.

MANAGEMENT OF SUBSIDIARIES

RHB ASSET MANAGEMENT SDN BHD
Eliza Ong Yin Suen
Managing Director/Regional Head of Group Asset Management

RHB ISLAMIC INTERNATIONAL ASSET MANAGEMENT BERHAD
Sharizad Juma'at
Chief Executive Officer

RHB TRUSTEES BERHAD
Tony Chieng Siong Ung
Executive Director

MALAYSIAN TRUSTEES BERHAD
Vanaja Kanagaretnam
Acting Head

RHB RESEARCH INSTITUTE SDN BHD
Mohd Rashid Mohamad
Chairman

RHB SECURITIES SINGAPORE PTE. LTD.
Kenneth Yeoh Wei Ming
Chief Executive Officer

RHB HONG KONG LIMITED
Loke Wai Ming
Chief Executive Officer

PT RHB SEKURITAS INDONESIA
Chan Kong Ming
President Director

RHB SECURITIES (THAILAND) PUBLIC COMPANY LIMITED
Tharatporn Techakitkachorn
Chief Executive Officer

RHB INDOCHINA SECURITIES PLC.
Iv Ranarith
Chief Executive Officer

COMPANY SECRETARIES

Azman Shah Md Yaman
(LS 0006901)

Ivy Chin So Ching
(MAICSA No. 7028292)

REGISTERED OFFICE

Level 9, Tower One
RHB Centre, Jalan Tun Razak
50400 Kuala Lumpur
Malaysia
Tel : 603 9287 8888
Fax : 603 9281 9314
Website : www.rhbgroup.com

BUSINESS ADDRESS

Level 3A, Tower One
RHB Centre, Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603 9280 2374
Fax : 603 9284 8053

COMPANY NO.

19663-P

AUDITORS

PricewaterhouseCoopers PLT
Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat, Kuala Lumpur Sentral
50470 Kuala Lumpur
P. O. Box 10192, 50706 Kuala Lumpur
Tel : 603 2173 1188
Fax : 603 2173 1288

GROUP CORPORATE STRUCTURE

AS AT 15 FEBRUARY 2018

RHB Bank Berhad

COMMERCIAL BANKING GROUP

- 100.00% RHB Islamic Bank Berhad
- 100.00% RHB Bank (L) Ltd
  - 100.00% RHB International Trust (L) Ltd
    - 100.00% RHB Corporate Services Sdn Bhd
- 100.00% RHB Leasing Sdn Bhd
- 100.00% RHB Capital Nominees (Tempatan) Sdn Bhd
  - 100.00% RHB Capital Nominees (Asing) Sdn Bhd
- 100.00% RHB Capital Properties Sdn Bhd
- 100.00% Utama Assets Sdn Bhd
- 100.00% RHB Bank Nominees Pte Ltd (Singapore)
- 100.00% Banfora Pte Ltd (Singapore)
- 100.00% RHB Investment Ltd (Singapore)
- 100.00% RHB Trade Services Limited (Hong Kong)
- 100.00% Utama Gilang Sdn Bhd[3]
- 100.00% UMBC Sdn Bhd*
- 100.00% RHB Delta Sdn Bhd[3]
- 100.00% RHB Indochina Bank Limited
- 100.00% RHB Bank Lao Limited

INVESTMENT BANKING GROUP

100.00% RHB Investment Bank Berhad

- 100.00% RHB International Investments Pte Ltd
  - 100.00% RHB Asset Management Pte Ltd
    - 40.00% RHB GC-Millennium Capital Pte Ltd[5]
- 100.00% RHB Hong Kong Limited
  - 100.00% RHB Securities Hong Kong Limited
  - 100.00% RHB Futures Hong Kong Limited
  - 100.00% RHB Finance Hong Kong Limited
  - 100.00% RHB Capital Hong Kong Limited
  - 100.00% RHB Fundamental Capital Hong Kong Limited
  - 100.00% RHB Asset Management Limited
  - 100.00% RHB Wealth Management Hong Kong Limited
  - 100.00% RHB (China) Investment Advisory Co Ltd
- 99.00% PT RHB Sekuritas Indonesia
  - 99.62% PT RHB Asset Management Indonesia
- 100.00% RHB Securities Singapore Pte Ltd
  - 100.00% RHB Nominees Singapore Pte Ltd#
  - 100.00% Summit Nominees Pte Ltd#
  - 100.00% RHB Research Institute Singapore Pte Ltd
- 99.95% RHB Securities (Thailand) Public Company Limited
- 100.00% RHB Indochina Securities Plc.

94.70% RHB Insurance Berhad

- 100.00% RHB Futures and Options Sdn Bhd*
- 100.00% RHB Research Sdn Bhd[7]
- 100.00% RHB International Asset Management Sdn Bhd*
- 100.00% RHBIB Nominees (Tempatan) Sdn Berhad[7]
- 100.00% RHBIB Nominees (Asing) Sdn Berhad[7]
- 100.00% TCL Nominees (Tempatan) Sdn Bhd[7]
- 100.00% TCL Nominees (Asing) Sdn Bhd[7]
- 100.00% KE-ZAN Nominees (Tempatan) Sdn Bhd[7]
- 100.00% KE-ZAN Nominees (Asing) Sdn Bhd[7]
- 80.00% RHB Trustees Berhad[6] 20.00%
- 80.00% Malaysian Trustees Berhad[6] 20.00%
- 100.00% RHBIM Berhad*
- 100.00% RHB Asset Management Sdn Bhd
  - 100.00% RHB Islamic International Asset Management Berhad
  - 100.00% RHB Islamic Asset Management Sdn Bhd*
- 100.00% RHB Research Institute Sdn Bhd
- 100.00% RHB Merchant Nominees (Tempatan) Sdn Bhd
  - 100.00% RHB Merchant Nominees (Asing) Sdn Bhd
- 100.00% RHB Nominees Sdn Bhd
- 100.00% RHB Nominees (Tempatan) Sdn Bhd
- 100.00% RHB Nominees (Asing) Sdn Bhd
- 100.00% RHB Excel Sdn Bhd[4]
- 100.00% RHB Progressive Sdn Bhd[4]
- 100.00% RHB Marketing Services Sdn Bhd[3]
- 100.00% RHB Unit Trust Management Berhad[4]
- 100.00% RHB Private Equity Holdings Sdn Bhd
  - 100.00% RHB Private Equity Management Ltd
  - 100.00% RHB Private Equity Fund Ltd (Cayman Islands)

- 40.05% RHB Finexasia.Com Sdn Bhd 59.95%
  - 100.00% RHB Stock 188.Com Sdn Bhd*
- 49.00% Vietnam Securities Corporation[5]

OTHERS

- 100.00% RHB Equities Sdn Bhd[1]
  - 100.00% KYB Sdn Bhd[4]
- 100.00% RHB Capital (Jersey) Limited
  - 100.00% RHB (Philippines) Inc[2]*
- 100.00% RHB Property Management Sdn Bhd
- 100.00% RHBF Sdn Bhd*
- 100.00% RHB Kawal Sdn Bhd

Notes:

*	Dormant Company
#	Inactive
(1)	With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.
(2)	The company has ceased operations from the close of business on 10 December 2001.
(3)	The company has commenced members' voluntary winding-up on 16 February 2011.
(4)	The company has commenced members' voluntary winding-up on 28 March 2012.
(5)	Jointly controlled entity.
(6)	Held by: (i) RHB Investment Bank Berhad; (ii) RHB Nominees (Tempatan) Sdn Bhd; (iii) RHB Nominees (Asing) Sdn Bhd; (iv) RHB Futures and Options Sdn Bhd; and (v) RHB Bank Berhad with direct shareholdings of 20.00% each.
(7)	The company has commenced members' voluntary winding-up on 30 June 2017.

BOARD DIVERSITY

The diversity and skills of the Board ensure that RHB Investment Bank Berhad is steered to deliver growth to all our stakeholders.

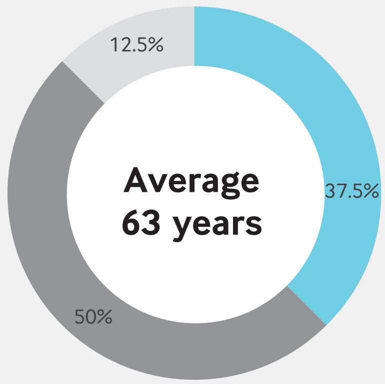
BOARD COMPOSITION

Independent Non-Executive Directors **4**

Non-Independent Non-Executive Directors **3**

Senior Independent Non-Executive Director **1**

AGE

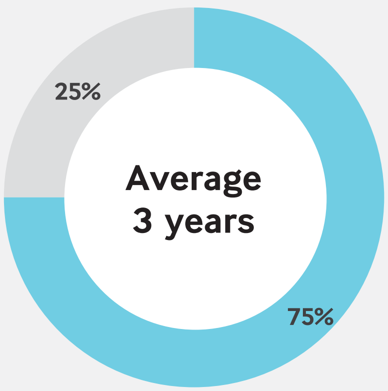


66 years & above **3**

51 years – 65 years **4**

50 years & below **1**

BOARD TENURE



Below 5 years **6**

5 years – 9 years **0**

More than 9 years **2**

GENDER

Male **5**

Female **3**

ETHNICITY

Malay **3**

Chinese **4**

Eurasian **1**

NATIONALITY

Malaysians **7**

Non-Malaysian **1**

KEY FEATURES OF OUR BOARD

- The Board comprises majority Independent Directors
- The roles of the Chairman and the Managing Director are distinct
- More than 30% female representation on the Board

PROFILE OF THE BOARD OF DIRECTORS

AS AT 15 FEBRUARY 2018

TAN SRI AZLAN ZAINOL

Non-Independent
Non-Executive Chairman

Malaysian | Age 67

Date of Appointment:
27 June 2016

Length of Service:
1 year 8 months

Date of Last Re-Election:
25 April 2017

Board Committee Memberships:
- Board Nominating & Remuneration Committee (Member)

Other Directorships:

Listed Entities:
- RHB Bank Berhad (Chairman)
- Malaysian Resources Corporation Berhad (Chairman)
- Kuala Lumpur Kepong Berhad
- Grand-Flo Berhad (Chairman)
- Eco World International Berhad (Chairman)

Public Companies:
- Yayasan Astro Kasih (Chairman/ Trustee)
- OSK Foundation (Trustee)
- RHB Capital Berhad (In Member's Voluntary Liquidation)
- Rashid Hussain Berhad (In Member's Voluntary Liquidation)
- Financial Reporting Foundation (Chairman)

No. of Board Meetings Attended in the Financial Year:
- 14/14

Qualifications:
- Fellow of the Institute of Chartered Accountants in England and Wales
- Fellow Chartered Banker of the Asian Institute of Chartered Bankers
- Member of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

Skills and Experience:
Tan Sri Azlan Zainol was previously the Chief Executive Officer of the Employees Provident Fund Board until his retirement in April 2013. He has more than 30 years of experience in the financial sector, having served as the Managing Director of AmBank Berhad and prior to that, as the Managing Director of AmFinance Berhad.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

MR CHIN YOONG KHEONG

Senior Independent
Non-Executive Director

Malaysian | Age 59

Date of Appointment:
1 August 2016*

Length of Service:
1 year 7 months

Date of Last Re-Election:
25 April 2017

* *Re-designated from Independent Non-Executive Director to Senior Independent Non-Executive Director on 30 September 2016*

Board Committee Memberships:
- Board Risk Committee (Member)
- Board Technology Committee (Chairman)**

** *Dissolved with effect from 1 May 2017*

Other Directorships:

Listed Entities:
- Nil

Public Companies:
- RHB Islamic International Asset Management Berhad
- RHB Securities (Thailand) Public Company Limited
- TAHPS Group Berhad

No. of Board Meetings Attended in the Financial Year:
- 14/14

Qualifications:
- Bachelor of Arts with Honours in Economics from the University of Leeds
- Fellow of the Institute of Chartered Accountants in England and Wales
- Member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants

Skills and Experience:
Mr Chin Yoong Kheong ("Mr Chin") has retired as a partner of KPMG, one of the leading accounting firms on 31 December 2013, after having served the firm for more than 34 years in the United Kingdom, Vietnam and Malaysia. Mr Chin's vast experience covers business solutions in areas such as strategy, human resources, performance improvement to the public and infrastructure sector, consumer and industrial markets, and financial services industry. Throughout his long career with KPMG, Mr Chin's experience was in the audit function before specialising in taxation for 14 years. He was responsible for setting up the KPMG practice in Vietnam and subsequently headed KPMG's consulting practice for more than 7 years.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

TAN SRI ONG LEONG HUAT @ WONG JOO HWA

Non-Independent
Non-Executive Director

Malaysian | Age 73

Date of Appointment:
20 November 2006

Length of Service:
11 years 3 months

Date of Last Re-Election:
29 May 2015

Board Committee Memberships:
- Board Nominating & Remuneration Committee (Member)
- Board Credit Committee (Member)

Other Directorships:
Listed Entities:
- RHB Bank Berhad
- OSK Holdings Berhad (Executive Chairman)

Public Companies:
- PJ Development Holdings Berhad (Chairman)
- OSK Property Holdings Berhad
- KE-ZAN Holdings Berhad
- OSK Foundation (Trustee)

No. of Board Meetings Attended in the Financial Year:
- 14/14

Qualifications:
- Senior Cambridge, Federation of Malaysia Certificate awarded by Methodist English School
- Capital Markets and Services Representative's licence issued by the Securities Commission of Malaysia under the Capital Markets and Services Act, 2007 for dealing in securities

Skills and Experience:
For over 17 years since 1969, Tan Sri Ong Leong Huat was attached to a leading financial institution where he last held the position of Senior General Manager. He was the Managing Director/Chief Executive Officer ("CEO") of OSK Investment Bank Berhad (now known as OSKIB Sdn Bhd) from July 1985 to January 2007 and thereafter was appointed as the Group Managing Director/CEO. He was then re-designated as a Non-Independent Non-Executive Director and subsequently resigned on 30 April 2013.

Tan Sri Ong Leong Huat was also a Director of MESDAQ from July 1999 to March 2002 and a member of the Capital Market Advisory Council appointed by the Securities Commission in 2004 to advise on issues relating to the implementation of the Capital Market Master Plan. He was a director on the Board of Bursa Malaysia Berhad from 2008 to 2015 and was previously a member of the Securities Market Consultative Panel of Bursa Malaysia.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Tan Sri Ong Leong Huat and his spouse, Puan Sri Khor Chai Moi are deemed major shareholders of RHB Bank pursuant to Section 8(4) of the Companies Act 2016, by virtue of shares held through OSK Holdings Berhad
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

PATRICK CHIN YOKE CHUNG

Non-Independent
Non-Executive Director

Malaysian | Age 73

Date of Appointment:
2 August 2007*

Length of Service:
10 years 7 months

Date of Last Re-Election:
25 April 2017

* *Re-designated from Independent Non-Executive Director to Non-Independent Non-Executive Director on 1 August 2016*

Board Committee Memberships:
- Board Credit Committee (Chairman)
- Board Risk Committee (Member)

Other Directorships:
Listed Entities:
- Muda Holdings Berhad

Public Companies:
- RHB Islamic International Asset Management Berhad

No. of Board Meetings Attended in the Financial Year:
- 14/14

Qualifications:
- Fellow of The Institute of Chartered Accountants in England and Wales
- Management Development Program, Harvard Business School

Skills and Experience:
Mr Patrick Chin Yoke Chung rose from the Head of Corporate Finance to become the Deputy Chief Executive Officer of Asian International Merchant Bankers Berhad from 1973 to 1993. He was appointed as the Executive Director of Morgan Grenfell Asia-Kenanga Sdn Bhd and also the Chief Representative of Morgan Grenfell responsible for co-coordinating Morgan Grenfell's activities and business interests in Malaysia from 1994 to 1995. Subsequently, he joined Bankers Trust Company, Kuala Lumpur as Chief Representative/Country Head from 1995 to 1999, managing and overseeing its Malaysian operations including the offshore bank in Labuan. He also served as the Chairman of Schroders Malaysia Sdn Bhd in 2000.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

YAP CHEE MENG
Independent Non-Executive Director

Singaporean | Age 62

TAN SRI DR REBECCA FATIMA STA MARIA
Independent Non-Executive Director

Malaysian | Age 60

Date of Appointment:
1 August 2016

Length of Service:
1 year 7 months

Date of Last Re-Election:
25 April 2017

Board Committee Memberships:
- Nil

Other Directorships:
Listed Entities:
- SATS Ltd

Public Companies:
- Keppel Land Limited
- The Esplanade Co Ltd

No. of Board Meetings Attended in the Financial Year:
- 13/14

Qualifications:
- Fellow of Institute of Chartered Accountants in England and Wales
- Fellow of Institute of Singapore Chartered Accountants

Skills and Experience:
Mr Yap Chee Meng ("Mr Yap") was KPMG International's Chief Operating Officer for the Asia Pacific Region and a member of its Global Executive Team from 1 October 2010 to 30 September 2013. Prior to 1 October 2010, he was a senior partner in KPMG Singapore and part of the firm's leadership team. Mr Yap's key appointments then (within KPMG locally, regionally and globally) included Asia Pacific Head of Financial Services, Singapore Head of Financial Services, Singapore Head of Real Estates and Specialised REITs Group, a Member of KPMG International's Professional Indemnity Insurance Steering Committee and a Member of KPMG International's Financial Services Leadership Committee.

In his career spanning over 37 years of experience in the financial and accounting sector, he has also served in various professional / regulatory committees of the Singapore Accounting & Corporate Regulatory Authority and the Institute of Certified Public Accountants of Singapore.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

Date of Appointment:
6 December 2016

Length of Service:
1 year 3 months

Date of Last Re-Election:
25 April 2017

Board Committee Memberships:
- Board Audit Committee (Chairperson)
- Board Nominating & Remuneration Committee (Member)

Other Directorships:
Listed Entities:
- RHB Bank Bank Berhad
- Sunway Construction Group Berhad
- Hartalega Holdings Berhad
- Lafarge Malaysia Berhad
- Eco World International Berhad

Public Companies:
- MyKasih Foundation (Trustee)

No. of Board Meetings Attended in the Financial Year:
- 14/14

Qualifications:
- Bachelor of Arts (Honours) in English Literature from University of Malaya
- Diploma in Public Administration from National Institute of Public Administration ("INTAN")
- M.S. in Counselling from Universiti Pertanian Malaysia (now known as Universiti Putra Malaysia)
- Ph.D from University of Georgia in Athens, USA

Skills and Experience:
Tan Sri Dr Rebecca Fatima Sta Maria was previously the Secretary General of the Ministry of International Trade and Industry ("MITI"). She began her career in the Administrative and Diplomatic Service in 1981 and served in various capacities in the then Ministry of Trade and Industry. In 1988, she was seconded to the ASEAN Plant Quarantine and Training Centre as its Chief Administration and Procurement Officer. She also served as the Senior Project Coordinator at the Leadership Centre, INTAN from 2000 to 2002. She also served at various divisions in MITI namely, Senior Director of the Investment Policy Division, Director of the Investment Policy and Manufacturing Related Services Division and Director of the Strategic Planning Division before she became the MITI Deputy Secretary General of Trade. She was then involved in handling trade related matters of the Ministry, including administering Malaysia's interests under bilateral and regional Free Trade Agreements (FTAs), as well as Malaysia's engagements in various international organisations such as ASEAN, APEC and WTO. After 35 years in civil service, serving six trade ministers and overseeing twelve trade pacts, she retired as the Secretary General of MITI in July 2016. She is now Chairman of the Institute for Democracy and Economic Affairs (IDEAS).

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATUK NOZIRAH BAHARI
Independent Non-Executive Director

Malaysian | Age 62

Date of Appointment:
2 January 2017

Length of Service:
1 year 2 months

Date of Last Re-Election:
25 April 2017

Board Committee Memberships:
- Nil

Other Directorships:
Listed Entities:
- Titijaya Land Berhad
- Bintulu Port Holdings Berhad

Public Companies:
- RHB Islamic International Asset Management Berhad
- MyWin Academy Berhad

No. of Board Meetings Attended in the Financial Year:
- 13/14

Qualifications:
- Diploma in Public Administration from the Institute of Public Administration (INTAN)
- Bachelor's Degree in Social Science (Hons) in Urban Studies from University of Science Malaysia
- Advanced Management Programme, Harvard Business School
- Global Leadership Development Programme, International Centre for Leadership in Finance

Skills and Experience:
Datuk Nozirah Bahari ("Datuk Nozirah") started her career as an Assistant Secretary of Finance Division in the Ministry of Finance Malaysia. Over the years, she has served in various other ministries including the Ministry of Health, Ministry of Agriculture and the Prime Minister's Department (MAMPU Branch Office in Sabah). Datuk Nozirah was the Deputy Secretary General (Management) of the Ministry of Finance Malaysia before she was appointed as the Chairman of Cradle Fund Sdn Bhd, an agency under the Ministry of Finance that manages the Cradle Investment Programme which offers funding for development and commercialisation of technology ideas. She also sits on the Board of Private Pension Administrator, a body approved by the Securities Commission Malaysia to oversee and promote the growth of the industry, create general awareness and educating the public on Private Retirement Schemes ("PRS") as well as protecting members' interests.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATO' DARAWATI HUSSAIN
Independent Non-Executive Director

Malaysian | Age 48

Date of Appointment:
1 September 2017

Length of Service:
6 months

Date of Last Re-Election:
Not Applicable

Board Committee Memberships:
- Nil

Other Directorships:
Listed Entities:
- Nil

Public Companies:
- Malaysia Venture Capital Management Berhad
- Asiamet Education Group Berhad

No. of Board Meetings Attended in the Financial Year:
- 4/4

Qualifications:
- Chartered Financial Analyst, Association for Investment Management and Research, USA
- Investment Management Certificate, Institute of Investment Management and Research, UK
- Master in Business Administration from University of London, UK
- Bachelor of Arts in Accounting and Economics from University of Durham, UK

Skills and Experience:
Dato' Darawati Hussain ("Dato' Darawati") began her career in 1991 and worked for Commerce International Merchant Bankers Berhad in the area of corporate finance and advisory. Upon completion of MBA in 1998, she worked for Mondrian Investment Partners Limited, UK from 1998 to 2001, a fund management company, as a European equities portfolio manager. In September 2001, she re-joined CIMB Group to set up and develop the private equity arm, where she was the Head of Private Equity and Venture Capital of CIMB until August 2012. Subsequently, she was appointed as the Head of Co-investor and Fund Relations of CIMB Group Strategy and Strategic Investments. In April 2014, she left CIMB Group to become Executive Director of Syalin Sdn Bhd, a family company involved in property and investments.

Declaration:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

INVESTMENT BANKING SERVICES

Client Coverage team is a group of dedicated relationship managers that market the full spectrum of products and services offered by the RHB Banking Group to **Corporate** and **Public Sector** clients locally and regionally. This team of deal origination specialists work with the product groups to develop tailored solutions to meet the clients' specific capital market needs. The origination team, with expertise across all industries, deliver superior client experience by advising on corporate restructuring, mergers & acquisitions, lending and fundraising via both equity and debt instruments, and are involved from the point of structuring the schemes to distribution of the securities. The relationship managers also act as a one-stop point of contact for other products offered within the Group, including Treasury instruments, cash management services, asset management funds as well as other commercial banking and insurance products.

The Client Coverage team's capability in the origination of deals has helped to position RHB Investment Bank as a leading market player in both the large-cap and mid-cap segments in Corporate Malaysia as well as with the Federal Government, State Governments, Government-linked Companies, Government-linked Investment Companies and emerging Bumiputra corporations. The team leverages on RHBIB's regional platform to provide cross-border transactional services to clients across ASEAN and Greater China regions.

Corporate Finance ("CF") delivers advisory services and transactional execution expertise across a range of products to its client base. These include stock exchange listings and public offerings of equity related instruments, fund raising, mergers & acquisitions, takeovers and corporate and debt restructurings. RHBIB has advised on many of the largest transactions in Malaysia and in the region and its expertise is rooted in the breadth and deep knowledge of its experienced CF team.

Mergers & Acquisitions ("M&A") specialises in the origination and execution of domestic and cross-border M&A transactions. Our M&A team provides tailored solutions and strategic advice to regional corporate clients, multinational corporations, Government-linked companies, conglomerates, mid-market enterprises, private equity funds and financial sponsors in the areas of acquisitions, divestitures, mergers, leveraged buyouts, joint ventures, strategic partnerships and corporate valuation. We assist our clients to identify and reach out to potential investors, conduct valuation exercise on their business entities or assets, manage the overall transaction process and advise on deal strategy and negotiation tactics.

Equity Capital Markets ("ECM") provides advice and support in the origination, structuring, valuation and pricing of equity fund raising transactions such as initial public offerings, private placements, shareholder sell-downs and rights issues. In addition, ECM manages the underwriting, syndication, marketing and distribution of equity offerings. This is done through a network of institutional, corporate and private clients. ECM also manages investor relations, both prior to and after an equity fund raising transaction. Today, RHBIB's ECM team is a leading player in the primary and secondary markets for equity and equity-linked products.

Debt Capital Markets ("DCM") offers holistic debt financing solutions, globally and domestically, for a broad range of fixed income services in the structuring and issuances of various forms of innovative debt securities and capital market instruments, both conventional and Islamic. With our integrated global platform, our DCM team has significant experience and distribution capabilities and has undertaken many landmark transactions that are noted by a diverse range of industry players for innovation and creativity. Our comprehensive approach is tailored to exceed each client's objective and deliver the best financing solution in the broad range of currencies and services.

Retail Equities & Futures ("REF") offers access for trading in shares as well as futures and commodities through RHBIB's 41 branches in Malaysia and regional offices in Singapore, Thailand, Indonesia, Hong Kong and Cambodia, serviced by professional Dealer's Representatives and Futures Broker Representatives. Clients can trade in shares listed on Bursa Malaysia Securities and in 19 major global markets such as Singapore, the US and Hong Kong. In addition, our Futures & Commodities business provides a one-stop access to the Bursa Malaysia Derivatives and Global Futures Exchanges such as HKEX, CME, SGX, EUREX, ICE and TOCOM. With our online trading portal, RHB TradeSmart, clients are able to trade conveniently, anytime and from anywhere with real-time market access. To complement these activities, REF also provides share margin financing as well as custodian and nominees services.

Institutional Equities ("IE") provides superior equities investment advice and execution services to fund managers locally and abroad. We have highly qualified institutional sales teams that complement our award-winning Research franchise to provide sound investment advice to its institutional clients. In addition, we have dedicated operations staff providing efficient support services for domestic and international institutional funds managing billions of dollars. Today, RHBIB's IE regional network has expanded into most major ASEAN markets and Hong Kong. Our institutional sales teams can now provide and further facilitate cross-border trading services among these countries.

Research helps investors make informed investment decisions by providing comprehensive Economics, Equity and Fixed Income & Currencies research. Our award-winning teams of economists and research analysts offer regional coverage of G3, ASEAN and Greater China economies, a broad range of sectors and companies listed in Malaysia, Indonesia, Singapore, Thailand and Hong Kong/China in addition to credit opinions on debt market instruments, sovereign bonds and currency markets. Our Economics, Equity and Fixed Income & Currencies research teams work closely with IE and Treasury sales in providing investment advice to institutional clients.

IB Treasury ("IBT") offers a diverse suite of Treasury investment and hedging products which include Foreign Exchange, Derivative and Structured Products (FX & Interest Rates), Fixed Income Securities and Money Market Instruments. Our IBT operations comprise well-established regional sales and trading teams to cater for an expansive distribution network. Financial and capital market activities are harnessed through efficient dissemination of effective bespoke investment and hedging solutions to a wide client and customer base comprising government agencies, pension funds, mutual funds, insurance companies, corporations, private banking and interbank counterparties.

Equity Derivatives & Structured Products ("EDSP") develops and offers innovative financial products which incorporate derivatives and other advanced financial engineering features. The products are Structured Warrants ("SW"), Exchange-traded Funds ("ETFs") and Structured Investments linked to various asset classes, including equities, indices, commodities and currencies, amongst others. RHBIB has been a leading issuer and market-maker of SW in Malaysia since 2005. A strong market coverage and research allows RHBIB to identify the right market opportunities for issuance and offering of SW. EDSP's product specialists have extensive product expertise and market experience and RHBIB is also a participating dealer and market-maker of several ETFs listed on Bursa Malaysia.

For the more sophisticated and high net worth individuals, EDSP offers innovative and custom-designed products in the form of Structured Investments. These products allow clients to customise and execute alternative investment strategies with access to different asset classes and markets, potential superior returns and interesting risk-return profiles that are not possible with conventional equities, bonds or futures.

Asset Management ("AM") has expertise in a full range of financial solutions including investment management and advisory, product development and trustee services as well as offering portfolio restructuring and tailor made portfolios. We have capabilities across a wide spectrum of conventional and Shariah compliant investment instruments; targeting institutional, corporate, wholesale and retail investors with customised solutions to address their unique needs. The investment strategies managed ranges from unit trusts across various geographical regions and asset classes including equity, fixed income, balanced and cash management to discretionary and non-discretionary mandates, Private Retirement Scheme (PRS) and alternative investments such as private equity funds, structured investments and investment-linked products. Our trustee businesses offer numerous products and services ranging from estate planning, will-writing, private trust, REITS, corporate trust services and escrow account management.

Private Equity ("PE") has funds that invest in growth companies in a wide range of industries and sectors in the Asian region. PE aims to create shareholders value in its portfolio companies by identifying and pursuing growth drivers to achieve higher financial performance. Exits are through IPOs and/or trade sales.

STATEMENT ON CORPORATE GOVERNANCE

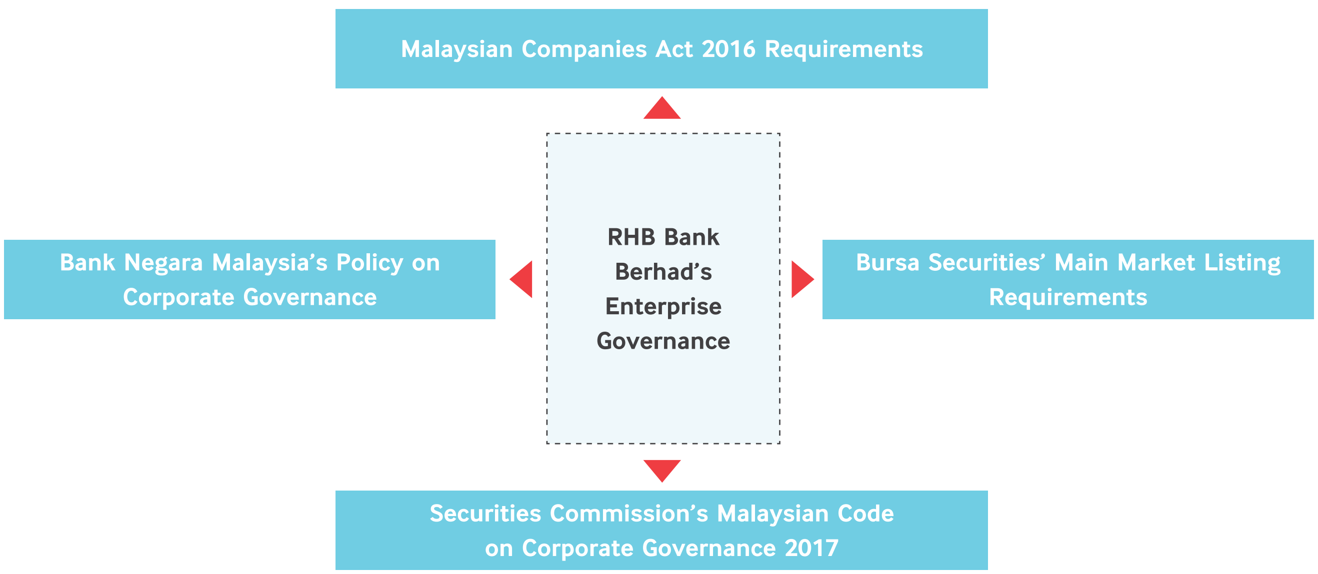
"In these times, moral courage, integrity and transparency will be more important than ever. We must be brave enough to pursue the right course of action, doing the right thing, unpopular as they may be in the short-term. We must also be accountable for our decisions. This requires that we engage and communicate with the public as never before... It is also important that we foster a culture and environment that prioritises these values at the level of the individual... This will require leadership, incentives and structures that will enable individuals to be clear-eyed and independent-minded... Integrity is best demonstrated through the transparency and thoroughness of disclosures. The publication of financial and non-financial information is the central means by which the public can truly hold... institutions to account".

– Bank Negara Malaysia's Governor Tan Sri Muhammad Ibrahim's Remarks
at the National PSA Conference 2017 on 15 August 2017

ENTERPRISE GOVERNANCE

The Board of RHB Investment Bank Berhad ("RHB Investment Bank" or "Company") fully supports the adoption of best practices in good corporate governance beyond regulatory requirements. RHB Investment Bank recognises that enterprise governance, which is a balancing act of steering the RHB Banking Group's performance while it conforms to best compliance practices, whether in accordance with mandatory or voluntary requirements, is fundamental in strengthening and ensuring long-term sustainability in the Group-wide governance arrangements.

Under RHB Bank Berhad's Enterprise Governance umbrella, the Company continuously strives to stimulate and sustain value creation by subscribing to the principles set out in the following essential requirements and practices:



CORPORATE GOVERNANCE – *Commitment to Conformance*

RHB Investment Bank is fully committed to protect the interests of all its stakeholders by conforming to good corporate governance practices, including greater transparency and sustainable disclosure. This commitment is translated into a corporate culture and manifested across the Company, from the Board of Directors, to the Senior Management and all the Employees. A dedicated Business Risk and Compliance Officer is appointed in each respective business, functional units and branches to propagate and ensure a high standard of compliance to all regulatory and internal requirements. This control function is part of the RHB Banking Group's enterprise risk management framework.

The continuous enhancement in the Company's corporate governance practices has borne significant results in the way RHB Banking Group operates. Emphasis placed by the Board of Directors on its fiduciary duty as guardian of public deposits, customers' investments and account holders' policies, through sustainable boardroom scrutiny, decision-making and directives has gained more trust from stakeholders and in return, built lasting commercial relationship with the Company's business partners. These efforts were recognised by reputable and independent third parties' assessments which have currently positioned RHB Bank Berhad among the **Top 6** of Malaysian Public Listed Companies ("PLCs") and **Top 50** of Association of Southeast Asian Nations ("ASEAN") Public Listed Companies, in terms of quality disclosures and scope of corporate governance practices.

During 2017, the Group also received the following recognitions:

- Winner of **'Excellence Award for Corporate Governance Disclosure'** in the MSWG-ASEAN Corporate Governance Recognition 2017 hosted by the Minority Shareholder Watchdog Group ("MSWG") on 6 December 2017
- **Constituent of the FTSE4Good Bursa Malaysia Index** for good demonstration of Environmental, Social & Governance (E.S.G.) practices as independently assessed by FTSE Russell during 2017 semi-annual reviews
- Winner of **'Merit Award for Board Diversity'** in the MSWG-ASEAN Corporate Governance Recognition 2017 hosted by the MSWG on 6 December 2017
- Winner of **'Merit Award: Finalist'** in the National Annual Corporate Report Awards ("NACRA") 2017 hosted by the Malaysian Institute of Certified Public Accountants ("MICPA"), the Malaysian Institute of Accountants (MIA) & Bursa Malaysia on 23 November 2017
- Winner of **'Merit Award for Most Improved Corporate Governance Disclosure'** in the MSWG-ASEAN Corporate Governance Recognition 2017 hosted by the MSWG on 6 December 2017
- Joint Gold Winner of **'Best Governed & Most Transparent Award'** in The Global Good Governance Awards 2017 hosted by The Pinnacle Group International on 30 March 2017 (2016: Silver Winner)
- Ranked **11th** among Malaysia's Top 100 PLCs in terms of **Transparency in Corporate Reporting** as accorded by the Malaysian Institute of Corporate Governance ("MICG") on 8 August 2017. The assessment mainly covers on 3 dimensions, namely *Anti-Corruption Programme (40%), Organisational Transparency (30%) and Sustainability (30%).*

Excellence in **corporate governance** is central towards promoting the Company's financial services in the countries where it operates. This compliance culture fosters the Group's Directors, Senior Management and the rest of the Employees to embrace professional business ethics and be self-adherent to internal and external requirements.

MSWG - ASEAN
CORPORATE GOVERNANCE RECOGNITION
2017

FTSE4Good

2016

- Enlisted on the FTSE4Good Bursa Malaysia Index for demonstrating good Environmental, Social and Governance (ESG) practices beyond threshold limit

"FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that RHB Bank has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products."

- Excellence Award for Corporate Governance Disclosure
- Merit Award for Board Diversity
- Merit Award for Most Improved Corporate Governance Disclosure

ASEAN
Corporate Governance
Scorecard

2015

- Top 50 ASEAN Public Listed Companies

Public listed companies in Southeast Asia were assessed on good governance and transparency practices using the scorecard methodology, based on the Organisation for Economic Co-operation and Development ("OECD")'s Principles of Corporate Governance.

BUSINESS GOVERNANCE – *Commitment to Performance*

RHB Banking Group aspires to become amongst the Top 3 **Multinational Financial Services Group**, in terms of performance by 2022. This vision commits the Company to deliver complete solutions to its clients through differentiated segment offerings and an ecosystem that supports simple, fast and seamless customer experience. This mission intent has been translated into the Group's Core **Shared Values** namely P.R.I.D.E. (**P**rofessional, **R**espect, **I**ntegrity, **D**ynamic & **E**xcellence), the Company's Annual Balanced Scorecard, Sustainable Key Performance Indicators and the Group's **I.G.N.I.T.E.** principles, namely **Innovative** in approach, **Growth** oriented, **Nimble** in action, **Impactful** in outcomes, **Teamwork** to succeed and **Excellence** in delivery. A new 5-year strategic plan, known as FIT22 (**F**und our Journey, **I**nvest to Win and **T**ransform for Success 20**22**) comprising 22 initiatives has now been put in place commencing 2018 to achieve its objectives and aspirations by 2022.

A key component of the new strategic plan is the Group's brand promise of **Together We Progress**, basically promoting the idea of the Company, walking hand-in-hand with its internal and external stakeholders, towards achieving sustainable operations as the Company runs and manages its business in an orderly fashion. This includes utilisation of the Group's capitals (financial, manufactured, intellectual, human, social relationship and natural) at optimal level to improve its integrated value chain while safeguarding its assets and the environment for future generations.

Excellence in **business governance** is essential towards attaining stakeholders' confidence in the Company's sustainable operations. The Company, through its journey in adopting integrated reporting for the past three years, aims to achieve this goal of communicating effectively to stakeholders, matters which are most relevant, material and important to them and to the Group, covering both financial and non-financial information.

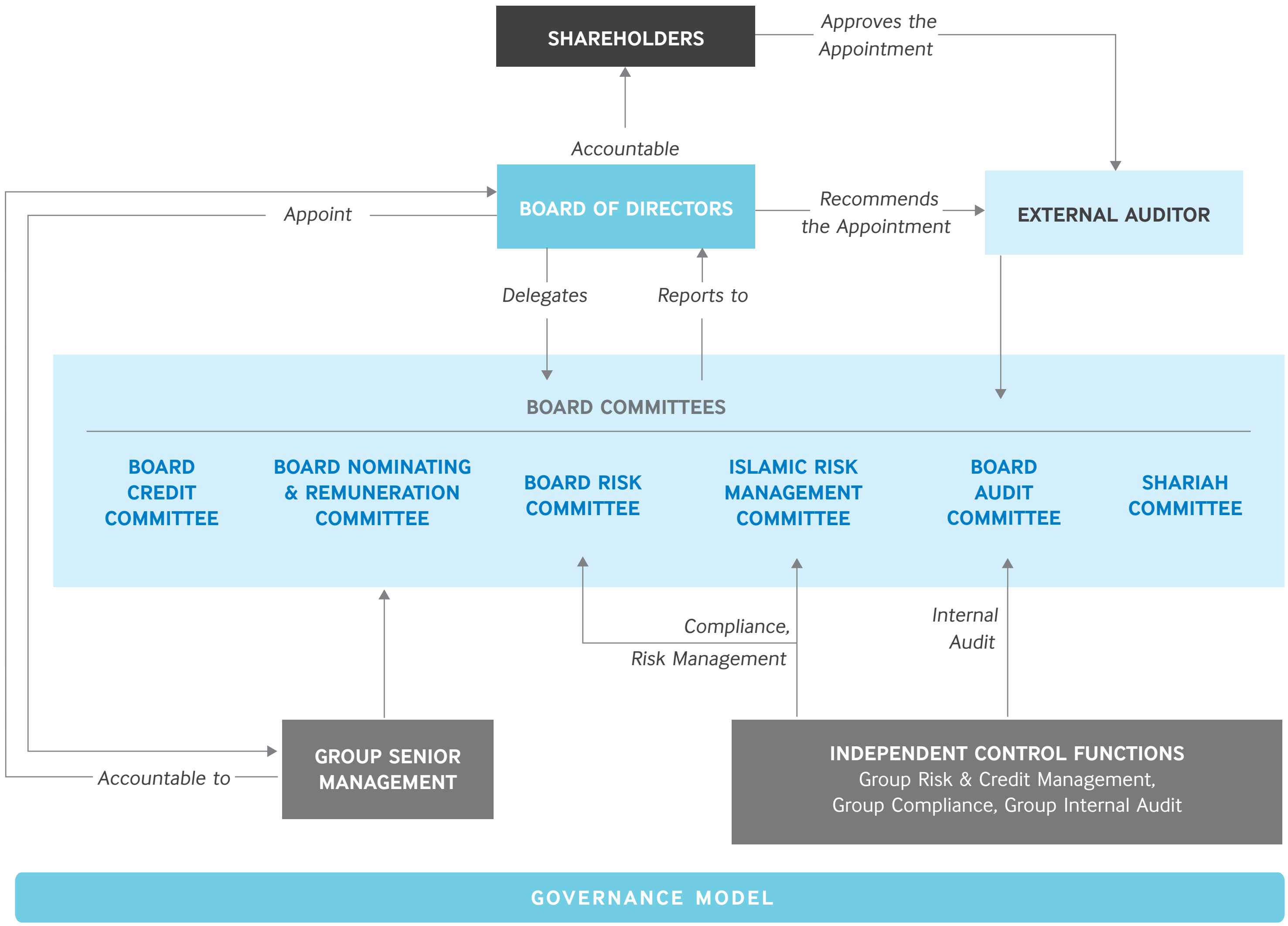
The Board of RHB Investment Bank has also adopted sustainability principles in 2017 by including Economic, Environment and Social ("EES") considerations into the Company's Board Charter and the Group's business strategies to further emphasise the creation of sustainable business operations and share value. An overview of the Group's and Company's EES considerations matters is laid out in RHB Bank Berhad's Sustainability Report 2017.

ORGANISATIONAL CULTURE

A corporate culture that embraces the correct behaviours to achieve a company's objectives is fundamental in ensuring sustainable long-term growth and success for any organisation. The latest Board Effectiveness Evaluation exercise was designed internally for the first time, specifically to assess the tone at the top in areas such as leadership, decision-making, communication, group dynamics and mindset of the Board as a collective unit and Board members as individuals. Actions will then be taken to address identified gaps to enhance the performance of the Board.

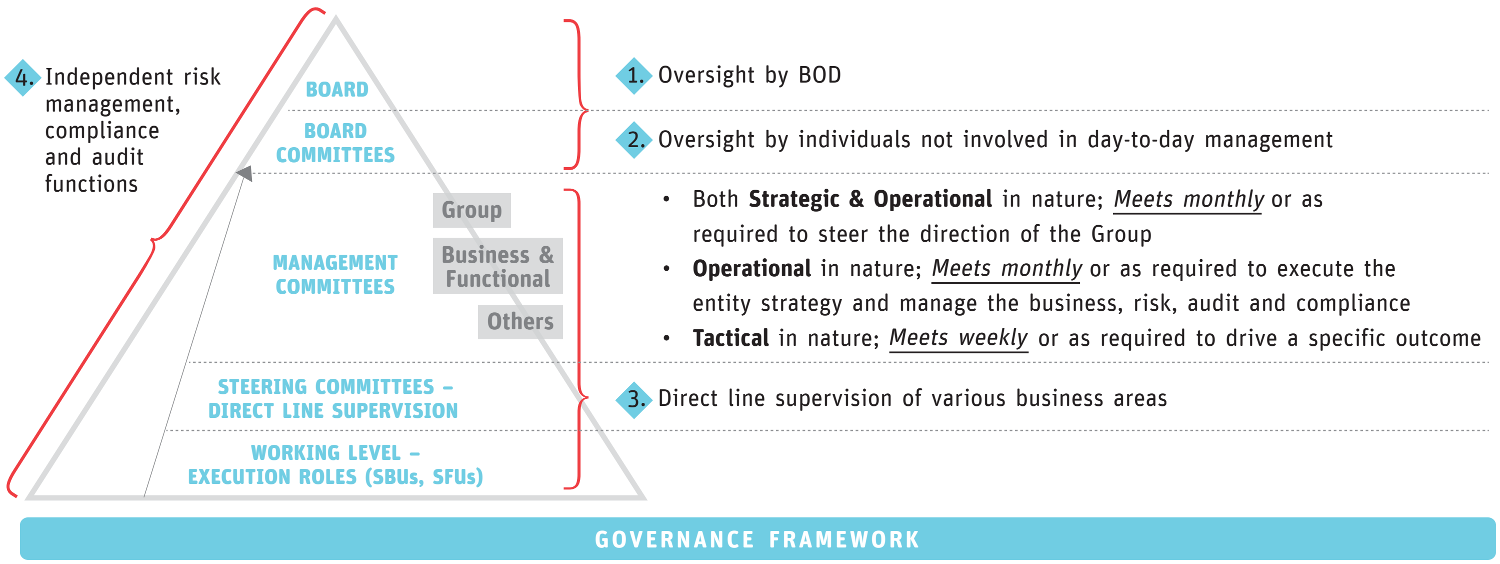
In leading the organisation and ensuring that all the Group's strategic objectives and business scorecards are met within the approved risk appetites, the Board is bound by its Charter, Terms of Reference ("TOR") for its various Board Committees, Group Code of Ethics & Business Conduct for Directors, and other internal guidelines. To complement the Charter, various policies and guidelines including the Group Manual of Authority, Power of Attorney, Delegated Lending & Financing Authority (Discretionary Powers), Group Code of Ethics & Conduct for Employees, Group Whistleblowing Policy and Group Gifts & Hospitality Guidelines were approved or endorsed by the Board to ensure good governance practice and fiduciary duties are implemented by the Senior Management and other key personnel.

GOVERNANCE MODEL & FRAMEWORK



The Board continuously explores enhancements to the Group's governance processes to ensure it remains robust as it continues to expand. The governance model and framework are currently being used as a guidance and reference to build a strong governance structure and conformance culture within the Company and other RHB entities in the banking group. The **Governance Model** outlines a clear organisational structure with robust internal controls and risk management mechanisms which promote high standards of governance and of integrity, transparency and well-defined accountabilities and responsibilities of Shareholders, Board & Board Committees, Senior Management, External & Internal Auditors and other Independent Control Functions.

The Board has also approved and established the **Group Governance Framework** as a basis of an effective governance and oversight to support the overall RHB Banking Group's strategies.



Under this framework, there are various levels of oversights operating across the Group's business and functional activities. These include amongst others; direct supervision, Senior Management, independent parties comprising of risk management, compliance and internal audit, Group Managing Director ("Group MD"), Managing Directors ("MDs"), Chief Executive Officers ("CEOs"), Board Committees and the Board. A clear and transparent governance structure for various central and sub-committees set by the Board members and the Senior Management has institutionalised the Company as a risk-focused organisation with proper control functions and good corporate governance practice.

BOARD GOVERNANCE MANUAL

The main documents governing the Board are the Company's Memorandum & Articles of Association (*also known as the* "Constitution" *under Companies Act 2016*), the Board Charter and the Code of Ethics and Business Conduct for Directors. The Board is also guided by the Approval Framework on Directors' Expenses, the Boardroom Diversity Policy, Policy and Guidelines on Fit and Proper for Key Responsible Persons, Guidelines on Tenure of Non-Executive Directors' Appointment, Procedures for Independent Professional Advice and also Procedures on Directors' In-House Orientation & Continuing Education Programme. All these frameworks, policies, procedures and processes serve as guidance to the Board in discharging their duties effectively, efficiently and responsibly.

BOARD COMMITTEES

To ensure effectiveness in discharging its roles and responsibilities, the Board delegates specific authorities to the relevant Board Committees. This delegation of authority is expressly stipulated in the TOR of the respective Board Committees. The TORs are reviewed periodically to ensure effective and efficient decision making in the Group. The Board Committees also act as oversight committees, evaluating and recommending matters under their purview for the Board to consider and approve.

The Board receives updates from the respective chairmen/representatives of the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee on matters that require specific mention that have been deliberated and considered at the meetings of Board Committees. This practice also applies for other entities within the Group.

Board Nominating & Remuneration Committee

The key objectives of the Board Nominating & Remuneration Committee ("BNRC") are, as follows:-

- Review and assess the appointment/re-appointments of Directors, Board Committee members, Shariah Committee and key Senior Management officers for recommendation to the Boards.
- Advise the Boards on optimal size and mix of skills of Boards/Board Committees/Shariah Committee.
- Provide oversight and direction on Human Resource ("HR") matters and operations, and recommend to the Boards for approval of remuneration and HR strategies.

The BNRC comprises five Non-Executive Directors ("NEDs"), of whom three are Independent Non-Executive Directors ("INEDs") and two are Non-Independent Non-Executive Directors ("NINEDs"), representing the respective entities within the Group. The BNRC is chaired by YBhg Tan Sri Saw Choo Boon, the Senior Independent Non-Executive Directors ("SINED") of RHB Bank Berhad. The composition of the BNRC consisting of majority Independent Directors, complies with the Bursa Malaysia Listing Requirements, Malaysian Code on Corporate Governance 2017 and Bank Negara Malaysia's Policy Document on Corporate Governance 2016.

Board Risk Committee

The Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and to safeguard shareholders' investments as well as the Company's and the Group's assets. A Group Risk Management Framework has been established to provide a holistic overview of the risk and control environment of the Group, as well as to set out strategic progression of risk management towards becoming a value creation enterprise. Detailed disclosures on the features, adequacy and effectiveness of this framework are available in the Statement on Risk Management & Internal Control on pages 33 to 39 of this Annual Report.

The Board Risk Committee ("BRC") provides oversight and governance of risks for the Group to ensure that the Group's risk management processes are functional and effective. The BRC also oversees Senior Management's activities in managing risk, ensuring that the risk management process in each of the Group's entities function in accordance with a risk-return performance management framework. Furthermore, the BRC supports and leads the Senior Management in driving the appropriate Risk Culture and Risk Ownership in the Group.

The BRC's other duties and functions among others include the following:

- To provide oversight to ensure that the Group's risk management framework, processes, organisation and systems are functioning commensurate with its nature, scale, complexity of activities and risk appetite.
- To deliberate and assess the nature and materiality of risk exposures, potential risks and impact on capital and the Group's sustainability.
- To review and approve proposed changes to Delegated Lending (Financing) Authorities/Discretionary Powers/Powers of Attorney, limits for business and operations.
- To review and approve changes to policies and frameworks (excluding HR related policies and framework), risk methodologies/models and other significant risk management matters, in line with the approved risk strategy.
- To review and approve new/existing products with material variations in product features.

The BRC comprises a **majority** of Independent Directors and currently having four NEDs, of whom three are INEDs and one NINED, representing the respective entities within the Group. The BRC is chaired by YBhg Tan Sri Saw Choo Boon, the SINED of RHB Bank Berhad.

Board Audit Committee

The Board Audit Committee ("BAC") comprises three INEDs representing RHB Bank Berhad and its major operating subsidiaries. The Chair of the BAC is **not** the Chairman of the Board of the Company. The BAC has policies and procedures to assess the suitability, objectivity and independence of the external auditors engaged. Considerations on the appointment of the external auditors to provide audit and non-audit services would include the expertise, adequacy of knowledge and experience required for the services rendered, the tenure of the engagement partner and also the concurring partner, the competitiveness of the fees quoted and the fees threshold established under the internal Group Policy on Non-Audit Fees Paid/Payable to External Auditors.

The BAC provides independent oversight of RHB Banking Group's financial reporting and internal control system, ensuring checks and balances for entities within the Group. The BAC continuously reinforces the independence of the external auditors and provides a line of communication between the Board and the external auditors.

The BAC reviews the integrity and reliability of the Company's and the Group's financial statements on a quarterly basis, prior to recommending the same for the Board's approval and issuance to stakeholders. During the reviews, the Group Chief Financial Officer provides assurance to the BAC that:

- Adequate processes and controls are in place for an effective and efficient financial statement close process;
- Appropriate accounting policies have been adopted and applied consistently; and
- The relevant financial statements give a true and fair view of the state of affairs of the Company and the Group in compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Companies Act 2016.

The BAC also meets at least twice a year with the external auditors, without the presence of the Management and the executive Board member, to discuss any key issues/areas that require attention of the BAC and the Board.

The BAC also emphasises the internal audit function by increasing the objectivity and independence of the internal auditors and provides a forum for discussion that is, among others, independent of the Management. Additionally, the BAC reviews the quality of the audits conducted by internal and external auditors as well as the Group's financial condition and performance. This enhances the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports. Detailed disclosures on BAC's governance structure and primary activities are available on pages 40 to 45 of this Annual Report.

Board Credit Committee

The Board Credit Committee ("BCC") comprises three NEDs, of whom one is INED and two are NINEDs representing the respective banking entities within the Group. The BCC supports the relevant Boards in affirming, vetoing or including additional conditions on all types of credit applications (including under stock/futures broking) and underwriting applications for amounts above the defined thresholds of the Group Credit Committee and/or the Group Investment & Underwriting Committee, both comprise of the Company's management. It also endorses and recommends write-offs as well as approves all policy loans/financing and loans/financing which are required by Bank Negara Malaysia ("BNM") to be approved by the respective Boards.

Common Investment Committee

The Common Investment Committee ("CIC") comprises 4 members namely one NINED and three INEDs, representing the respective business entities within the Group. It mainly oversees the investment aspects of RHB Insurance Berhad, RHB Asset Management Sdn. Bhd. and RHB Islamic International Asset Management Berhad.

Shariah Committee

The Shariah Committee resides at RHB Islamic Bank Berhad ("RHB Islamic Bank") assists the Board and the Management in governing Islamic business activities and Shariah-based operations within RHB Banking Group.

The Shariah Committee is housed at RHB Islamic Bank and comprises five (5) qualified local Shariah scholars.

The main duties and responsibilities of the Shariah Committee are as follows:

- To advise on all Shariah matters to ensure its business operations comply with Shariah Principles, where applicable.
- Where relevant, to consult BNM's Shariah Advisory Council ("SAC") on any Shariah matters which have not been resolved or endorsed by the SAC.
- To perform an oversight role on Shariah matters related to the institution's business operations and activities.

BOARD TRAINING AND DEVELOPMENT

The Board emphasises the importance of continuing education and training for its Directors to ensure they keep up with the latest developments in the areas related to their duties. A budget for Directors' training is provided each year by RHB Investment Bank. The Board, as part of the Board Effectiveness Evaluation ("BEE") exercise, assesses the training needs of each Director annually. The training and development of Directors are detailed in the Group's Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group.

The Non-Executive Directors ("NED") of the Company and the Group are encouraged to attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme. This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that engender organisational excellence. The Company Secretaries facilitate the organisation of internal training programmes and Directors' attendance of external programmes, and keep a complete record of the training received and attended by the Directors.

Learning Process for New Director

Two new NEDs were appointed in the FYE 2017. The newly appointed Company's NEDs attended an induction programme organised by the Management to provide them with the key information of the industry as well as an overview of the Group's business and operations. During the induction programme, they were briefed by Senior Management on their respective functions and areas of responsibility. This enables the new NEDs to familiarise themselves with the Group and gives an opportunity for them to build close liaison with Management.

In addition, the new NEDs received a comprehensive Director's induction kit to assist them in building an in-depth understanding of the Group's operations, its longer-term direction and statutory obligations. Pursuant to the requirement of the Securities Commission of Malaysia, directors are required to complete the Capital Market Director Programme ("CMDP") conducted by Securities Industry Development Corporation ("SIDC") with the aim to enhance board effectiveness by helping directors understand their roles, responsibilities and fiduciary duties. It is also aimed at raising the standards of professionalism among directors by advocating a culture of integrity and ethical awareness.

Apart therefrom, the new NEDs are required to complete the Financial Institutions Directors' Education ("FIDE") programme within one year of their respective appointment date as required by Bank Negara Malaysia. The FIDE programme aims to enhance boardroom governance within the financial sector and develop world class directors who are advocates of best practices and excellence in corporate governance.

Director's Training

During the year, the Directors of RHB Investment Bank attended the following training programmes, conferences and seminars:

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Tan Sri Azlan Zainol	Peer-2-Peer (P2P) Lending and Crowdfunding/ Crowdsourcing by Group Chief Operations Officer	• Alternative Funding Models • Licensed P2P Operators • Licensed Equity Crowdfunding Operators • Regulatory Framework • Market Potential
	Cryptocurrency and Blockchain Technology by Neuroware	• Cryptocurrency including BitCoin • Blockchain Technology • Potential Use Cases in the Financial Services Industry
	Bank Negara Malaysia (BNM)'s Annual Report 2016/ Financial Stability and Payment Systems Report 2016 by BNM	• Global Landscape 2017 • Malaysian economy • Private investment • Malaysia's macroeconomic fundamentals
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE	• Digital Economy era • Fintech and its Impact • Sustainability & Social Responsibility Investment (SRI)
	Compliance Conference by Bank Negara Malaysia	• Role of Compliance in Supporting the Integrity of Regulatory Frameworks • Social & Economic Consequences from Compliance Lapses • Public Confidence & Trust Nexus
	Exclusive Workshop for Nomination Committee and Members: Board Selection by FIDE Forum	• Board Talent Challenges • Engagement with Potential Directors • Leadership Profiling Exercise
	Malaysian Code on Corporate Governance: Expectation and Implications by SIDC	• The New Approach & Key Features • Board Leadership and Effectiveness • Effective Audit and Risk Management • Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders
	Banking Conference – China's Banking Industry: Opportunities for Growth by AICB	• The Future of Malaysia and China Relations • The Changing Chinese Economy and Its Global Impact • Accessing Financing for SMEs – The China Experience • Insights from Chinese and Foreign Industry Leaders on Doing Business in China • Impact of Fintech in Banking, with Special Focus on China and Malaysia
	Shariah Awareness Programme by Amanie Group	• Global Perspectives in the Islamic Financial Industry • Critical Success Factors and Critical Failure Factors
	Bankruptcy (Amendment) Act 2017 by Messrs. Shook Lin & Bok	• Salient Features of the Insolvency Act 1967 • Moratorium under the Bankruptcy Act 1967 & the Insolvency Act 1967 • Protection of Social and Commercial Guarantors • Automatic Discharge of Bankrupt

Name of Director(s)	Training Programme Attended	Training Scope & Description
Mr Chin Yoong Kheong	Peer-2-Peer (P2P) Lending and Crowdfunding/ Crowdsourcing by Group Chief Operations Officer	• Alternative Funding Models • Licensed P2P Operators • Licensed Equity Crowdfunding Operators • Regulatory Framework • Market Potential
	Cryptocurrency and Blockchain Technology by Neuroware	• Cryptocurrency including BitCoin • Blockchain Technology • Potential Use Cases in the Financial Services Industry
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE	• Digital Economy era • Fintech and its Impact • Sustainability & Social Responsibility Investment (SRI)
	Malaysian Code on Corporate Governance: Expectation and Implications by SIDC	• The New Approach & Key Features • Board Leadership and Effectiveness • Effective Audit and Risk Management • Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders
	Shariah Awareness Programme by Amanie Group	• Global Perspectives in the Islamic Financial Industry • Critical Success Factors and Critical Failure Factors
	Investment Outlook 2017 by Mo Ji Chief Economist Asia (ex Japan) of Amundi Hong Kong	Annual economic and market outlook for 2017
	Credit Suisse 2017 Market outlook Seminar	Annual economic and market outlook for 2017
	Inheritance Tax in the UK by J Farrington Financial Limted.	Inheritance Tax in the UK
	Dialogue with the Ministry of Energy, Green Technology and Water by KeTTHA and SPAN	Dialogue between government policy makers and stakeholders
	1st Distinguished Board Leadership Series Talk on "Making Boards Effective in a Changing World" by Professor Jeffrey Sampler by FIDE	Practical application of key concepts of strategic agility in board-level decision making pertaining to corporate strategy, risk management and organisational culture
	Onboarding session for commissioner of MCMC.	Onboarding session
	RHB Market Insights Forum 2017 on "Understanding the Business of Tomorrow" by RHB Asset Management Sdn Bhd	Changes to capital market dynamics and the prospects of the 4th industrial revolution
	7th IWA-ASPIRE Conference 2017 on "Breaking Boundaries – Developing A Better Water Future for Asia Pacific Region" by International Water Association	Challenges of water reforms in developing countries and the political role in water reforms

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa	Cryptocurrency and Blockchain Technology by Neuroware	• Cryptocurrency including BitCoin • Blockchain Technology • Potential Use Cases in the Financial Services Industry
	Exclusive Workshop for Nomination Committee and Members: Board Selection by FIDE Forum	• Board Talent Challenges • Engagement with Potential Directors • Leadership Profiling Exercise
	Annual Palm & Lauric Oil Conference	• Palm oil industry • Crude Palm Oil Future • Options on Crude Palm Oil Futures (OCPO) market
Mr Patrick Chin Yoke Chung	Cryptocurrency and Blockchain Technology by Neuroware	• Cryptocurrency including BitCoin • Blockchain Technology • Potential Use Cases in the Financial Services Industry
	Board In Digital Economy by SIDC	• The Rise of Globalised Digital Economy • Boards navigating in the Digital Economy Wave
Mr Yap Chee Meng	FIDE Core Programme Module A and B	• Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario
	Creating Sustainable Growth Training by SATS Ltd	
	Oil Market/LNG Market Briefing by Temasek Group	
	IA Technical Briefing by Keppel Corporation	
	Global Air Cargo Briefing by SATS Ltd	
	Singapore Real Estates Briefing by Keppel Corporation	
	Global Financial Training by Keppel Corporation	
	Asia Pacific Country Briefings by SATS Ltd.	
YBhg Tan Sri Dr Rebecca Fatima Sta Maria	Peer-2-Peer (P2P) Lending and Crowdfunding/ Crowdsourcing by Group Chief Operations Officer	• Alternative Funding Models • Licensed P2P Operators • Licensed Equity Crowdfunding Operators • Regulatory Framework Market Potential
	Cryptocurrency and Blockchain Technology by Neuroware	• Cryptocurrency including BitCoin • Blockchain Technology • Potential Use Cases in the Financial Services Industry
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE	• Digital Economy era • Fintech and its Impact • Sustainability & Social Responsibility Investment (SRI)

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Tan Sri Dr Rebecca Fatima Sta Maria (continue)	Capital Market Director Programme by SIDC: – Module 1 – Module 2A – Module 2B – Module 3 – Module 4	• Directors as Gatekeepers of Market Participants • Business Challenges and Regulatory Expectations • Risk Oversight and Compliance – Action Plan for Board of Directors • Current and Emerging Regulatory Issues in the Capital Market
	Workshop on Forensic Accounting and Digital Forensics by Alliance IFA	• What Bankers Need to Know • Benefits of Forensic Accounting Techniques • Understanding of Fraud Schemes • Computer Forensic Skills & Digital Evidence
Datuk Nozirah Bahari	Peer-2-Peer (P2P) Lending and Crowdfunding/ Crowdsourcing by Group Chief Operations Officer	• Alternative Funding Models • Licensed P2P Operators • Licensed Equity Crowdfunding Operators • Regulatory Framework Market Potential
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE	• Digital Economy era • Fintech and its Impact • Sustainability & Social Responsibility Investment (SRI)
	Capital Market Director Programme (CMDP): – Module 1 – Module 2A – Module 2B – Module 3 – Module 4	• Capital Market in Malaysia • Good Corporate Governance • Stakeholders' Management
	Board In Digital Economy by SIDC	• The Rise of Globalised Digital Economy • Boards navigating in the Digital Economy Wave
	Shariah Awareness Programme by Amanie Group	• Global Perspectives in the Islamic Financial Industry • Critical Success Factors and Critical Failure Factors
	RAM Sustainability Impact Rating by Datuk Seri Dr. K.Govindan, Group CEO of RAM Holdings Berhad	• Sustainable Finance • Green Finance • RAM Sustainability Rating Framework
YBhg Dato' Darawati Hussain	Capital Market Director Programme (CMDP): – Module 1 – Module 3 – Module 4	• Capital Market in Malaysia • Good Corporate Governance • Stakeholders' Management

BOARD COMPOSITION AND ATTENDANCE

Details on the **independent status** of the Board of Directors, their **roles** in Board Committees and their **attendance** at the aforesaid meetings in 2017 are set out below:

Company's Director	Position/ Independent Status	Date of Board appointment	Attendance of Meetings					
			Board Meeting	BNRC[1] Meeting	BRC[2] Meeting	BAC[3] Meeting	BCC[4] Meeting	BTC[5] Meeting
YBhg Tan Sri Azlan Zainol	Chairman/Non-Independent Non-Executive Director (NINED)	27 June 2016	14/14 (100%)	6/6 (100%)	*NA*	*NA*	*NA*	*NA*
Mr Chin Yoong Kheong	Senior Independent Non-Executive Director (SINED)	1 August 2016	14/14 (100%)	*NA*	11/12 (92%)	*NA*	*NA*	2/2 (100%) (Chair)
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa	Non-Independent Non-Executive Director (NINED)	20 November 2012	14/14 (100%)	6/6 (100%)	*NA*	*NA*	29/31[@] (94%)	*NA*
Mr Patrick Chin Yoke Chung	Non-Independent Non-Executive Director (NINED)	2 August 2007	14/14 (100%)	*NA*	12/12 (100%)	*NA*	36/38 (95%) (Chair)	*NA*
Mr Yap Chee Meng	Independent Non-Executive Director (INED)	1 August 2016	13/14 (93%)	*NA*	*NA*	*NA*	*NA*	*NA*
YBhg Tan Sri Dr Rebecca Fatima Sta Maria	Independent Non-Executive Director (INED)	6 December 2016	14/14 (100%)	*NA*	*NA*	13/13 (100%) [Chair]	*NA*	*NA*
YBhg Datuk Nozirah Bahari	Independent Non-Executive Director (INED)	2 January 2017	13/14 (93%)	*NA*	*NA*	*NA*	*NA*	*NA*
YBhg Dato' Darawati Hussain	Independent Non-Executive Director (INED)	1 September 2017	4/4[#] (100%)	*NA*	*NA*	*NA*		*NA*

Notes:

1-5 Abbreviations used denote various main Board Committees.
5 Board Technology Committee was dissolved on 1 May 2017.
@ Appointed on 1 March 2017.
# Appointed on 1 September 2017.

REMUNERATION GOVERNANCE

The Board is mindful that fair remuneration is critical to attract, retain and motivate Directors with the relevant experience and expertise required to lead the Company and the Group. The BNRC has been entrusted with discharging the remuneration strategies (as outlined in its terms of reference).

The Group has also established a common reference incorporating the Non-Executive Directors' ("NED") Remuneration Framework. It is aimed at applying the general principles for the remuneration of NEDs to ensure that remuneration levels are commensurate with the responsibilities, risks and time commitment of Boards/Board Committees. The level of remuneration reflects the level of responsibility undertaken by the particular NED concerned within the Company and the Group. It also takes into consideration practices within the industry and is reviewed at least once every two years.

No.	Non-Executive Directors' Remuneration Scheme	Unrestricted/Non-Deferred	Restricted/Deferred
A.	Fixed-Type Remuneration		
i.	Cash-based	• Fixed Fees – Directors' Fees[1] – Committee Allowances[2] – Chairmen's premium[3] for various entities & committees • Emoluments[4]	Nil
ii.	Shares & share-linked instruments	Nil	Nil
iii.	Others	Benefits-in-kind[5]	Farewell Pot[4]
B.	Variable-Type Remuneration		
i.	Cash-based	Meeting Attendance Allowance[6]	Nil
ii.	Shares & share-linked instruments	Nil	Nil
iii.	Others	Directors' & Officers' Liability Insurance[7]	Nil

Notes:
The overall remuneration package of the NEDs of the Group/Company comprises the following components:

1) Directors' Fees

NEDs are entitled to annual Directors' fees, which are subject to shareholders' approval at the Annual General Meeting ("AGM") of the Company. As part of a periodical review to ensure the Group remains competitive against its peers and with the heightened responsibilities and accountabilities under the Companies Act 2016, the Financial Services Act 2013, the Capital Markets & Services Act 2007 and the Malaysian Code on Corporate Governance 2017, Management has recommended that the Group Directors' Fees structure to be revised from RM150,000.00 to RM170,000.00 per annum for the Non-Executive Chairman and from RM120,000.00 to RM135,000.00 per annum for each of every NED retrospective from 1 January 2017. The above proposal is subject to the approval of the shareholder at the forthcoming 2018 Annual General Meeting of the Company.

2) Board Committee Allowances

NEDs who sit on Board Committees are entitled to receive Board Committee allowances which shall be paid on an annual basis at the end of each financial year.

3) Chairmen's Premium

The Chairmen of various Boards and Board Committees as the chairman are entitled to receive a premium above the normal respective Board and Board Committee allowances, which shall be paid on an annual basis at the end of each financial year.

4) Emoluments

All NEDs will be awarded with 'Farewell Pot' scheme upon his/her exit from the Group, in recognition of their services and commitments to the Group. Under the 'Farewell Pot' scheme, any NED who leaves the Group would be entitled to cash equivalent of RM2,000 for each year of his/her service in the Group or as decided by the BNRC.

5) Benefits-in-kind

Benefits are accorded to the Chairmen of the Group, consisting amongst others the provision of a company car, driver and petrol allowance.

6) Meeting attendance allowance

NEDs are also entitled to meeting attendance allowances when they attend the Board/Board Committee meetings.

7) Directors' & Officers' ("D&O") Liability Insurance

The insurance covers the Group's Directors in respect of any liabilities arising from acts committed in their capacity as D&O of RHB Banking Group. However, the insurance policy does not indemnify a Director or principal officer if he or she is proven to have acted negligently, fraudulently or dishonestly, or in breach of his or her duty of trust. The Directors are required to contribute jointly towards a portion of the premiums of the said policy.

The information on the total remuneration of the Directors from the Company and from the subsidiaries is available under Note 32 to the Financial Statements on pages 134 to 136 in the accompanying Financial Statements 2017 Report.

The Group has also established a remuneration framework for key Senior Management, consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with contributions to the organisation. Key Senior Management Officers are defined per terms of reference of the BNRC.

A summary of the Company's Corporate Governance Practices during Financial Year Ended 2017 vis-à-vis the Malaysian Code on Corporate Governance 2017 ("MCCG") is laid out, as follows:

Herewith are snapshots of the Company's corporate governance practices during year 2017 disclosed vis-à-vis the 3 Principles set out in the MCCG namely (i) Board Leadership and Effectiveness, (ii) Effective Audit and Risk Management, and (iii) Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

- The roles and responsibilities of the Board of Directors ("the Board") are incorporated in the Board Charter, including strategy setting, management of the company, risk management and succession planning.
- The Corporate Scorecard for the CEO and the management team has been developed early of the year to measure their on-going performance against corporate objectives and goals set.
- RHB Banking Group has set its Strategy Statement, Vision, Aspirations and Brand Promise. Its 3-year accelerated programme namely **I.G.N.I.T.E. 2017** has ended and replaced by a 5-year transformation programme called **F.I.T. 22** to support its Vision: "To be amongst the Top 3 Multinational Financial Services Group in terms of performance by **2022**".
- The Board and the senior management have concurred the Group's strategic aims, including its Strategic Priorities, Focus Areas and Strategic Initiatives to be achieved by 2022, and set the organisational core shared Values, namely P.R.I.D.E. and internal Codes of Ethics & Conduct for Directors and Employees in building the right working and behavioural culture among the workforce to ensure that the company's strategic aims and goals are met.
- The Board assumes overall responsibility for promoting sustainable growth and financial soundness of the Company and its subsidiaries. This includes the following:
  - (a) Governing the Company's and the Group's business conduct and operations
  - (b) Risk Management
  - (c) Talent Development and Succession Planning
  - (d) Effective Communication
  - (e) Internal Control

II. Board Composition

As a licensed financial institution, RHB Investment Bank's Board is expected to comprise a majority of independent directors per the new BNM Policy on Corporate Governance and Malaysian Code of Corporate Governance ("MCCG") 2017 recommendation:

- For 2017, the Company's Board comprises a majority of independent directors (62.5%).
- In addition, the MCCG 2017 also recommends a limit on the tenure of Independent Director i.e. up to a cumulative term of nine (9) years of service. Accordingly, the Company has amended its existing Internal Guidelines to adhere strictly to the nine (9) years cap for tenure of its own Independent Directors.
- Currently, there is no Independent Director who is serving for more than nine (9) years tenure on the Board.

Generally the Company comprises 37.5% women representation on the Board of Directors and 32% among the Group Senior Management:

- The Company's Board remains vigilant in search for the right talent and suitable skill-set, and succeeded in securing three women directors on the Board within the past two (2) years.
- During calendar year 2017, the Company welcomed another **two women director** on the Board, namely YBhg Datuk Nozirah Bahari and YBhg Dato' Darawati Hussain. They joined YBhg Tan Sri Dr Rebecca Fatima Sta Maria, the existing **woman director** on the Board of the Company.
- As a very diverse Board in terms of age, educational background, ethnicity, experience, nationality and so forth, existing Board members are able to offer in-depth deliberation during Board meetings which would be beneficial for the Company's sustainable performance and operation.
- Similarly, the Company expects diversity at senior management level able to provide constructive debates, differing ways of deliberating same ideas and preparing a talent pipeline for future board candidacy, hence reaps the benefits arising from gender diversity agenda.

III. Remuneration

Policies and procedures, including the nomination framework for the directors and senior management are reviewed regularly to ensure the remuneration levels are:

(i) Commensurate with the responsibilities, risks and time commitment; and

(ii) Market-competitive and sufficient to attract and retain quality people but yet not excessive.

The total remuneration for all the directors, including both executive and non-executive directors, is disclosed in the Company's Annual Report on named basis, with breakdown of each remuneration components (i.e. fees, salary and bonus, benefits in-kind and other emoluments) received and receivable, including remuneration received/receivable at the Company's level and also at the Group's level:

- The remuneration structure and package for the Non-Executive Directors are approved by the shareholders in the Company's annual general meeting.

The Company has established a remuneration framework for key Senior Management, consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with their performance and contributions to the organisation:

- Detailed remuneration package for Key Senior Management is disclosed before the Board of Directors of the Company pursuant to BNM Policy on Corporate Governance.
- There is also incorporation of penalty in the final rating of their pay-for-performance scheme for any material non-compliance with legal and regulatory requirements.

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

The Company's Board Audit Committee ("BAC") comprises only Independent Directors:

- There is a Senior Independent Director among the three BAC members.
- All members of the BAC have diverse skills set and are financially literate. They possess the necessary knowledge and experience to review financial and non-financial reporting processes and matters deliberated before the committee.
- One of the BAC members is an associate of the Institute of Chartered Accountants in England and Wales (ICAEW), a member of the Malaysian Institute of Accountants (MIA) and a Certified Information System Auditor (CISA).

During FYE2017, the BAC members undertook several relevant training programmes per disclosure in the Board Audit Committee Report of this Annual Report, including workshop on Forensic Accounting and Digital Forensics.

II. Risk Management and Internal Control Framework

- The Board has established relevant frameworks and policies to ensure that the risk management and internal controls across the organisation are managed effectively within the risk appetite and risk principles set by the Board.
- The Company's Risk Management Framework put emphasises on 5 fundamental principles based on the risk governance structure, ownership, function, strategy and linkage to capital allocation.
- The Board conducts annual review on the Company's risk management and internal control framework to ensure effective checks and controls in the organisation.
- Details of the features of the Company's risk management and internal control framework, which include the governance, culture, processes and assessment of the risks and controls are disclosed under the Statement on Risk Management and Internal Control ("SORMIC") in the Annual Report.
- The control environment, the control activities and other control aspects implemented within the organisation, are also laid out in the SORMIC, with objectives to achieve operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies.

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Communication with Stakeholders

- Communication and engagement with the Company's stakeholders are made continuously through various platforms and media other than general meeting(s), including roadshows, analyst briefings, press conferences and via electronic means such as corporate website, corporate email, and social media.
- The Company's products, services & other-related queries can be directed to its customer service and respective parties, as disclosed on the corporate website and in its Annual Report.
- The Company annually discloses two main corporate reporting, namely its Annual Report and Financial Report/Audited Financial Statements.

Note:

This Corporate Governance Statement and the disclosures in this report have been approved by the Board on 23 April 2018.

STATEMENT OF RISK MANAGEMENT & INTERNAL CONTROL

BOARD RESPONSIBILITY

The Board of Directors ("Board") of RHB Investment Bank Berhad ("Investment Bank") is cognisant of its overall responsibility in establishing a sound risk management and internal control system in the Investment Bank as well as reviewing its adequacy, integrity and effectiveness. Such a system is designed to manage the Investment Bank's risk appetite within the established risk tolerance set by the Board and Management rather than total elimination of risks to achieve the Investment Bank's business objectives. The system can therefore only provide reasonable and not absolute assurance against the occurrence of any material misstatement, loss or fraud. Limitations inherent in the system include among others, human error and potential impact of external events beyond Management control.

In acknowledging that having a sound risk management and internal control system is imperative, the Board has established a governance structure that ensures effective oversight of risks and internal controls in the Investment Bank at all levels. To this end, the Board is assisted by the Board Risk Committee ("BRC") and Board Audit Committee ("BAC") which have been delegated with primary oversight responsibilities on the Investment Bank's risk management and internal control system. The Board remains responsible for the governance of risk and for all the actions of the Board Committees with regard to the execution of the delegated oversight responsibilities.

MANAGEMENT RESPONSIBILITY

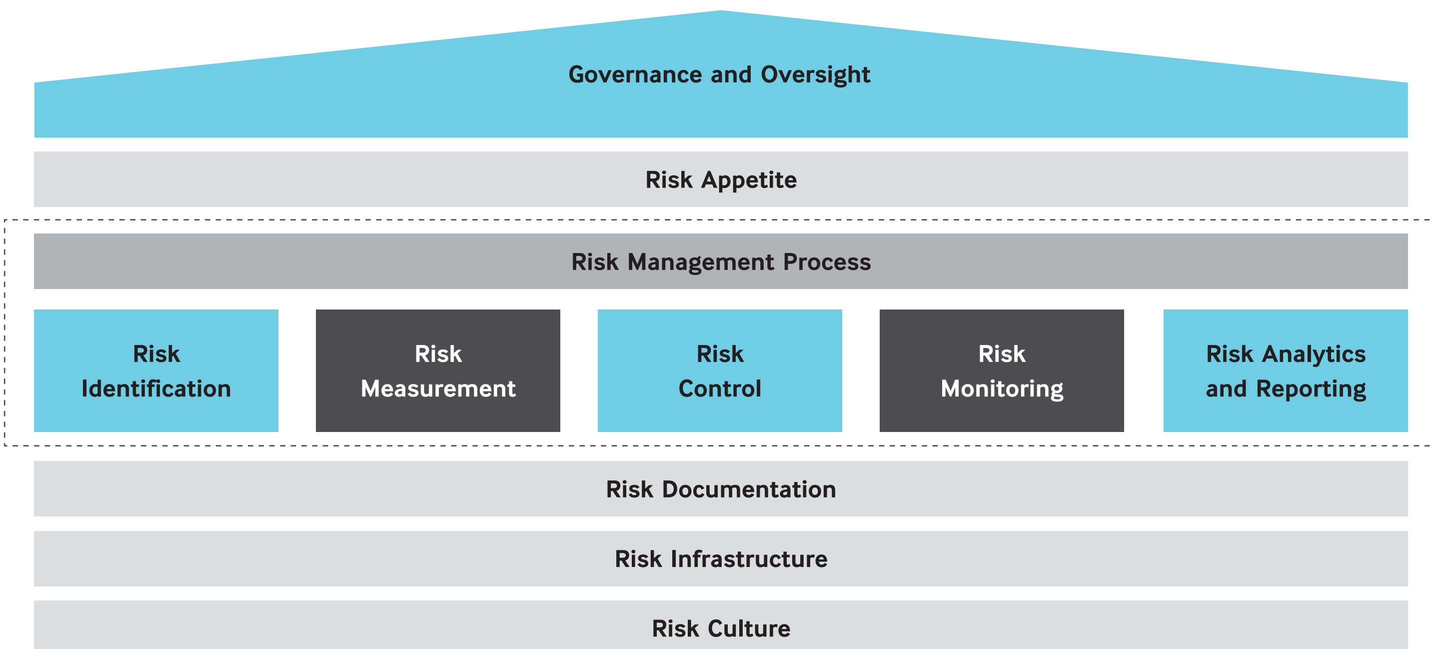
The Management is overall responsible for implementing the Investment Bank's policies and processes to identify, evaluate, measure, monitor and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely remedial actions as required. Its roles include:

- Identifying and evaluating the risks relevant to the Investment Bank's business and achievement of its business objectives and strategies;
- Formulating relevant policies and procedures to manage risks and the conduct of business;
- Designing and implementing the risk management framework and internal control system, and monitoring its effectiveness;
- Implementing policies approved by the Board;
- Implementing remedial actions to address compliance deficiencies as directed by the Board; and
- Reporting in a timely manner to the Board any changes to the risks and the remedial actions taken.

The Management has provided assurance that the Investment Bank's risk management and internal control system is operating adequately and effectively and that necessary processes have been implemented.

RISK MANAGEMENT FRAMEWORK

The RHB Banking Group, inclusive of the Investment Bank ("Group"), has in place a risk management framework approved by the Board for identifying, measuring, monitoring and reporting of significant risks faced by the Group in the achievement of the Group's business objectives and strategies. The Group's risk management framework ensures that there is an effective on-going process to identify, evaluate and manage risk across the Group and is represented in the following diagram:



Risk Governance and Oversight

The Board, through the BRC, provides oversight over the risk management activities for the Group to ensure that the Group's risk management processes are functioning effectively.

The BRC also assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. In discharging its overall duties and responsibilities, the BRC is supported by the Group Capital and Risk Committee ("GCRC") and Group Risk & Credit Management function which monitors and evaluates the effectiveness of the Group's risk management system on an on-going basis. The GCRC, comprising Senior Management of the Group and chaired by the Group Managing Director, is responsible for the supervision of the management of enterprise risk and capital matters.

In addition to the risk management framework, the Group has implemented the Internal Capital Adequacy Assessment Process ("ICAAP") framework to ensure that the Group maintains adequate capital levels consistent with the risk profiles including capital buffers to support the Group's current and projected demand for capital under existing and stressed conditions. In order to ensure on-going engagement and assessment of the Group's risk profile and capital adequacy, the ICAAP report is reviewed at least annually and is presented to senior management and relevant Board committees prior to approval by the respective entities' Boards.

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Asset and Liability Committee, Group Credit Committee, Islamic Risk Management Committee, Board Credit Committee and Group Digital & Technology Committee with their scope of responsibility as defined in their respective terms of reference.

Risk Appetite

Risk appetite for the Group is defined as the amount and the type of risks that the Group is willing to accept in pursuit of its strategic and business objectives. Risk tolerance on the other hand, is the acceptable level of variation relative to the achievement of the Group's strategic and business objectives. It is measured in the same units as the related objectives. It translates risk appetite into operational metrics, and it can be defined at any level of the Group.

The Board, through the BRC, Islamic Risk Management Committee, GCRC and Group Risk & Credit Management function, establishes the risk appetite and risk tolerance for the Group and relevant entities.

The defined risk appetite and risk tolerance are periodically reviewed by the Management and the Board in line with the Group's business strategies and operating environment. Such review includes identifying and setting new risk appetite metrics for the business entity or removal of risk appetite metrics that are no longer applicable as well as updates on the risk appetite thresholds to be in line with the Group's business strategy and risk posture.

The main business and operations inherent risks that were considered in the risk appetite review include regulatory compliance risk, credit risk, market and liquidity risk, operational and technology risk, and Shariah non-compliance risk.

Risk Management Processes

The risk management processes within the Group seeks to identify, evaluate, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- Analytics and Reporting: Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards to ensure that the risks remain within the established appetite and to support an informed decision-making process.

Risk Documentation and Infrastructure

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested into technology, including data management to support the Group's risk management activities.

Risk Culture

Risk management is integral to all aspects of the Group's activities and is the responsibility of all employees across the Group. In line with regulatory requirements and industry best practices, the Group subscribes to the principle that "*Risk and Compliance is Everyone's Responsibility*" and hence, risk management is a core responsibility of the respective businesses and operating units. This has been articulated and documented in the risk management framework of the Group.

Guided by the said principle, the Group has launched a Risk Culture Awareness programme which comprises training, awareness campaigns and roadshows within the Group (including overseas branches and subsidiaries) to promote a healthy risk culture. A strong risk culture minimises the Group's exposure to financial and non-financial risks including reputational impact, over time.

In addition, the Group has implemented the Business Risk & Compliance Officer ("BRCO") programme that aims to cultivate proactive risk and compliance management and to establish a robust risk culture. The BRCO programme entails the appointment of BRCO at the respective business and functional units to provide real time advisory on risk and compliance matters.

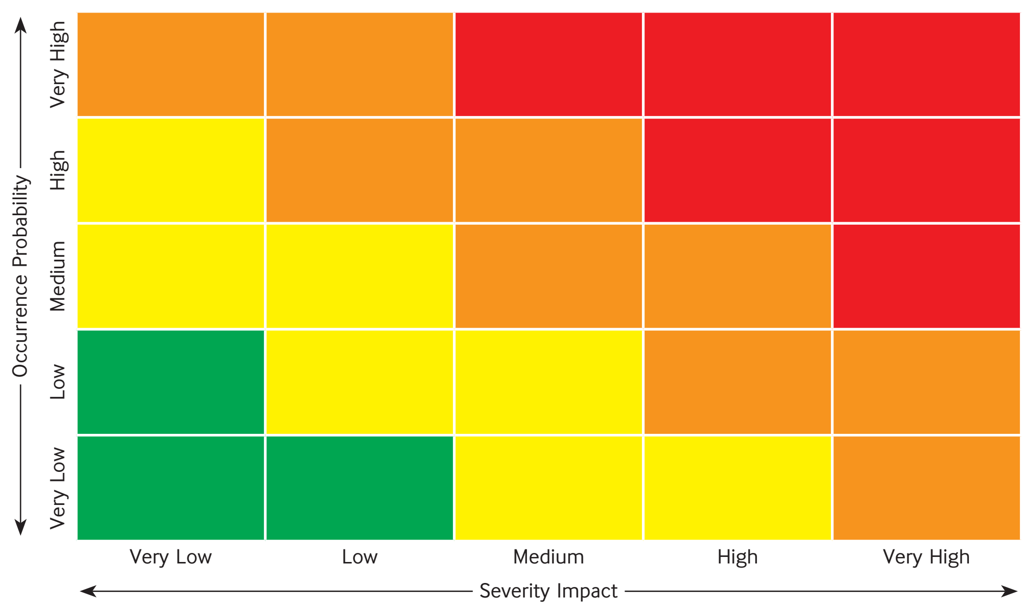
The implementation of the BRCO programme is in line with the 'Three Lines of Defence' model practised globally. There is clear accountability of risk ownership across the Group. The model is depicted in the diagram below:

FIRST LINE	SECOND LINE	THIRD LINE
Business/Functional Level	**Group Risk Management & Group Compliance**	**Group Internal Audit**
• Responsible for managing day-to-day risks and compliance issues • BRCO is to assist business/functional unit in day-to-day risks and compliance matters	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Assessment

The Group has an established and comprehensive process for risk identification at every stage of the risk taking activities, namely transactional, product and even at the respective entities and Group level. Risks are also identified through Operational Risk Loss Event reporting and Portfolio thematic analysis. As part of the Group's periodic material risk assessment, the Group reviews the types and components of material risks, determines its quantum of materiality and refinement of processes taking into consideration the feedback received, including the independent reviews.

Material risk assessment is measured from the dimension of occurrence probability and severity impact. In addition, risk assessment also considers amongst others, the effectiveness of controls in place, and the impact to financial and non-financial indicators such as reputational risk. These are translated into a heat map matrix to derive the materiality of the risk as shown in the table below:



The use of the above matrix is a simple mechanism to increase visibility of risks and assist in decision making. The Group considers residual risks which fall within the Amber and Red zones are 'Significant' and 'Material', which may have severe impact to the Group's financials and/or reputation. Significant efforts will be taken to manage and mitigate these risks events.

Risk and Control Self-Assessment

To further support and promote accountability and ownership of risk management, a Risk and Control Self-Assessment ("RCSA") framework has been implemented in the business and functional units within the Group as part of the risk management process. These business and functional units are required to identify and document the controls and processes for managing the risks arising from their business activities and operations, as well as to assess the effectiveness thereof to ensure that the risks identified are adequately managed and mitigated. On completion of the RCSA exercise, all business and functional units within the Group are required to submit their respective results to Group Operational Risk Management for review prior to tabling the RCSA results to the GCRC for deliberation and further action where necessary.

KEY INTERNAL CONTROL PROCESSES

The Group's system of internal control is designed to manage and reduce risks that will hinder the Group from achieving its goals and objectives. It encompasses the policies, procedures, processes, organisational structures and other control aspects that are implemented for assuring the achievement of the Group's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and internal policies.

The key processes established by the Board that provide effective governance and oversight of internal control systems include:

CONTROL ENVIRONMENT AND CONTROL ACTIVITIES

Organisation Structure

The Group has a formal organisational structure with clearly defined lines of accountability and responsibility, authority limits and reporting. The organisational structure provides the basic framework to help the Group's operations proceed smoothly and functionally as well as depicting the span of control in ensuring effective supervision of day-to-day business conduct and accountability.

Policies and Procedures

Policies, procedures and processes governing the Group's businesses and operations are documented and communicated group-wide as well as made available to employees through the Group's intranet portal for ease of reference and compliance. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured review and approval process to cater to changes in laws and regulations as well as changes to the business and operational environment.

Authority Limits

The Board has approved the Group Manual of Authority ("MOA") which defines the approving authority with its approving limits delegated to the various levels of Management in the Group to ensure accountability and responsibility. The Group MOA is reviewed periodically and updated in line with changes in the organisation structure, business environment or operational needs.

Information Technology (IT) Security

The Group regards IT security as a very high priority to ensure the confidentiality, integrity and availability of the Group's information assets and IT infrastructure.

IT security in the Group is achieved through the implementation of a risk based control approach which includes documented policies, standards, procedures and guidelines as well as organisational structures and, software and hardware controls.

With the increasing number of cyber threats globally as well as locally, the Group has established a Cyber Coordination and Command Centre to ensure that there is a structured process of prompt monitoring and timely response to cyber threats and incidents.

In order to strengthen and enhance the level of information security management, the Group has obtained certifications of ISO/IEC27001:2013 – Information Security Management System and ISO/IEC 20000:2011 – Information Technology Service Management, in addition to complying with various regulatory requirements on managing information technology risk holistically.

Budgeting Process

A robust budgeting process is established requiring all key operating companies in the Group to prepare budgets and business plans annually for approval by the respective Boards. The Group's budget and business plans as well as strategic initiatives, taking into account the established risk appetite, are deliberated at the Board where the Group budget is presented.

Human Capital Management

One of the key constituents of any internal control system is its people and that our system of risk management and internal control is dependent on the responsibility, integrity and sound judgement that employees apply to their work. Hence, the Group has in place policies and procedures that govern recruitment, appointment, performance management, compensation and reward as well as policies and procedures that govern discipline, termination and dismissal.

For sustainable growth, the Group places emphasis on human capital development, talent management and succession planning. To enhance employee competencies, structured and technical trainings as well as management and leadership workshops are provided to them based on their identified needs during the annual performance assessment. For talent management, initiatives such as Leadership Development Programme, Individual Development Plan and mentoring are implemented to develop identified talents in the Group to facilitate the continuous supply of high potentials and suitable successors for future leadership roles.

Group Code of Ethics and Conduct

The Bank Negara Malaysia's Code of Ethics for banking institutions has been adopted and institutionalised within the Group. The Group Code of Ethics and Conduct ("the Code") sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Group's business practices. It is a requirement that all employees of the Group understand and observe the Code. New recruits are briefed on the Code and are required to sign the Employee Declaration of Compliance Form upon joining the Group.

The Group has also established the Gifts and Hospitability Guidelines to promote integrity and transparency for giving and receiving gifts. The Guidelines complement the Code and are designed to help the Group and its employees understand the respective parties' obligations in upholding corporate integrity about gifting.

Group Anti-Money Laundering and Counter Financing of Terrorism Policy

The Group Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") Policy is drawn up in accordance with the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and Bank Negara Malaysia's standards on AML/CFT. It sets out the high level standards towards building a stronger and robust AML/CFT compliance regime within the Group, facilitates consistency in managing the AML/CFT compliance risk across the local and regional entities within the Group, and sets out the Group's policy statements in respect of the general principles and key measures to which the Group adheres to.

Pursuant to the Group AML/CFT Policy, the entities and/or employees within the Group are required to adopt Risk Based Approach ("RBA") to customer acceptance and implement the AML/CFT Compliance Programme framework which includes customer due diligence ("CDD") requirements, monitoring of customer activities/transactions, reporting of suspicious transactions, record keeping, AML/CFT training, protection of customer information, and enforcement actions for non-compliance to the requirements.

The Group AML/CFT Policy also outlines the roles and responsibilities as well as establishes clear accountability of the Board of Directors, Senior Management and all employees within the Group.

The Board has an oversight responsibility for establishing the AML/CFT policies and minimum standards while the Senior Management is accountable for the implementation and management of AML/CFT compliance programmes in accordance with the policies and procedures as approved by the Board.

Group Fraud Risk Management Policy

The Group Fraud Risk Management Policy is designed to promote consistent organisational behaviour through the development, implementation, and regular review of fraud prevention, detection and response strategies. The Policy defines the core governing principles for fraud management within the Group which include leadership and ethical culture, fraud awareness and prevention, fraud control and detection, fraud reporting and escalation as well as fraud response with appropriate corrective actions.

Business Continuity Management

The Group recognises and is fully committed to the need to provide uninterrupted critical services to its customers, ensure the safety of its employees, protect its assets/data and safeguard the interest of its key stakeholders that collectively ensure the viability of the organisation. The Group's Business Continuity Management ("BCM") Programme is based on good business continuity practices and guidelines which are in line with the Bank Negara Malaysia and internationally recognised standards. The overall framework is to build organisational resilience with effective response mechanism to safeguard the interests of key stakeholders, reputation and brand.

The Board has an oversight function on the Group's BCM readiness through the BRC and GCRC. The Group Business Continuity Steering Committee is the management committee established to oversee the Group's business continuity framework, policies, budget and plans, and reports to GCRC.

The Group has ongoing and actively managed BCM programmes, which include effective crisis management to deal with real life crisis. The BCP Programmes are subject to regular testing/exercising to ensure their efficacy, reliability and functionality. Simulation exercises and drills are conducted to familiarise and equip staff with the skills and techniques required to ensure that in the event of any disruption, critical business processes can continue or be recovered in a timely manner.

INFORMATION AND COMMUNICATION

Performance Review

Regular and comprehensive information is provided by Management to monitor its performance against the strategic business plan and the annual budget approved by the Board. This information covers all key financial and operational indicators as well as key strategic initiatives undertaken by the Group during the year.

The Board and the Group Management Committee ("GMC") receive and review financial reports on the Group's monthly and quarterly financial performance against approved targets and the reasons for any significant variances as well as measures that are being put in place to meet such targets.

The heads of the core businesses and functions in the Group present their respective management reports to the GMC at its monthly meeting, covering areas such as financial performance, key activity results and new business proposal or process for information of and deliberation by the GMC.

Group Whistle Blower Policy

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All employees are made aware of the Group's whistle blowing policy and its processes and are accorded the opportunity to report via the whistle-blowing mechanism with the assurance that the report will be dealt with confidentially that the complainant's identity will be protected and that the complainant will be protected from any harassment or victimisation at work due to the disclosure.

Incident Management Reporting

To complement the Group's system of internal control, a comprehensive incident management reporting system has been implemented to ensure proper escalation and management of incidents according to the level of severity. The incident management reporting system also ensures that all incidences with material risk and losses are escalated promptly to Senior Management and the Board with necessary steps taken to mitigate any potential risks that may arise. This enables the decision makers to undertake informed decision making and be kept up to date on situations as well as manage risks effectively.

MONITORING

Board Committees

Board Committees have been set up to assist the Board to perform its oversight functions, namely the BRC, BAC, Board Nominating & Remuneration Committee, Board Credit Committee, Board Technology Committee and Islamic Risk Management Committee. These Board Committees have been delegated with specific duties to review and consider all matters within their scope of responsibility as defined in their respective terms of reference.

Group Management Committee

The Group Management Committee ("GMC") comprises the Group Managing Director as the Chairman, the Chief Executive Officers/Managing Directors of the relevant key operating subsidiaries and the key Senior Management of the Group. The GMC provides the leadership and direction in the implementation of strategies and policies approved by the Board and meets monthly to discuss and deliberate strategic matters that impact the Group's operations.

Investment Banking Business Committee

The Investment Banking Business Committee ("IBBC") comprises key management personnel of the Investment Bank and is chaired by the Chief Executive Officer. The IBBC provides a forum for Management to monitor and review the performance of the Group Investment Banking Strategic Business Group from strategic, operational and financial point of views, apart from deliberating on business strategies/initiatives, issues and proposals, and making appropriate business decisions and recommendations to the Group Wholesale Banking Committee and/or any other relevant committees/Boards. The IBBC meets regularly and special meetings are convened to discuss urgent issues.

Management Audit Committee

Management Audit Committees ("MACs") are established at the key operating entities in the Group to ensure timely rectification of any audit findings and the underlying causes highlighted by the internal and external auditors, and regulators. The status of rectification of all audit findings and the mitigation actions taken by Management to adequately address the underlying causes are closely monitored by the MACs at every meeting.

RHB Investment Bank's MAC comprising senior level representatives from different business/functional groups is chaired by the Chief Executive Officer of the Investment Bank. The Investment Bank's MAC meet monthly/bi-monthly and the minutes of meetings together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

Group Compliance

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Group. The compliance function forms an integral part of the Group's risk management and internal control framework. Because a strong compliance culture reflects a corporate culture of high integrity and ethics, everyone is expected to promote self-regulation and be accountable for his or her own activities while maintaining ethical principles and behaviour.

In addition to day-to-day monitoring, Group Compliance's commitment towards instilling a strong compliance culture across the Group is demonstrated through the establishment of a robust compliance monitoring framework which includes, amongst others, implementation of comprehensive compliance policies, periodic compliance risk assessment/reviews, regular engagement sessions with business and functional units and conduct of continuous training/awareness programmes across the Group to ensure that all employees are well informed of the latest regulatory requirements.

Further, the Boards and Senior Management are also apprised of the Group's state of compliance through the submission of the Group Compliance report on a periodic basis.

Shariah Compliance

In line with the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, a comprehensive Shariah Governance Framework has also been put in place by the Group which encompasses the concept of Shariah, Shariah governance and its reporting structure, roles and responsibilities, and the key principles underpinning the components of the Shariah governance structure.

Various activities involving Shariah reviews, control self-assessment, research, trainings and briefings aimed at creating awareness as well as continuous learning programmes were conducted throughout the year to educate employees on the importance of Shariah requirements and compliance surveillance.

INTERNAL AUDIT

Group Internal Audit ("GIA") reports functionally to the BAC and is independent of the operations and activities it audits. The GIA's main responsibility is to provide an objective and independent assessment on the adequacy and effectiveness of the Group's risk management, control and governance processes implemented by the Management.

The internal audit universe covers all key activities of the Group, including that of its branches, business centres, overseas operations, representative offices, subsidiaries as well as outsourced activities. GIA adopts a risk-based approach in determining the auditable units and frequency of audits in ensuring that the audit resources are prioritised in line with the Group's key risks and areas of focus which are identified based on GIA's risk assessment methodology.

The areas to be audited are documented in the internal audit plan that is developed based on a risk-based approach and is approved by the BAC annually. Audit reports which include detailed audit findings, GIA's comments and recommendations, and Management's response are tabled to MACs and BAC on a monthly basis.

The established MACs are tasked to ensure that issues raised by GIA, external auditor and regulators are addressed within an appropriate and agreed timeline. Confirmation to this effect must be provided by Management to GIA for verification before the issues concerned can be closed at the MACs.

The Group Chief Internal Auditor reports functionally to the BAC and administratively to the Group Managing Director to ensure GIA's independence from Management.

Further information on the GIA function is provided in the Board Audit Committee Report of this Annual Report.

CONCLUSION

The Board, through the BAC, BRC and the Islamic Risk Management Committee, confirms that it has reviewed the adequacy and effectiveness of the Investment Bank's risk management and internal control system.

The Board has further obtained assurance from the Chief Executive Officer of the Investment Bank and the Group Chief Financial Officer that the Investment Bank's risk management and internal control system is operating adequately and effectively in all material aspects, based on the risk management and internal control system of the Investment Bank.

Based on the monthly updates from its Board Committees and the assurance received from the Management, the Board is of the view that the Investment Bank's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this statement.

BOARD AUDIT COMMITTEE REPORT

COMPOSITION AND ATTENDANCE OF MEETINGS

During the year, a total of thirteen (13) Board Audit Committee ("BAC") meetings were held. The BAC comprises the following members who are all independent directors and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of BAC	Attendance at Meetings
1. Tan Sri Dr Rebecca Fatima Sta Maria (Chairperson/Independent Non-Executive Director)	13/13 (100%)
2. Tan Sri Saw Choo Boon (Member/Senior Independent Non-Executive Director)	12/13 (92%)
3. Ms Ong Ai Lin (Member/Independent Non-Executive Director) – Appointed on 1 July 2017	7/7 (100%)
4. Mr Ong Seng Pheow (Member/Independent Non-Executive Director) – Retired on 19 November 2017	9/11 (82%)
5. Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (Member/Independent Non-Executive Director) – Resigned on 1 July 2017	4/6 (67%)

The BAC meetings were also attended by the Chief Executive Officer of RHB Investment Bank Berhad/Head of Group Capital Markets and the Group Chief Internal Auditor while the attendance of other Senior Management is by invitation, depending on the matters deliberated by the BAC.

The BAC undertakes the functions of the Audit Committee of the major operating entities within the Group encompassing RHB Bank Berhad ("RHB Bank"), RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

Key matters deliberated at the BAC meetings together with the BAC's recommendations and decisions are summarised and presented to the Board, in the same month, by the Chairperson or representative of the BAC. This allows the Board to be timely apprised of significant matters deliberated by the BAC and for the Board to provide direction, if necessary. Extracts of the minutes of the BAC meetings held were provided to the Board for their information.

AUTHORITY

The BAC is authorised by the Board to, among others, review and investigate any matters within its terms of reference; have direct communication channels with the external and internal auditors; obtain independent professional advice, if necessary, at the Company's expense; and access to Management as well as resources to enable effective discharge of its functions. The full terms of reference, including the authority, duties and responsibilities of the BAC are published in RHB Bank's website.

SUMMARY OF BAC ACTIVITIES IN 2017

The work carried out by the BAC in the discharge of its duties and responsibilities during the financial year are summarised as follows:

1. Financial Reporting

a) Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Investment Bank Berhad before recommending them for the Board's approval. The review process encompassed the following:

- Reviewed changes in accounting policy and adoption of new or updated accounting standards, and its impact to the financial statements.
- Reviewed the financial statements and sought explanations from the Senior Management including the Chief Financial Officer of RHB Investment Bank Berhad on any significant changes between the current and corresponding quarter/period to assess their reasonableness.

b) Discussed with the external auditors the following matters identified during the statutory audit for the financial year ended 31 December 2017 as highlighted in their Audit Committee Report:

- Significant audit and accounting matters including credit, impairment assessment and taxation related matters;
- Summary of uncorrected misstatements; and
- Updates on the extended audit procedures on MFRS 9 implementation.

2. Internal Audit

a) Reviewed and approved the Group Internal Audit ("GIA")'s annual audit plan for the financial year 2017 in November 2016 to ensure adequacy of scope, coverage and resources for the identified auditable areas.

b) Reviewed GIA's risk-based methodology in assessing the risk levels of the Group's various business and functional areas for the audit planning purpose with emphasis on high and above average risk areas which are required to be audited annually whilst moderate and low risk areas are subject to a cycle audit.

c) Reviewed the staffing requirements of GIA including the skillsets and core competencies of the internal auditors to ensure effective discharge of GIA's duties and responsibilities.

d) Reviewed the GIA's audit activities undertaken for the financial year covering the planned audit assignments, ad-hoc audit projects, review of policies, processes and procedures, and IT project participation.

e) Reviewed and appraised the performance of the Group Chief Internal Auditor and assessed the effectiveness of the internal audit function.

f) Reviewed and deliberated on the minutes of all Management Audit Committee ("MAC") meetings, internal audit reports, audit recommendations and Management's responses to these recommendations as well as the timely mitigation actions taken by Management to improve the system of internal controls and its processes on the areas highlighted.

g) Reviewed and deliberated on the investigation reports tabled to the BAC and provided directions, where necessary, to address and improve the internal control weaknesses highlighted.

h) Reviewed the inspection and examination reports issued by the regulatory authorities and the Management's response as well as the remedial actions taken by Management in respect of the reported findings to ensure that all matters highlighted in these reports had been adequately and promptly addressed by Management.

i) Reviewed the minutes of meetings of the Audit Committees of the overseas subsidiaries to the extent permitted by the relevant regulatory authorities to satisfy itself that all matters arising therefrom had been appropriately addressed by these Audit Committees.

3. External Audit

a) Reviewed the 2017 audit plan of the external auditors for RHB Banking Group at the BAC meeting held on 17 October 2017 covering the audit strategy, risk assessment, areas of audit emphasis for the year.

b) Reviewed with the external auditors, the results of their audit together with their recommendations and Management's response to their findings as detailed in the following reports, and provided BAC's views and directions on areas of concern where necessary:

Audit Report issued by External Auditors in 2017	Date tabled to BAC
Final Audit Committee Report for the financial year 2016	20 January 2017
Internal Control Report for the financial year 2016	23 March 2017
Limited review of the unaudited financial statements of RHB Bank and RHB Islamic Bank for the financial period ended 30 June 2017	21 July 2017

The BAC further directed the respective MACs to track the audit findings highlighted by the external auditors in their Internal Control Report to ensure timely resolution of all matters by Management.

c) Met twice with the external auditors on 20 January 2017 and 17 October 2017 without the presence of Management and Executive Directors to enable the external auditors to discuss on matters with the BAC privately.

d) Reviewed the appointment of the external auditors for the provision of non-audit services before recommending them for the Board's approval. Areas that are considered include the external auditors' expertise, adequacy of knowledge and experience required for the services rendered, competitiveness of fees quoted and whether its independence and objectivity would be impaired.

Reviewed on a quarterly basis, the non-audit services rendered by the external auditors and the related fees taking into consideration the fee threshold established under the Group policy to ensure that the external auditors' independence and objectivity were not compromised. The total non-audit fees incurred as a percentage of the total statutory audit and other audit related services fees for the financial year 2017 for RHB Banking Group was 57.41% which is within the policy threshold.

For the financial year 2017, the main non-audit services rendered by the external auditors are as follows:

- Conducted validation of impairment models for the purpose of Malaysian Financial Reporting Standard ("MFRS") 9 implementation;
- Provided services in relation to the proposed merger (the merger discussion subsequently ceased); and
- Performed statutory requirement of Perbadanan Insurans Deposit Malaysia ("PIDM") validation program for assessment year 2017.

e) Reviewed the external auditors' performance and independence before recommending them to the Board for reappointment as external auditors for the Group:

- The external auditors have declared in their 2017 audit plan, which was tabled to the BAC in October 2017, that they have maintained their independence for the audit of the financial statements of the Group in accordance with the firm's requirements and with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. They have further declared that the non-audit services provided to the Group during the year have not compromised their independence as external auditors of the Group.
- The annual assessment on the external auditors covering the key areas of performance, independence and objectivity in accordance with the BNM Guidelines on External Auditor.
- The performance of the external auditors was also assessed through a survey completed by the Management personnel of the Group based on their dealings with the external auditors covering areas such as the quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness and staff continuity.

- A comprehensive review was also conducted in December 2017 prior to the reappointment of the external auditors to assess its independence and the potential risk of familiarity threat at all the banking entities within the Group. The comprehensive review covered the following three main categories:

Categories	Main Areas Assessed
(i) Governance and independence	Rotation of audit partner and key engagement team staff; meeting with the BAC without Management to discuss their objectivity and independence; any relationship between the external auditors, its staff and the Group; any safeguards in place to protect the external auditors' independence when approving non-audit services; and nature of non-audit services provided by the external auditors to the Group.
(ii) Communication and interaction	Communication to the BAC on a timely basis in relation to audit planning, audit strategy, significant audit and accounting issues, and related risks and control weaknesses, areas of significant judgements made by Management and their impact on the financial statements.
(iii) Quality of services and resources	Audit firm's presence internationally; external auditors demonstrate appropriate technical knowledge and expertise; external audit team made up of sufficient and suitably experienced staff; meeting deadlines in providing their services; and responded timely to issues.

The comprehensive review was conducted by Group Finance and independently verified by GIA prior to tabling to the BAC for deliberation.

4. Related Party Transactions and Conflict of Interest

a) Reviewed the reports of related party transactions ("RPTs") on a quarterly basis covering the nature and amount of the transactions including any possible conflict of interest ("COI") situations in ensuring that the terms and conditions of the transactions are commercially based and at arm's length.

b) The review covered the aggregate consideration of Recurrent RPTs ("RRPTs") which are individually tracked and monitored against the ceiling set to ensure proper reporting and disclosures in accordance with the regulatory requirements.

c) The Group has in place an approved policy on RPTs which governs the process of identifying, evaluating, approving, reporting and monitoring of RPTs, RRPTs and potential COI situations as well as outlining the duties and responsibilities of the relevant parties involved in the RPT process.

TRAINING

During the year, the BAC members have attended various training programmes, conferences and seminars to keep abreast of latest developments as well as to enhance their knowledge for the discharge of their duties and responsibilities.

Details of the trainings attended by BAC members are as follows:

Name of Director(s)	Training Programmes Attended
Tan Sri Dr Rebecca Fatima Sta Maria	Peer-2-Peer (P2P) Lending and Crowdfunding/ Crowdsourcing by Group Chief Operations Officer
	Cryptocurrency and Blockchain Technology by Neuroware
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE
	Capital Market Director Programme by SIDC: – Module 1 – Module 2A – Module 2B – Module 3 – Module 4
	Workshop on Forensic Accounting and Digital Forensics by Alliance IFA

Name of Director(s)	Training Programmes Attended
Tan Sri Saw Choo Boon	Peer-2-Peer (P2P) Lending and Crowdfunding/ Crowdsourcing by Group Chief Operations Officer
	Cryptocurrency and Blockchain Technology by Neuroware
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE
	Board Excellence: How to Engage and Enthuse Beyond Compliance with Sustainability by Bursa Malaysia
	Promoting Prosperity by Improving Women's Rights by The World Bank
	National Conference: Companies Act - From Policies to Implementation by Companies Commission of Malaysia
	Fraud Risk Management Workshop by Bursa Malaysia
	Business Ethics and Integrity: Key to Sustainability in the Digital Economy by Federation of Malaysian Manufacturers
	National Convention on Good Regulatory Practice by Malaysia Productivity Corporation
	ASEAN Economic Conference
Ms Ong Ai Lin	New Directors' In-House Orientation by Group Company Secretary
	Cyber Landscape In The Malaysian Financial Industry by AICB
	Mandatory Accreditation Programme for Directors of Public Listed Companies by ICLIF
	Malaysian Institute of Accountants Annual Conference 2017
Mr Ong Seng Pheow	Cryptocurrency and Blockchain Technology by Neuroware
	Islamic Banking by 2030: Impact of Digital Economy, Fintech & Sustainability as Forces of Change by SHAPE
	Workshop on Forensic Accounting and Digital Forensics by Alliance IFA
	Malaysian Code on Corporate Governance: Expectation and Implications by SIDC
	Bankruptcy (Amendment) Act 2017 by Messrs Shook Lin & Bok
	Fintech Opportunities for the Financial Services Industry in Malaysia by FIDE Forum
	Board In The Digital Economy by SIDC
	Malaysian Code on Corporate Governance: Expectation and Implications by SIDC

INTERNAL AUDIT FUNCTION

RHB Banking Group has an in-house internal audit function, which is guided by its Internal Audit Charter, Bank Negara Malaysia ("BNM") Guidelines on Internal Audit Function of Licensed Institutions (BNM/RH/GL 013-4) and the Institute of Internal Auditors' latest International Professional Practices Framework. GIA's main responsibility is to provide an objective and independent assessment on the adequacy and effectiveness of the Group's risk management, internal control and governance processes implemented by the Management.

The GIA is headed by Mr Alex Tan Aun Aun who has more than 25 years of multifaceted experience in the banking business, with 10 years' experience in internal auditing. He holds a Bachelor of Commerce (Finance) degree from the University of Toronto and is a member of The Institute of Internal Auditors Malaysia.

The Group Chief Internal Auditor ("Group CIA") reports functionally to the BAC and administratively to the Group Managing Director. To further preserve the independence of the GIA function, the Group CIA's appointment and performance appraisal, as well as the GIA's scope of work and resources, are approved by the BAC.

Internal Audit Charter

The Internal Audit Charter ("Audit Charter") defines the purpose, authority and responsibility of the internal audit function and is approved by the Board. The approved Audit Charter is published in the Group's intranet portal, which can be viewed by all employees of the Group.

The Audit Charter is reviewed by the Group CIA every two years to assess whether the GIA's purpose, authority and responsibility, as defined in the Audit Charter, continue to be adequate and relevant to enable the audit function to accomplish its objectives.

Summary of GIA's Activities

The main activities undertaken by GIA during the financial year are summarised as follows:

a) Prepared the annual risk-based audit plan for RHB Banking Group which includes the audit objectives and scope, and manpower requirements for each planned auditable unit.

b) Conducted audits as per the approved audit plan as well as ad hoc reviews and investigations requested by Management or regulators during the year.

c) Audited key areas during the financial year which included the Branches, Credit Underwriting, Business Centres, Treasury Operations, IT Security, Head Office functions, Shariah Compliance, Investment Banking Business, Asset Management, Insurance Business and Overseas Operations.

d) Conducted audits as per regulatory requirements such as compliance with BNM's Guidelines on Anti-Money Laundering and Counter Financing of Terrorism, Disclosure of Customer Documents or Information, Single Counterparty Exposure Limit, Outsourcing, Product Transparency & Disclosure and PayNet's applicable rules, procedures and manual for payment and debt securities systems.

e) Carried out ad-hoc compliance and validation reviews as requested by regulators.

f) Monitored and followed up through the respective MACs on the timely rectification of any reported audit findings and the underlying causes highlighted by the internal and external auditors, and regulators. The status of any outstanding audit findings is summarised and reported to the BAC on a monthly basis.

g) Reviewed new or updated policies, procedures and processes as requested by Management to provide feedback on the adequacy of internal control systems.

h) Participated in system or product development activities to provide recommendations upfront on the relevant control features to be considered by Management.

i) Assisted the BAC in the annual exercise on the reappointment of external auditors by assessing its independence and potential risk of familiarity threat at all the banking entities within the Group.

j) Attended Management meetings as permanent invitee on a consultative and advisory capacity to provide independent feedback where necessary on internal control related matters.

k) Organised the MACs meetings, preparing meeting materials and preparing minutes of meetings for submission to BAC.

l) Prepared the BAC Report and the Statement on Risk Management and Internal Control for inclusion in the Annual Report 2017 of RHB Bank and the major operating entities in the Group (inclusive of RHB Investment Bank Berhad).

Internal Audit Resources

The Group CIA, in consultation with the BAC and the Group Managing Director, decides on the appropriate resources required for the GIA taking into consideration the size and complexity of operations of the Group. The primary organisation chart/structure of GIA is reviewed and approved by the BAC annually.

As at 31 December 2017, GIA has 153 internal auditors, with 18 internal auditors under Investment Banking Group Audit with relevant academic/professional qualifications and experience to carry out the activities of the internal audit function of RHB Investment Bank Berhad and its subsidiaries.

Professional Proficiency

The Group CIA ensures that the internal auditors are suitably qualified and provided with the necessary trainings and continuous professional development for the purpose of enhancing their audit and relevant technical skills to perform their duties and responsibilities.

The internal auditors are further guided by the GIA Learning Development Framework to pursue the relevant certification programmes such as those offered by the Institute of Internal Auditors and Asian Institute of Chartered Banker in order for them to be proficient and competent in the relevant disciplines.

Based on each staff's Individual Development Plan for the year 2017, the internal auditors attended the relevant technical as well as leadership and management programmes offered by RHB Academy, the Group's Learning and Development Centre, and external programmes. For the year 2017, the internal auditors attended a total of 1,163 days of training, which translates to approximately 7.5 days per auditor.

Internal Audit Quality Assurance Review

To ensure effectiveness of the internal audit function, the Group CIA has developed and maintained a quality assurance and improvement programme that covers all aspects of the internal audit activities. The quality assurance programme assesses the effectiveness of processes within the internal audit function and identifies opportunities for improvement through both internal and external assessments.

The internal assessment is performed according to the approved annual Quality Assurance Review ("QAR") plan by a QAR team within GIA. The Head of QAR function reports directly to the Group CIA to maintain its independence of the internal audit activities within GIA.

In addition to the internal assessment, external quality assessment is conducted every three years by qualified professionals. The appointment of independent reviewer is subject to the Group's established procurement process and endorsed by the BAC.

The review covered a broad scope that includes conformance with the Definition of Internal Auditing, the Standards, and the Code of Ethics, and the internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors ("IIA") and BNM guidelines.

In end 2016, a leading consulting firm was engaged to conduct an external quality assurance review on GIA. Based on the QAR report issued, GIA's activities conformed with the International Standards for the Professional Practice of Internal Auditing and IIA's Code of Ethics as well as its Definition of Internal Auditing, Internal Audit Charter, Policies, Manual and Procedures. There were also opportunities for improvement recommended which GIA had implemented accordingly.

AWARDS AND RECOGNITION

BURSA EXCELLENCE AWARDS 2017

BEST RETAIL EQUITIES PARTICIPATING ORGANISATION (Champion)

BEST RETAIL DERIVATIVES TRADING PARTICIPANT (Champion)

BEST REMISIER
(1st Runner Up – Tay Huat Sun)

THE EDGE MALAYSIA'S BEST DEALS OF THE YEAR 2017

BEST INITIAL PUBLIC OFFERING
(Best Deal – Initial public offering of 389.4 million shares of Serba Dinamik Bhd at RM1.50 per share)

BEST MERGERS & ACQUISITIONS
(Notable Mention – Shandong Hengyuan Petrochemical Company Ltd's acquisition of a 51% stake in Hengyuan Refining Corp Bhd)

ASIAMONEY BROKERS POLL 2017

MALAYSIA – BROKERAGE
– TOP 3 RANKINGS
#3 Best Local Brokerage

MALAYSIA – INDIVIDUALS
– TOP 3 RANKINGS
#2 Best Economist – Lim Chee Sing
#3 Best Analyst (Insurance) – Stephanie Cheah
#3 Best Analyst (Real Estate) – Loong Kok Wen

MALAYSIA – FIRM LEVEL
– TOP 3 RANKINGS
#2 Best Economics Research Team
#3 Best Small Cap Team
#3 Best Diversified Financials Team
#3 Best Insurance Team

SINGAPORE – INDIVIDUALS
– TOP 3 RANKINGS
#1 Best Analyst (Healthcare) – Jarick Seet
#1 Best Analyst (Semiconductors & Semiconductor Equipment) – Jarick Seet
#1 Best Analyst (Small Cap) – Jarick Seet
#1 Best Analyst (Software, Internet & Services) – Jarick Seet
#1 Best Analyst (Technology Hardware & Equipment) – Jarick Seet
#1 Best Analyst (Consumer Staples) – Juliana Cai
#1 Best Analyst (Utilities) – Juliana Cai
#2 Best Analyst (Consumer Discretionary) – Juliana Cai
#2 Best Analyst (Materials) – Juliana Cai

SINGAPORE – FIRM LEVEL
– TOP 3 RANKINGS
#1 Best Healthcare Team
#1 Best Semiconductors & Semiconductor Equipment Team
#1 Best Software, Internet & Services Team
#2 Best Small Cap Team
#2 Best Materials Team
#2 Best Technology Hardware & Equipment Team
#2 Best Utilities Team
#3 Best Consumer Discretionary Team

INDONESIA – FIRM LEVEL
– TOP 3 RANKINGS
#2 Best Small Cap Team

11TH ANNUAL BEST DEAL & SOLUTIONS AWARDS IN SOUTHEAST ASIA

BEST MID-CAP EQUITY DEAL IN SOUTHEAST ASIA (Serba Dinamik Holdings' RM671.7 million IPO)

BEST DOMESTIC M&A DEAL IN SOUTHEAST ASIA (Sarawak Energy's RM8.1 billion Acquisition of 100% shares of Sarawak Hidro)

BEST SUKUK DEAL IN SOUTHEAST ASIA
(Ihsan Sukuk's RM100 million Sustainable and Responsible Investment Sukuk issuance)

MOST INNOVATIVE SUKUK DEAL IN SOUTHEAST ASIA (Ihsan Sukuk's RM100 million Sustainable and Responsible Investment Sukuk issuance)

MOST INNOVATIVE WAKALAH DEAL IN SOUTHEAST ASIA (BEWG (M)'s RM400 million Sukuk Wakalah issuance)

BEST LOCAL CURRENCY BOND DEAL IN SOUTHEAST ASIA (Panin Bank's IDR2.4 trillion sub-bond programme) **(PT RHB SEKURITAS INDONESIA)**

THE ASSET TRIPLE A COUNTRY AWARD 2017

BEST IPO IN MALAYSIA
(Serba Dinamik Holdings' RM671.7 million IPO)

11TH ANNUAL BEST FINANCIAL INSTITUTION AWARDS IN SOUTHEAST ASIA

BEST RETAIL BROKER IN MALAYSIA (RHB INVESTMENT BANK)

BEST SMALL TO MID CAP HOUSE IN MALAYSIA (RHB INVESTMENT BANK)

BEST SMALL TO MID CAP HOUSE IN SINGAPORE (RHB SECURITIES SINGAPORE)

THE ASSET TRIPLE A ASIA INFRASTRUCTURE AWARDS 2017

PROJECT FINANCE DEAL OF THE YEAR
(Lebuhraya Duke Fasa 3 RM3.64 billion Wakala Bi Al-Istithmar Sukuk)

TRANSPORT DEAL OF THE YEAR, MALAYSIA
(Lebuhraya Duke Fasa 3 RM3.64 billion Wakala Bi Al-Istithmar Sukuk)

RENEWABLE ENERGY DEAL OF THE YEAR, MALAYSIA (Sarawak Hidro RM5.54 billion Sukuk Murabaha)

THE ASSET TRIPLE A ISLAMIC FINANCE AWARD 2017

BEST GOVERNMENT-GUARANTEED SUKUK
(DanaInfra Nasional RM4.5 billion Sukuk Murabaha)

MOST INNOVATIVE DEAL OF THE YEAR
(Sarawak Hidro RM5.54 billion Sukuk Murabaha)

BEST PROJECT FINANCE DEAL (Lebuhraya Duke Fasa 3 RM3.64 billion Wakala Bi Al-Istithmar)

BEST DEBUT SUKUK (Lebuhraya Duke Fasa 3 RM3.64 billion Wakala Bi Al-Istithmar)

RAM AWARD OF DISTINCTION 2016

LEAD MANAGER AWARD (SUKUK)
(by programme value – 2nd place)

LEAD MANAGER AWARD X 2016
(by programme value – 2nd place)

LEAD MANAGER AWARD
(by number of issues – Joint 2nd place)

LEAD MANAGER AWARD (SUKUK)
(by number of issues – Joint 3rd place)

CONTENTS

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In the course of preparing the annual audited financial statements of the Group and the Bank, the Directors are collectively responsible in ensuring that the audited financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 2016 in Malaysia.

It is the responsibility of the Directors to ensure that the annual audited financial statements of the Group and the Bank give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017 and of their financial performance and their cash flows for the year then ended.

The audited financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, appropriate accounting policies are applied on a consistent basis and accounting estimates made are reasonable and fair so as to enable the preparation of the financial statements of the Group and the Bank with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Group and the Bank to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

The Statement by Directors pursuant to Section 251(2) of the Companies Act, 2016 is set out in page 214 of the financial statements.

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Bank include merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and options contracts.

The Group is involved in merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and options contracts, investment management services, Islamic investment management services, management of unit trust funds and Islamic unit trust funds, management of private retirement schemes, provision of investment advisory services, research services and provision of nominee services.

There have been no significant changes in these principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Net profit for the financial year attributable to:		
– Equity holder of the Bank	20,071	83,138
– Non-controlling interests	1,132	–
Net profit for the financial year	21,203	83,138

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not propose any final dividend for the financial year ended 31 December 2017.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

ISSUE OF SHARES

There were no issue of shares in the Bank during the financial year.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that proper actions have been taken in relation to the writing off of bad debts and the making of allowance for non-performing debts, and satisfied themselves that all known bad debts have been written off and that adequate allowance had been made for non-performing debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of allowance for non-performing debts in the financial statements of the Group and the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and the Bank, had been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Bank misleading.

VALUATION METHOD

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability of the Group and the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the Group and the Bank has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and the Bank which would render any amount stated in the financial statements misleading or inappropriate.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group or the Bank for the financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 47 to the financial statements.

SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

Subsequent event after the financial year is disclosed in Note 48 to the financial statements.

DIRECTORS

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of this report are:

Tan Sri Azlan bin Mohd Zainol
Chin Yoong Kheong
Tan Sri Ong Leong Huat @ Wong Joo Hwa
Patrick Chin Yoke Chung
Yap Chee Meng
Tan Sri Dr Rebecca Fatima Sta Maria
Datuk Nozirah Bahari
Dato' Darawati Hussain (Appointed on 1 September 2017)

Pursuant to Article 97 of the Bank's Articles of Association, Dato' Darawati Hussain shall retire at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

Pursuant to Article 93 of the Bank's Articles of Association, Tan Sri Ong Leong Huat and Mr. Patrick Chin Yoke Chung shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN SECURITIES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the Director in office at the end of the financial year holding securities of the Bank and its related corporations are as follows:

	Number of ordinary shares			
Ultimate Holding Company RHB Bank Berhad	**As at 1.1.2017**	**Bought**	**Sold**	**As at 31.12.2017**
Tan Sri Ong Leong Huat @ Wong Joo Hwa				
– Indirect*	31,431	–	–	**31,431**
– Indirect#	406,171,518	–	–	**406,171,518**

Notes:

* The interest is held through family members.

\# Deemed interest in RHB Bank pursuant to Section 8 of the Companies Act 2016 by virtue of shares held through OSK Holdings Berhad ('OSK').

Other than the above, none of the other Directors holding office at the end of the financial year had any interest in the securities of the Bank or its related corporations during the financial year.

SUBSIDIARIES

Details of subsidiaries are set out in Note 13 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 31 to the financial statements.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 32 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiaries is a party, being arrangements with the object or objects of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Directors regard RHB Bank Berhad, a listed company incorporated in Malaysia, as the immediate and ultimate holding company.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors.

TAN SRI AZLAN BIN MOHD ZAINOL
CHAIRMAN

CHIN YOONG KHEONG
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Kuala Lumpur
27 February 2018

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
ASSETS					
Cash and short-term funds	2	**2,414,212**	1,064,383	**1,738,086**	478,126
Deposits and placements with banks and other financial institutions	3	**22,106**	359,018	**–**	350,065
Financial assets at fair value through profit or loss ('FVTPL')	4	**823,421**	612,105	**149,139**	54,854
Financial investments available-for-sale ('AFS')	5	**902,249**	1,856,676	**882,153**	1,833,518
Financial investments held-to-maturity ('HTM')	6	**583,232**	398,564	**583,232**	398,564
Loans and advances	7	**1,753,928**	1,792,172	**1,143,551**	1,121,163
Clients' and brokers' balances	8	**1,599,594**	2,090,784	**901,918**	790,399
Other assets	9	**204,723**	274,714	**70,754**	73,847
Derivative assets	10	**344**	7,325	**343**	7,202
Statutory deposits	11	**55,660**	85,144	**51,650**	80,700
Tax recoverable		**49,225**	61,528	**45,470**	58,393
Deferred tax assets	12	**14,839**	19,477	**1,180**	7,919
Investments in subsidiaries	13	**–**	–	**1,478,140**	1,504,725
Investments in associates and joint ventures	14	**54,174**	54,989	**21,057**	21,057
Property, plant and equipment	15	**50,293**	60,402	**24,888**	27,802
Goodwill and other intangible assets	16	**572,604**	1,320,892	**400,095**	1,145,504
TOTAL ASSETS		**9,100,604**	10,058,173	**7,491,656**	7,953,838

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
LIABILITIES AND EQUITY					
Deposits from customers	17	**421,834**	682,035	**437,949**	697,802
Deposits and placements of banks and other financial institutions	18	**3,236,900**	2,693,618	**3,249,424**	2,764,787
Bills and acceptances payable		**6,185**	180,931	**–**	–
Clients' and brokers' balances	19	**1,363,525**	1,740,563	**772,320**	682,073
Other liabilities	20	**502,916**	473,795	**170,994**	169,708
Derivative liabilities	10	**46,013**	37,197	**45,873**	36,425
Puttable financial instruments		**78,825**	68,706	**–**	–
Tax liabilities		**6,136**	11,583	**–**	–
Deferred tax liabilities	12	**2,612**	3,189	**–**	–
Borrowings	21	**712,379**	552,720	**–**	–
Subordinated obligations	22	**404,263**	447,595	**404,263**	447,595
TOTAL LIABILITIES		**6,781,588**	6,891,932	**5,080,823**	4,798,390
Share capital	23	**1,487,773**	818,646	**1,487,773**	818,646
Reserves	24	**822,048**	2,339,393	**923,060**	2,336,802
		2,309,821	3,158,039	**2,410,833**	3,155,448
Non-controlling interests	25	**9,195**	8,202	**–**	–
TOTAL EQUITY		**2,319,016**	3,166,241	**2,410,833**	3,155,448
TOTAL LIABILITIES AND EQUITY		**9,100,604**	10,058,173	**7,491,656**	7,953,838
COMMITMENTS AND CONTINGENCIES	40	**1,655,370**	2,663,862	**862,358**	1,133,863

The accompanying accounting policies and notes form an integral part of these financial statements.

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income	26	**238,134**	299,059	**168,559**	220,760
Interest expense	27	**(141,004)**	(167,387)	**(118,881)**	(151,014)
Net interest income		**97,130**	131,672	**49,678**	69,746
Fee and commission income	28	**816,539**	770,622	**282,026**	268,083
Fee and commission expense	29	**(210,071)**	(166,330)	**–**	–
Other operating income	30	**152,842**	163,329	**126,146**	116,765
		856,440	899,293	**457,850**	454,594
Other operating expenses	31	**(739,214)**	(747,246)	**(328,488)**	(336,128)
Operating profit before allowances		**117,226**	152,047	**129,362**	118,466
(Allowance)/Written back for impairment on loans, advances and other losses	33	**(58,001)**	(61,180)	**693**	(8,275)
Impairment losses written back/(made) on other assets	34	**1,872**	(18,420)	**(18,128)**	(16,420)
		61,097	72,447	**111,927**	93,771
Share of results of associates		**468**	319	**–**	–
Share of results of joint ventures		**391**	724	**–**	–
Profit before taxation		**61,956**	73,490	**111,927**	93,771
Taxation	35	**(40,753)**	(42,156)	**(28,789)**	(30,118)
Net profit for the financial year		**21,203**	31,334	**83,138**	63,653
Attributable to:					
– Equity holder of the Bank		**20,071**	30,087	**83,138**	63,653
– Non-controlling interests		**1,132**	1,247	**–**	–
		21,203	31,334	**83,138**	63,653
Earnings per share (sen)					
– Basic/Diluted	36	**3.21**	3.68	**13.29**	7.78

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Group		Bank	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Net profit for the financial year		**21,203**	31,334	**83,138**	63,653
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss					
– Actuarial gain/(loss) on defined benefit plan of subsidiaries		**888**	(1,702)	**–**	–
Items that will be reclassified subsequently to profit or loss					
– Currency translation differences		**(47,912)**	44,027	**–**	–
– Net investment hedge	10(i),(ii)	**6,597**	(7,036)	**–**	–
– Unrealised net gain/(loss) on revaluation of financial investments AFS		**20,279**	(6,770)	**19,329**	17,968
– Net transfer to income statements on disposal of financial investments AFS		**3,251**	(868)	**4,710**	(868)
Income tax relating to components of other comprehensive income	37	**(5,495)**	(3,742)	**(5,769)**	(4,101)
Other comprehensive (loss)/income, net of tax, for the financial year		**(22,392)**	23,909	**18,270**	12,999
Total comprehensive (loss)/income for the financial year		**(1,189)**	55,243	**101,408**	76,652
Total comprehensive (loss)/income attributable to:					
– Equity holder of the Bank		**(2,194)**	54,118	**101,408**	76,652
– Non-controlling interests		**1,005**	1,125	**–**	–
		(1,189)	55,243	**101,408**	76,652

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Attributable to Equity Holder of the Bank									
Group	Note	Share Capital RM'000	Share Premium RM'000	Statutory Reserves RM'000	AFS Reserves RM'000	Translation Reserves RM'000	Regulatory Reserves RM'000	Retained Profits RM'000	Total RM'000	Non-controlling Interests RM'000	Total RM'000
Balance as at 1 January 2017		818,646	1,515,150	449,721	876	152,870	21,279	199,497	3,158,039	8,202	3,166,241
Net profit for the financial year		–	–	–	–	–	–	20,071	20,071	1,132	21,203
Currency translation differences		–	–	–	(86)	(47,570)	–	–	(47,656)	(256)	(47,912)
Net Investment hedge	10(i),(ii)	–	–	–	–	6,597	–	–	6,597	–	6,597
Financial investments AFS:											
– Unrealised net gain on revaluation		–	–	–	20,156	–	–	–	20,156	123	20,279
– Net transfer to income statements on disposal		–	–	–	3,251	–	–	–	3,251	–	3,251
Actuarial gain on defined benefit plan of subsidiaries		–	–	–	–	–	–	880	880	8	888
Income tax relating to components of other comprehensive income	37	–	–	–	(5,336)	–	–	(157)	(5,493)	(2)	(5,495)
Other comprehensive income/(loss), net of tax, for the financial year		–	–	–	17,985	(40,973)	–	723	(22,265)	(127)	(22,392)
Total comprehensive income/(loss) for the financial year		–	–	–	17,985	(40,973)	–	20,794	(2,194)	1,005	(1,189)
Capital cancellation	47(b)(ii)	(846,023)	–	–	–	–	–	–	(846,023)	–	(846,023)
Transfer to share capital	24(a)	1,515,150	(1,515,150)	–	–	–	–	–	–	–	–
Transfer from statutory reserves	24(b)	–	–	(449,208)	–	–	–	449,208	–	–	–
Transfer from regulatory reserves	24(e)	–	–	–	–	–	(232)	232	–	–	–
Acquisition of additional interest from non-controlling interest		–	–	–	–	–	–	(1)	(1)	(12)	(13)
Total transactions with owner		669,127	(1,515,150)	(449,208)	–	–	(232)	449,439	(846,024)	(12)	(846,036)
Balance as at 31 December 2017		1,487,773	–	513	18,861	111,897	21,047	669,730	2,309,821	9,195	2,319,016

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Attributable to Equity Holder of the Bank									
Group	Note	Share Capital RM'000	Share Premium RM'000	Statutory Reserves RM'000	AFS Reserves RM'000	Translation Reserves RM'000	Regulatory Reserves RM'000	Retained Profits RM'000	Total RM'000	Non-controlling Interests RM'000	Total RM'000
Balance as at 1 January 2016		818,646	1,515,150	433,545	12,258	116,128	22,615	185,917	3,104,259	7,764	3,112,023
Net profit for the financial year		–	–	–	–	–	–	30,087	30,087	1,247	31,334
Currency translation differences		–	–	–	120	43,778	–	–	43,898	129	44,027
Net investment hedge	10(i),(ii)	–	–	–	–	(7,036)	–	–	(7,036)	–	(7,036)
Financial investments AFS:											
– Unrealised net loss on revaluation		–	–	–	(6,533)	–	–	–	(6,533)	(237)	(6,770)
– Net transfer to income statements on disposal		–	–	–	(868)	–	–	–	(868)	–	(868)
Actuarial loss on defined benefit plan of subsidiaries		–	–	–	–	–	–	(1,683)	(1,683)	(19)	(1,702)
Income tax relating to components of other comprehensive (income)/loss	37	–	–	–	(4,101)	–	–	354	(3,747)	5	(3,742)
Other comprehensive (loss)/income, net of tax, for the financial year		–	–	–	(11,382)	36,742	–	(1,329)	24,031	(122)	23,909
Total comprehensive (loss)/income for the financial year		–	–	–	(11,382)	36,742	–	28,758	54,118	1,125	55,243
Transfer to statutory reserves	24(b)	–	–	16,176	–	–	–	(16,176)	–	–	–
Transfer from regulatory reserves	24(e)	–	–	–	–	–	(1,336)	1,336	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	(337)	(337)
Disposal of a subsidiary		–	–	–	–	–	–	–	–	(688)	(688)
Dilution of interest in a subsidiary		–	–	–	–	–	–	(338)	(338)	338	–
Total transactions with owner		–	–	16,176	–	–	(1,336)	(15,178)	(338)	(687)	(1,025)
Balance as at 31 December 2016		818,646	1,515,150	449,721	876	152,870	21,279	199,497	3,158,039	8,202	3,166,241

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		← Non-distributable				→	Distributable	
Bank	**Note**	**Share Capital RM'000**	**Share Premium RM'000**	**Statutory Reserves RM'000**	**AFS Reserves RM'000**	**Regulatory Reserves RM'000**	**Retained Profits RM'000**	**Total RM'000**
Balance as at 1 January 2017		**818,646**	**1,515,150**	**449,208**	**7,850**	**13,008**	**351,586**	**3,155,448**
Net profit for the financial year		**–**	**–**	**–**	**–**	**–**	**83,138**	**83,138**
Financial investments AFS:								
– Unrealised net gain on revaluation		**–**	**–**	**–**	**19,329**	**–**	**–**	**19,329**
– Net transfer to income statements on disposal		**–**	**–**	**–**	**4,710**	**–**	**–**	**4,710**
Income tax relating to components of other comprehensive income	37	**–**	**–**	**–**	**(5,769)**	**–**	**–**	**(5,769)**
Other comprehensive income, net of tax, for the financial year		**–**	**–**	**–**	**18,270**	**–**	**–**	**18,270**
Total comprehensive income for the financial year		**–**	**–**	**–**	**18,270**	**–**	**83,138**	**101,408**
Capital cancellation	47(b)(ii)	**(846,023)**	**–**	**–**	**–**	**–**	**–**	**(846,023)**
Transfer to share capital	24(a)	**1,515,150**	**(1,515,150)**	**–**	**–**	**–**	**–**	**–**
Transfer from statutory reserves	24(b)	**–**	**–**	**(449,208)**	**–**	**–**	**449,208**	**–**
Transfer to regulatory reserves	24(e)	**–**	**–**	**–**	**–**	**714**	**(714)**	**–**
Total transactions with owner		**669,127**	**(1,515,150)**	**(449,208)**	**–**	**714**	**448,494**	**(846,023)**
Balance as at 31 December 2017		**1,487,773**	**–**	**–**	**26,120**	**13,722**	**883,218**	**2,410,833**
Balance as at 1 January 2016		818,646	1,515,150	433,295	(5,149)	13,405	303,449	3,078,796
Net profit for the financial year		–	–	–	–	–	63,653	63,653
Financial investments AFS:								
– Unrealised net gain on revaluation		–	–	–	17,968	–	–	17,968
– Net transfer to income statements on disposal		–	–	–	(868)	–	–	(868)
Income tax relating to components of other comprehensive income	37	–	–	–	(4,101)	–	–	(4,101)
Other comprehensive income, net of tax, for the financial year		–	–	–	12,999	–	–	12,999
Total comprehensive income for the financial year		–	–	–	12,999	–	63,653	76,652
Transfer to statutory reserves	24(b)	–	–	15,913	–	–	(15,913)	–
Transfer from regulatory reserves	24(e)	–	–	–	–	(397)	397	–
Total transactions with owner		–	–	15,913	–	(397)	(15,516)	–
Balance as at 31 December 2016		818,646	1,515,150	449,208	7,850	13,008	351,586	3,155,448

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Group	
	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**61,956**	73,490
Adjustments for:			
Allowance for impairment on loans, advances and other losses		**58,001**	61,180
Property, plant and equipment:			
– Depreciation		**22,308**	23,929
– Gain on disposal		**(32)**	(113)
– Written off		**607**	2,162
Intangible assets:			
– Amortisation		**12,888**	13,179
– Written off		**–**	12
Impairment losses made on financial investments AFS and HTM		**–**	5,920
Interest income from financial assets at FVTPL, financial investments AFS and HTM		**(62,255)**	(110,084)
Net gain from sale/redemption of financial assets at FVTPL, financial investments AFS and HTM		**(49,277)**	(66,246)
Net unrealised loss/(gain) on revaluation of financial instruments at FVTPL and derivatives		**54,720**	(12,154)
Net (gain)/loss from sale of derivatives		**(58,166)**	23,759
Gross dividend income from financial assets at FVTPL and financial investments AFS		**(11,548)**	(10,685)
Share of results of associates		**(468)**	(319)
Share of results of joint ventures		**(391)**	(724)
Gain on redemption of trust fund		**–**	(434)
Subordinated obligations interest expenses		**22,262**	22,233
Unrealised foreign exchange loss		**37,286**	27,294
Impairment losses made on investments in an associate		**–**	12,500
Operating profit before working capital changes		**87,891**	64,899
Decrease/(Increase) in operating assets:			
Deposits and placements with banks and other financial institutions		**336,405**	(345,839)
Financial assets at FVTPL		**(166,715)**	(147,371)
Loans and advances		**(46,906)**	203,272
Clients' and brokers' balances		**466,589**	(445,715)
Other assets		**52,517**	(49,549)
Derivative assets		**4,191**	50,581
Statutory deposits		**29,232**	59,008
		675,313	(675,613)

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 RM'000	Group 2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)			
(Decrease)/Increase in operating liabilities:			
Deposits from customers		**(260,180)**	(399,974)
Deposits and placements of banks and other financial institutions		**2,196,111**	(977,535)
Obligation on securities sold under repurchase agreements		**–**	(170,568)
Obligation on securities borrowed		**–**	(12,202)
Bills and acceptances payable		**(173,877)**	42,137
Clients' and brokers' balances		**(353,695)**	393,639
Derivative liabilities		**31,588**	(102,710)
Other liabilities		**32,826**	33,126
		1,472,773	(1,194,087)
Cash generated from/(used in) operations		**2,235,977**	(1,804,801)
Net tax paid		**(35,111)**	(55,300)
Net cash generated from/(used in) operating activities		**2,200,866**	(1,860,101)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase)/proceeds from sale of financial investments AFS and HTM		**(131,825)**	1,723,483
Interest income received from financial assets at FVTPL, financial investments AFS and HTM		**50,537**	125,442
Dividend income received from financial assets at FVTPL and financial investments AFS		**11,548**	10,685
Property, plant and equipment:			
– Purchase		**(13,991)**	(18,391)
– Proceeds from disposal		**32**	347
Purchase of software license		**(10,971)**	(12,239)
Proceeds from redemption of trust fund		**–**	845
Acquisition of additional interest from non-controlling interest	49	**(13)**	–
Net cash (used in)/generated from investing activities		**(94,683)**	1,830,172
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital repayment to shareholder	47(b)(ii)	**(846,023)**	–
Proceeds from issuance of subordinated obligations	22	**200,000**	–
Redemption of subordinated obligations	22	**(245,000)**	(100,000)
Net drawdown of borrowings		**178,659**	69,960
Dividend paid to non-controlling interests		**–**	(337)
Subordinated obligations interest paid		**(20,594)**	(23,460)
Net cash used in financing activities		**(732,958)**	(53,837)
Net increase/(decrease) in cash and cash equivalents		**1,373,225**	(83,766)
Effects of exchange rate differences		**(23,396)**	16,071
Cash and cash equivalents:			
– At the beginning of the financial year		**1,064,383**	1,132,078
– At the end of the financial year		**2,414,212**	1,064,383
Cash and cash equivalents comprise the following:			
Cash and short-term funds	2	**2,414,212**	1,064,383

The accompanying accounting policies and notes form an integral part of these financial statements.

Change in liabilities arising from financing activities as following:

Group	At the Beginning of the Financial Year RM'000	Net Cash Flows RM'000	Foreign Exchange Movement RM'000 (Non-Cash Changes)	Accrued Interest RM'000 (Non-Cash Changes)	At the End of the Financial Year RM'000
2017					
Borrowings	**552,720**	**178,659**	**(19,000)**	**–**	**712,379**
Subordinated obligations	**447,595**	**(65,594)**	**–**	**22,262**	**404,263**
Total liabilities from financing activities	**1,000,315**	**113,065**	**(19,000)**	**22,262**	**1,116,642**
2016					
Borrowings	457,784	69,960	24,976	–	552,720
Subordinated obligations	548,822	(123,460)	–	22,233	447,595
Total liabilities from financing activities	1,006,606	(53,500)	24,976	22,233	1,000,315

The accompanying accounting policies and notes form an integral part of these financial statements.

		Bank	
	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**111,927**	93,771
Adjustments for:			
(Written back)/Allowance for impairment on loans, advances and other losses		**(693)**	8,275
Property, plant and equipment:			
– Depreciation		**9,171**	10,149
– Gain on disposal		**–**	(49)
– Written off		**204**	2,053
Intangible assets:			
– Amortisation		**7,402**	8,182
– Written off		**–**	12
Impairment losses made on financial investments AFS and HTM		**–**	5,920
Impairment losses made on investments in subsidiaries		**20,000**	10,500
Interest income from financial assets at FVTPL, financial investments AFS and HTM		**(61,967)**	(109,595)
Net gain from sale/redemption of financial assets at FVTPL, financial investments AFS and HTM		**(32,420)**	(18,959)
Net unrealised loss on revaluation of financial assets at FVTPL and derivatives		**38,066**	15,751
Net gain from sale of derivatives		**(34,809)**	(17,836)
Gross dividend income from financial assets at FVTPL and financial investments AFS		**(2,632)**	(3,078)
Gross dividend income from subsidiaries		**(10,000)**	(340)
Gain on redemption of trust fund		**–**	(1,880)
Subordinated obligations interest expenses		**22,262**	22,233
Unrealised foreign exchange loss		**34,651**	29,272
Operating profit before working capital changes		**101,162**	54,381
Decrease/(Increase) in operating assets:			
Deposits and placements with banks and other financial institutions		**350,065**	(350,065)
Financial assets at FVTPL		**(68,945)**	70,392
Loans and advances		**(30,399)**	196,547
Clients' and brokers' balances		**(110,357)**	(217,404)
Derivative assets		**4,070**	50,704
Other assets		**12,170**	47,459
Statutory deposits		**29,050**	63,452
		185,654	(138,915)

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	Bank 2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)			
(Decrease)/Increase in operating liabilities:			
Deposits from customers		**(259,832)**	(397,855)
Deposits and placements of banks and other financial institutions		**2,137,466**	(964,097)
Obligation on securities sold under repurchase agreements		**–**	(170,568)
Obligation on securities borrowed		**–**	(12,202)
Clients' and brokers' balances		**90,247**	96,300
Derivative liabilities		**17,956**	(66,565)
Other liabilities		**1,435**	(170,735)
		1,987,272	(1,685,722)
Cash generated from/(used in) operations		**2,274,088**	(1,770,256)
Net tax paid		**(14,896)**	(42,574)
Net cash generated from/(used in) operating activities		**2,259,192**	(1,812,830)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase)/proceeds from sale of financial investments AFS and HTM		**(126,780)**	1,641,178
Interest income received from financial assets at FVTPL, financial investments AFS and HTM		**50,249**	124,953
Dividend income received from financial assets at FVTPL and financial investments AFS		**2,632**	3,078
Property, plant and equipment:			
– Purchase		**(6,461)**	(8,657)
– Proceeds from disposal		**–**	49
Purchase of software license		**(8,016)**	(9,750)
Dividend income received from subsidiaries		**–**	340
Additional investment in subsidiaries	49	**(12)**	(60,430)
Proceeds from redemption of trust fund		**–**	5,488
Net cash (used in)/generated from investing activities		**(88,388)**	1,696,249
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital repayment to shareholder	47(b)(ii)	**(846,023)**	–
Proceeds from issuance of subordinated obligations	22	**200,000**	–
Redemption of subordinated obligations	22	**(245,000)**	(100,000)
Subordinated obligations interest paid		**(20,594)**	(23,460)
Net cash used in financing activities		**(911,617)**	(123,460)
Net increase/(decrease) in cash and cash equivalents		**1,259,187**	(240,041)
Effects of exchange rate differences		**773**	(429)
Cash and cash equivalents:			
– At the beginning of the financial year		**478,126**	718,596
– At the end of the financial year		**1,738,086**	478,126
Cash and cash equivalents comprise the following:			
Cash and short-term funds	2	**1,738,086**	478,126

The accompanying accounting policies and notes form an integral part of these financial statements.

Change in liabilities arising from financing activities as following:

			Non-Cash Changes		
Bank	**At the Beginning of the Financial Year RM'000**	**Net Cash Flows RM'000**	**Foreign Exchange Movement RM'000**	**Accrued Interest RM'000**	**At the End of the Financial Year RM'000**
2017					
Subordinated obligations	**447,595**	**(65,594)**	**–**	**22,262**	**404,263**
2016					
Subordinated obligations	548,822	(123,460)	–	22,233	447,595

The accompanying accounting policies and notes form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the financial years presented, unless otherwise stated.

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards ('IFRS') and the requirements of the Companies Act 2016, in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments AFS, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group's and the Bank's accounting policies. Although these estimates and judgements are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Section B.

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank are effective

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Group's and the Bank's financial year beginning on or after 1 January 2017 are as follows:

(i) Amendments to MFRS 112 'Income Taxes' – The amendments clarify the requirements for recognising deferred tax assets on unrealised losses where an asset is measured at fair value and that fair value is below the asset's tax base.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

(ii) Amendments to MFRS 107 'Statements of Cash Flows' – The amendments introduce additional disclosure which require an entity to evaluate changes in liabilities arising from financing activities, including cash flows and non-cash changes.

(iii) Annual Improvements to MFRSs 2014 – 2016 Cycle: Amendments to MFRS 12 'Disclosures of Interests in Other Entities' - The amendment clarifies that when an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale in accordance with MFRS 5, the entity is not required to disclose summarised financial information of these interests. Other disclosure requirements in MFRS 12 remain applicable.

The adoption of these annual improvements and amendments to published standards do not give rise to any material financial impact to the Group and the Bank.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective

(i) MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement'

The Group and the Bank have reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard:

A) Classification

(i) Financial instruments classified as fair value through other comprehensive income ('FVOCI')

Financial instruments classified as FVOCI will be measured at fair value, with changes in fair value recognised in FVOCI reserve.

Gains or losses realised on the sale of financial assets at FVOCI will be transferred to income statements on sale, except for equity instruments.

Gains or losses realised on the sales of equity instruments classified as FVOCI will be reclassified below the line from the FVOCI reserve to retained earnings.

The majority of the Group's and the Bank's debt and equity instruments that are currently classified as financial assets AFS will satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets.

Arising from the change in business model, the Group and the Bank also intend to classify certain financial instruments currently classified as financial investments HTM or financial assets at FVTPL to FVOCI going forward. Fair value is measured at reclassification date, and related changes in fair value for HTM will be adjusted to FVOCI reserve while fair value for FVTPL becomes its new carrying amount on 1 January 2018.

In addition, financial instruments AFS that did not pass the 'solely payment for principal and interest' ('SPPI') test prescribed under MFRS 9 will be classified to FVTPL. Related fair value gains from AFS investments will have to be transferred from the AFS reserve to retained earnings on 1 January 2018.

(ii) Financial instruments classified as amortised cost

The majority of the Group's and the Bank's debt instruments currently classified as HTM and measured at amortised cost will meet the conditions for classification at amortised cost under MFRS 9 and continue to be recognised at amortised cost, except for the reclassification of certain debt instruments to FVOCI arising from changes in the Group and Bank's business model mentioned in paragraph (A)(i) above.

(iii) Financial instruments classified as fair value through profit or loss ('FVTPL')

Under MFRS 9, FVTPL is the residual category and financial instruments which do not qualify to be recognised as FVOCI or at amortised cost will be recognised as FVTPL. The majority of instruments currently held at fair value through profit or loss will continue to be measured on the same basis under MFRS 9, except for those financial instruments currently classified under financial investment AFS that do not pass the SPPI test mentioned in paragraph (A)(i) above.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(i) MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement' (continued)

(B) Financial liabilities

There will be no impact on the Group's and the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group and the Bank do not have any such liabilities. The derecognition rules have been transferred from MFRS 139 'Financial Instruments: Recognition and Measurement' and have not been changed.

(C) Hedge accounting

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's and the Bank's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group and the Bank have confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of MFRS 9.

Changes in the fair value of foreign exchange forward contracts attributable to forward points, and in the time value of the option contracts, will in future be deferred in a new costs of hedging reserve within equity. The deferred amounts will be recognised against the related hedged transaction when it occurs.

(D) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments and certain financial guarantee contracts.

(E) Disclosure requirements

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's and the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group and the Bank are now progressing to the implementation of the identified changes and will complete this process prior to the releasing of the interim results for the financial period ending 31 March 2018. The Group and the Bank have therefore not finalised the financial impact of the adoption of MFRS 9. However, based on the preliminary assessments undertaken to-date, the Group and the Bank expect an increase in the allowance for impairment on loans, financing and other losses under the new impairment requirements, which will result in a reduction in opening retained profits as of 1 January 2018.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(ii) MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction Contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The Group and the Bank are in the process of finalising the financial implication arising from the adoption of this new standard, although it is not expected to have any material impact to both the Group and the Bank.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(iii) Annual Improvements to MFRS 2014-2016 Cycle:

- MFRS 1 'First-time Adoption of Malaysian Financial Reporting Standards' effective for annual periods beginning on or after 1 January 2018. The amendment deletes short-term exemptions covering transition provisions of MFRS 7, MFRS 10 and MFRS 119. Those reliefs provided were available for entities with reporting periods that had passed and therefore no longer applicable.
- MFRS 128 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2018. The amendments allow:
  - venture capital organisations, mutual funds, unit trusts and similar entities to elect, on an individual basis, measuring their investments in associates and joint ventures at fair value through profit or loss.
  - an entity that is not an investment entity to retain the fair value measurement applied by its associates or joint ventures (that are investment entities) when applying equity method.
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' effective for annual periods beginning on or after 1 January 2018. This interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

(iv) MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)

(v) IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

The adoption of the above accounting standards, annual improvements, amendments to published standards and interpretations are not expected to give rise to any material financial impact to the Group and the Bank except for the cumulative impact of the adoption of MFRS 9 and MFRS 15 which will be recognised in retained earnings as at 1 January 2018, and enhanced disclosures.

(c) Changes in regulatory requirements

(i) Companies Act 2016

The Companies Act 2016 ('New Act') was enacted to replace the Companies Act 1965 with the objective of creating a regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by Dewan Rakyat and on 29 April 2016 by Dewan Negara and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation (except Section 241 and Division 8 of Part III of the New Act) would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Group and the Bank upon the commencement of the New Act on 31 January 2017 are:

- abolition of the authorised capital; and
- abolition of the concept of nominal value in shares which will also render the share premium account of a company to be no longer relevant. Instead, the amount standing in the share premium account will be recognised as part of the Bank's share capital.

During the financial year, the Group and the Bank have transferred a total of RM1,515,150,000 from its share premium account to the share capital pursuant to the New Act.

(ii) Revised Policy Document on Capital Funds

BNM had on 3 May 2017, issued a Revised Policy Document on Capital Funds and Capital Funds for Islamic Banks ('Revised Policy Document') which is applicable to banking institutions in Malaysia that covers licensed bank, licensed investment bank and licensed Islamic bank. The issuance of this Revised Policy Document has superseded two guidelines issued by BNM previously, namely Capital Funds and Capital Funds for Islamic Banks dated 1 July 2013.

The key changes in the Revised Policy Document are:

- the removal of the requirement on maintenance of a reserve fund; and
- the revised component of capital funds shall exclude share premium and reserve fund.

During the financial year, the Group and the Bank have transferred a total of RM449,208,000 from the statutory reserves to retained profits pursuant to the Revised Policy Document.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Changes in regulatory requirements (continued)

(iii) Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013 issued by BNM

On 21 June 2017, BNM issued a Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 ('FSA') and Islamic Financial Services Act 2013 ('IFSA'). This Policy Document applies to banking institutions in Malaysia that covers licensed commercial bank and licensed Islamic bank.

The Policy Document clarifies that structured products that do not guarantee full repayment of principal amount on demand do not fulfil the definition of deposits under Section 2 of the FSA and IFSA and hence must not be classified as deposits or Islamic deposits.

Effective from June 2017 reporting date onwards, banking institutions shall report structured products (in accordance with the accounting treatment adopted) under either of these items:

- Financial Liabilities Designated at Fair Value through 'Profit or Loss' if applying fair value options; or
- 'Other Liabilities' if accounted for separately from the embedded derivative.

Upon adoption of the Policy Document, the Group and the Bank have restated the deposits from customers and other liabilities balances as at 31 December 2016 by RM9,809,000.

(iv) Financial Reporting

On 2 February 2018, BNM issued the revised policy document on Financial Reporting which prescribes the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. The adoption of this requirement is expected to have minimal impact to the capital ratios of the Group and of the Bank as the Bank is currently maintaining, in aggregate, collective impairment provisions and regulatory reserves of no less 1.2% of total outstanding loans/financing, net of individual impairment provisions.

2) BASIS OF CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

(i) Acquisition accounting

The Group applies the acquisition method to account for business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) BASIS OF CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

(i) Acquisition accounting (continued)

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Group or the Bank. Non-controlling interest is measured either at fair value or proportionate share of the acquiree's identifiable net assets at the acquisition date, determined on a case by case basis. At the end of a reporting period, non-controlling interest consists of the amount calculated on the date of combinations and its share of changes in the subsidiary's equity since the date of combination.

Acquisition-related costs are expensed as incurred.

In a business combination achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the gain is recognised in income statements. Refer to accounting policy Section A(6) on goodwill.

(ii) Predecessor accounting

The Group applies predecessor accounting to account for business combinations under common control. Under the predecessor accounting, assets and liabilities acquired are not restated to their respective fair values but at the carrying amounts from the consolidated financial statements of the ultimate holding company of the Group and adjusted to ensure uniform accounting policies of the Group. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to retained earnings. No additional goodwill is recognised.

The acquired entity's results, assets and liabilities are consolidated as if both the acquirer and acquiree had always been combined. Consequently, the consolidated financial statements reflect both entities' full years results. The corresponding amounts for the previous year are restated to reflect the combined results of both entities.

All earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attributed to non-controlling interest for prior years is not restated.

All material inter-company and intra-group transactions and balances are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the equity holder in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised in equity. Gains or losses on disposals to non-controlling interests are also recognised in equity attributable to equity holder of the Group.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) BASIS OF CONSOLIDATION (CONTINUED)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

(d) Joint ventures

A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. The Group's interest in a joint venture is accounted for in the financial statements by the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses in income statements and the Group's share of movements in other comprehensive income in statement of comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to equity account its joint venture because of loss of joint control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Where necessary, in applying the equity method, adjustments are made to the financial statements of joint ventures to ensure consistency of accounting policies with those of the Group.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) BASIS OF CONSOLIDATION (CONTINUED)

(e) Associates

Associates are those corporations or other entities in which the Group exercises significant influence, but which it does not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policies through representation on the Board but not power to exercise control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. Equity accounting involves recognising the Group's share of its associates' post-acquisition profits or losses in income statements, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of investment and include goodwill on acquisition, less accumulated impairment loss.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. An impairment loss is recognised for the amount by which the carrying amount of the associate exceeds its amount.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its shares of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method of accounting, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

3) INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In the Bank's separate financial statements, investment in subsidiaries, associates and joint ventures are stated at cost less accumulated impairment losses. At the end of each reporting period, the Group and the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Refer to accounting policy Section A(18) on impairment of non-financial assets.

The amounts due from subsidiaries of which the Bank does not expect repayment in the foreseeable future are considered as part of Bank's investment in the subsidiaries.

On disposal of investment in subsidiaries, associates and joint ventures, the difference between disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) FINANCIAL ASSETS

(a) Classification

The Group and the Bank classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were required. Management determines the classification at initial recognition and in the case of financial investments HTM, re-evaluates this designation at the end of each reporting period.

(i) Financial assets at FVTPL

Financial assets at FVTPL are financial assets held-for-trading ('HFT'). A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also categorised as HFT unless they are designated as hedges (Refer to accounting policy Section A(5)).

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) Financial investments AFS

Financial investments AFS are non-derivatives that are either designated in this category or not classified in any of the other categories.

(iv) Financial investments HTM

Financial investments HTM are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's and the Bank's management have the positive intention and ability to hold to maturity. If the Group and the Bank were to sell other than an insignificant amount of financial investments HTM, the whole category would be tainted and reclassified as financial investments AFS.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date on which the Group and the Bank commit to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statements.

(c) Subsequent measurement – gains and losses

Financial investments AFS and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial investments HTM are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in other operating income in income statements in the period in which the changes arise.

Changes in the fair value of financial investments AFS are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Section A(17)) and foreign exchange gains and losses on monetary assets (refer to accounting policy Section A(21)). The exchange differences on monetary assets are recognised in income statements, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) FINANCIAL ASSETS (CONTINUED)

(c) Subsequent measurement – gains and losses (continued)

Interest and dividend income on financial investments AFS are recognised separately in income statements. Interest on financial investments AFS calculated using the effective interest method is recognised in income statements. Dividend income on financial investments AFS is recognised in other operating income in income statements when the Group's and the Bank's right to receive payments is established.

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and the Bank have transferred substantially all risks and rewards of ownership.

Loans and receivables that are factored out to banks and other financial institutions with recourse to the Group and the Bank are not de-recognised until the recourse period has expired and the risks and rewards of the loans and receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

When financial investments AFS are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to income statements.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

5) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Cash collateral held in relation to derivative transactions are carried at amortised cost.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group and the Bank recognise profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Section A(4). The Group and the Bank designate certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge), or (3) net investment hedge. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The Group and the Bank document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group and the Bank also document its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in income statements, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statements over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in income statements.

Amounts accumulated in equity are recycled to the income statements in the periods in which the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statements. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statements.

(c) Net investment hedge

Net investment hedge is a hedge against the exposure to exchange rate fluctuations on the net assets of the Group's foreign operations/subsidiaries. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in the foreign currency translation reserve in equity via other comprehensive income while any gain or loss relating to the ineffective portion is recognised directly in the profit or loss. On disposal of the foreign operations/subsidiaries, the cumulative value of any such gains or losses recognised in equity is transferred to the profit or loss.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statements.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6) GOODWILL

Goodwill arising on the acquisition of subsidiaries represents the excess of consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree.

Goodwill is stated at cost less accumulated impairment loss and is tested at least annually for impairment. Impairment loss on goodwill (inclusive of impairment losses recognised in a previous interim period) is not reversed. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold. Refer to accounting policy Section A(18) on impairment of non-financial assets.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose, identified according to operating segment.

7) INTANGIBLE ASSETS

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group and the Bank have a definite useful life. At each date of the consolidated statement of financial positions, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired. Refer to accounting policy Section A(18) on impairment of non-financial assets.

(a) Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 3 to 10 years.

(b) Other intangible assets

Other intangible assets consist of customer relationship, brands, trading rights and membership. Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights and when the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, it is recognised where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

Other intangible assets with definite life are stated at cost less amortisation and allowance for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over the following useful lives:

Customer relationship	10 years
Brand	3 – 10 years

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in income statements during the financial period in which they are incurred.

Renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovations	10%
Office equipment and furniture	20%
Computer equipment	10% to 33 1/3%
Motor vehicles	20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in other operating income in income statements.

At the end of the reporting period, the Group and the Bank assess whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Section A(18) on impairment of non-financial assets.

9) FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities as HFT and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as HFT if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as HFT unless they are designated as hedges. Refer to accounting policy Section A(5).

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are remeasured at amortised cost using the effective interest rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, bills and acceptances payable, clients' and brokers' balances and other financial liabilities.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9) FINANCIAL LIABILITIES (CONTINUED)

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the income statements over the period of the borrowings using the effective interest method.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowings measured at amortised cost are long term and short term borrowings from financial institutions and subordinated obligations.

10) LEASES – WHERE THE GROUP IS LESSEE

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, a series of payments, the right to use an asset for an agreed period of time.

(a) Operating lease

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income statements on a straight-line basis over the period of the lease.

The upfront payments made for leasehold land represent prepaid lease rentals and are amortised on a straight-line basis over the lease term.

Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

(b) Finance lease

Leases of assets where the Group and the Bank assume substantially all the risks and rewards of ownership of the assets are classified as finance leases. The assets are capitalised under property, plant and equipment and subject to depreciation consistent with that of depreciable assets which are owned. The assets and the corresponding lease obligations are recorded at the lower of present value of the minimum lease payments and the fair value of the leased assets at the beginning of the lease term. Each lease payment is allocated between the liability and finance charges using effective yield basis. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance charges is charged to income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11) PROVISIONS

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Group and the Bank expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

12) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Group or the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of issuance is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Group and the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group and the Bank do not recognise contingent assets and liabilities other than those arising from business combination, but disclose their existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

Subsequent to the initial recognition, the Group and the Bank measure the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provision of MFRS 137 'Provision, Contingent Liabilities and Contingent Assets' and the amount initially recognised as profit or loss, less, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 'Revenue'.

14) SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

15) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances and short term deposits maturing within one month that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

16) REVENUE RECOGNITION

(a) Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

When a loan and receivable is impaired, the Group and the Bank reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

(b) Loan arrangement fees, commissions and placement fees are recognised as income when all conditions precedent are fulfilled.

(c) Guarantee fees are recognised as income upon issuance of guarantees.

(d) Commitment fees are recognised as income based on time apportionment.

(e) Brokerage commission is recognised when services are rendered. Interest income from margin financing, clients' overdue outstanding purposes and contra losses are recognised using effective interest method.

(f) Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

(g) Management fees of the unit trust management company are recognised on accrual basis.

(h) Dividends from all investments are recognised when the shareholders' right to receive payment is established. This applies even if they are paid out of the pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17) IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

The Group and the Bank assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor; or
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- The Group or the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in income statements. If 'loans and receivables' or a 'HTM investment' have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in income statements.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

For loans and advances, the Group and the Bank first assess whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assess them for impairment.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

The Group and the Bank address impairment of loans and advances via either individually assessed allowance or collectively assessed allowance.

(i) Individual impairment allowance

The Group and the Bank determines the allowance appropriate for each individual significant loans and advances on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the loans and advances and are measured as the difference between the carrying amount of the loans and advances and the present value of the expected future cash flows discounted at the original effective interest rate of the loans and advances. All other loans and advances that have been individually evaluated, but not considered to be individually impaired, are assessed collectively for impairment.

(ii) Collective impairment allowance

Loans which are not individually significant and loans that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These loans are grouped within similar credit risk characteristics for collective assessment, whereby data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated based on the historical loss experience of the Group and the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect current conditions on which the historical loss experience is based on and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(iii) Regulatory reserve

The Group has adopted the requirement to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans, net of individual impairment allowances. The regulatory reserve is recognised in equity.

(b) Assets classified as AFS

The Group and the Bank assess at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group and the Bank use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statements, the impairment loss is reversed through income statements.

In the case of equity securities classified as AFS, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in income statements. The amount of cumulative loss that is reclassified to income statements is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statements. Impairment losses recognised in income statements on equity instruments classified as AFS are not reversed through the income statements.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows or CGU. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

The impairment loss is charged to income statements. Impairment losses on goodwill are not reversed. In respect of other non-financial assets, any subsequent increase in recoverable amount is recognised in income statements.

19) EMPLOYEE BENEFITS

(a) Short-term employee benefits

The Group and the Bank recognise a liability and an expense for bonuses. The Group and the Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Bank.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions to the national pension scheme, the Employees' Provident Fund. The Group's and the Bank's contributions to defined contribution plans are charged to the income statements in the period to which they relate. Once the contributions have been paid, the Group and the Bank have no further legal or constructive obligations.

(c) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

20) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statements, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Bank operate and include all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries, associates and joint ventures and arising from distributions of retained profits to companies in the Group.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20) CURRENT AND DEFERRED INCOME TAXES (CONTINUED)

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investment in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statements of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

21) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statements, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in income statements within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as AFS are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statements, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statements as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as AFS, are included in other comprehensive income.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21) CURRENCY CONVERSION AND TRANSLATION (CONTINUED)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statements of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions); and

(iii) All resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, a proportionate share of such exchange differences is recognised in the income statements as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

22) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to and assessing performance of the operating segments of an entity. The Group has determined RHB Bank Group's Management Committee as its chief operating decision-maker.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are outlined below:

1) ALLOWANCE FOR IMPAIRMENT OF FINANCIAL ASSETS

In determining impairment of financial assets, management considers objective evidence of impairment and exercises judgement in estimating cash flow and collateral value.

The Group and the Bank make allowance for losses based on assessment of recoverability. Management's judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the Group's and the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the impairment made.

2) GOODWILL IMPAIRMENT

Goodwill is tested at least annually for impairment. Testing of goodwill for impairment involves a significant amount of estimation. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. Estimating the value in use require the Group and the Bank to make an estimate of the expected future cash flow from the CGUs. Determining both the expected pre-tax cash flows and the risk adjusted discount rate appropriate to the CGUs also require the exercise of judgement. The variables are subject to fluctuations in external market rates and economic conditions beyond management control and are subject to uncertainty and require the exercise of significant judgement. The detailed disclosures on the assessment of impairment of goodwill are disclosed in Note 16 to the financial statements.

3) IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Bank assesses whether there is any indication that investments in subsidiaries are impaired at the end of each reporting period. Impairment is measured by comparing the carrying amount of the investments with its recoverable amount.

Management has assessed the recoverable amount of the investments based on net assets of the subsidiaries and value in use calculations which approximates fair value as at year end. The impairment charge has been recognised due to the carrying amount of the investments in the separate financial statements exceeding the carrying amount of the subsidiaries' net assets in their financial statements and recoverable amounts. The impairment charge during the financial year is shown in Note 34 to the financial statements.

1 GENERAL INFORMATION

RHB Investment Bank Berhad ('the Bank'), is a limited liability bank incorporated and domiciled in Malaysia.

The principal activities of the Bank include merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and options contracts.

The Group is involved in merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and options contracts, investment management services, Islamic investment management services, management of unit trust funds and Islamic unit trust funds, management of private retirement schemes, provision of investment advisory services, research services and provision of nominee services.

There have been no significant changes in these principal activities during the financial year.

The address of the registered office of the Bank is Level 9, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur.

2 CASH AND SHORT TERM FUNDS

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash and balances with banks and other financial institutions	**864,015**	745,283	**293,303**	252,744
Money at call and deposit placements maturing within one month	**1,550,197**	319,100	**1,444,783**	225,382
	2,414,212	1,064,383	**1,738,086**	478,126

Included in the Group's and the Bank's cash and short term funds are accounts held in trust for remisiers amounting to RM62,902,000 (2016: RM60,060,000).

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Licensed banks	**22,106**	359,018	**–**	350,065

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')

	Note	Group 2017 RM'000	Group 2016 RM'000	Bank 2017 RM'000	Bank 2016 RM'000
Designated as FVTPL	(a)	**424,642**	202,854	**–**	–
Held-for-trading	(b)	**398,779**	409,251	**149,139**	54,854
		823,421	612,105	**149,139**	54,854

(a) Financial assets designated as FVTPL are as follows:

	Group 2017 RM'000	Group 2016 RM'000	Bank 2017 RM'000	Bank 2016 RM'000
At fair value				
Quoted Securities:				
In Malaysia				
Unit trusts	**64,783**	51,343	**–**	–
Unquoted Securities:				
Outside Malaysia				
Private equity funds	**359,859**	151,511	**–**	–
Total financial assets designated as FVTPL	**424,642**	202,854	**–**	–

(b) Financial assets held-for-trading are as follows:

	Group 2017 RM'000	Group 2016 RM'000	Bank 2017 RM'000	Bank 2016 RM'000
At fair value				
Quoted Securities:				
In Malaysia				
Shares and exchange traded funds	**149,116**	37,433	**149,116**	37,433
Outside Malaysia				
Shares	**249,640**	354,397	**–**	–
Unquoted Securities:				
In Malaysia				
Corporate bonds/Sukuk	**23**	17,420	**23**	17,420
Outside Malaysia				
Corporate bonds	**–**	1	**–**	1
Total financial assets held-for-trading	**398,779**	409,251	**149,139**	54,854

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL') (CONTINUED)

In 2008, the Bank reclassified a portion of their financial assets at FVTPL into financial investments AFS. The reclassification have been accounted for in accordance with BNM's circular on 'Reclassification of Securities under Specific Circumstances' dated 17 October 2008, which is effective from 1 July 2008 until 31 December 2009.

The effects of the reclassification on the income statements for the period from the date of reclassification to 31 December 2017 were as follows:

	Carrying amount		Fair value	
Group and Bank	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Reclassified from financial assets FVTPL to financial investments AFS:				
– Corporate bonds	**15,393**	15,535	**15,416**	15,478

	Group and Bank	
	2017 RM'000	**2016 RM'000**
Fair value gain/(loss) that would have been recognised if the financial assets at FVTPL had not been reclassified	**23**	(57)

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ('AFS')

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At fair value				
Money Market Instruments:				
Malaysian Government Securities	**139,092**	217,072	**139,092**	217,072
Malaysian Government Investment Issues	**140,795**	148,794	**140,795**	148,794
Khazanah bonds	**41,382**	39,468	**41,382**	39,468
Sukuk Perumahan Kerajaan ('SPK')	**69,475**	68,919	**69,475**	68,919
Quoted Securities:				
In Malaysia				
Shares	**39**	41	**–**	8
Unit trusts	**14,934**	14,263	**–**	–
Outside Malaysia				
Shares	**2,325**	1,910	**–**	–
Unit trusts	**41,530**	43,539	**41,530**	39,392
Unquoted Securities:				
In Malaysia				
Corporate bonds/Sukuk	**399,470**	927,587	**399,470**	927,587
Shares	**34,284**	32,340	**31,775**	29,831
Loan stocks	**–**	15,612	**–**	15,612
Prasarana bonds	**25,388**	25,242	**25,388**	25,242
Outside Malaysia				
Corporate bond	**–**	413,303	**–**	413,303
Shares	**289**	296	**–**	–
	909,003	1,948,386	**888,907**	1,925,228
Accumulated impairment losses	**(6,754)**	(91,710)	**(6,754)**	(91,710)
	902,249	1,856,676	**882,153**	1,833,518

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ('AFS') (CONTINUED)

Movement in allowance for impairment losses:

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year		**91,710**	149,160	**91,710**	149,160
Allowance made	34	**–**	8,726	**–**	8,726
Amount written back	34	**–**	(1,007)	**–**	(1,007)
Allowance written off		**(57,321)**	(65,169)	**(57,321)**	(65,169)
Business transferred to holding company		**(27,635)**	–	**(27,635)**	–
Balance as at the end of the financial year		**6,754**	91,710	**6,754**	91,710

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY ('HTM')

	Group and Bank	
	2017 RM'000	2016 RM'000
At amortised cost		
Money Market Instruments:		
Malaysian Government Securities	**–**	20,295
Malaysian Government Investment Issues	**457,199**	245,678
Khazanah bonds	**11,562**	11,119
Wakala Global Sukuk	**8,834**	9,810
Unquoted Securities:		
In Malaysia		
Corporate bonds/Sukuk	**108,176**	142,673
Credit link notes	**–**	30,047
Bonds	**23**	23
Loan stocks	**26,714**	27,504
Prasarana bonds	**50,129**	20,231
	662,637	507,380
Accumulated impairment losses	**(79,405)**	(108,816)
	583,232	398,564

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY ('HTM') (CONTINUED)

Movement in allowance for impairment losses:

		Group and Bank	
	Note	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year		**108,816**	128,555
Allowance made	34	**–**	1,228
Amount written back	34	**(1,872)**	(3,027)
Amount written off		**(23,099)**	(17,940)
Business transferred to holding company		**(4,440)**	–
Balance as at the end of the financial year		**79,405**	108,816

7 LOANS AND ADVANCES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At amortised cost				
Term loans:				
– Syndicated term loans	**–**	27,359	**–**	27,359
– Other term loans	**50,472**	131,448	**2**	58,859
Share margin financing	**1,789,843**	1,687,759	**1,143,036**	999,748
Staff loans	**519**	723	**519**	723
Revolving credit	**–**	–	**–**	44,892
Gross loans and advances	**1,840,834**	1,847,289	**1,143,557**	1,131,581
Allowance for impaired loans and advances:				
– Individual impairment allowance	**(86,905)**	(54,887)	**(5)**	(9,966)
– Collective impairment allowance	**(1)**	(230)	**(1)**	(452)
Net loans and advances	**1,753,928**	1,792,172	**1,143,551**	1,121,163

i) By type of customer

	Group 2017 RM'000	Group 2016 RM'000	Bank 2017 RM'000	Bank 2016 RM'000
Domestic business enterprises:				
– Small medium enterprises	**197,973**	211,413	**197,973**	211,413
– Others	**118,659**	175,238	**118,659**	175,238
Individuals	**824,581**	667,490	**824,581**	667,490
Foreign entities	**699,621**	793,148	**2,344**	77,440
	1,840,834	1,847,289	**1,143,557**	1,131,581

7 LOANS AND ADVANCES (CONTINUED)

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
ii) By geographical distribution				
In Malaysia	**1,143,557**	1,086,689	**1,143,557**	1,131,581
Outside Malaysia:				
– Singapore operations	**146,645**	83,987	**–**	–
– Hong Kong operations	**170,649**	368,797	**–**	–
– Indonesia operations	**111,148**	52,511	**–**	–
– Thailand operations	**268,835**	255,305	**–**	–
	1,840,834	1,847,289	**1,143,557**	1,131,581
iii) By interest rate sensitivity				
Fixed rate:				
– Other fixed rate loans	**1,401,348**	1,192,689	**1,143,555**	1,056,191
Variable rate:				
– Cost plus	**–**	27,359	**–**	72,251
– BLR/BFR plus	**439,486**	627,241	**2**	3,139
	1,840,834	1,847,289	**1,143,557**	1,131,581
iv) By purpose				
Purchase of securities	**1,840,313**	1,779,291	**1,143,036**	1,018,691
Purchase of transport vehicles	**33**	53	**33**	53
Purchase of landed property:				
– Residential	**488**	672	**488**	672
– Non-residential	**–**	39,914	**–**	39,914
Working capital	**–**	–	**–**	44,892
Other purposes	**–**	27,359	**–**	27,359
	1,840,834	1,847,289	**1,143,557**	1,131,581
v) By remaining contractual maturities				
Maturity within one year	**1,840,314**	1,803,401	**1,143,037**	1,087,693
One year to three years	**117**	281	**117**	281
Three years to five years	**17**	43,177	**17**	43,177
Over five years	**386**	430	**386**	430
	1,840,834	1,847,289	**1,143,557**	1,131,581

7 LOANS AND ADVANCES (CONTINUED)

	Note	Group 2017 RM'000	Group 2016 RM'000	Bank 2017 RM'000	Bank 2016 RM'000
vi) Impaired loans and advances					
a) Movement in impaired loans and advances					
Balance as at the beginning of the financial year		**129,166**	118,142	**55,803**	115,552
Classified as impaired		**48,817**	179,672	**15,518**	111,203
Amount recovered		**(60,262)**	(168,952)	**(54,821)**	(166,029)
Amount written off		**(347)**	(5,252)	**–**	(4,923)
Business transferred to holding company		**(16,046)**	–	**(16,046)**	–
Exchange differences		**(7,651)**	5,556	**–**	–
Balance as at the end of the financial year		**93,677**	129,166	**454**	55,803
b) By purpose					
Purchase of securities		**93,677**	89,252	**454**	15,889
Purchase of landed property:					
– Non-residential		**–**	39,914	**–**	39,914
		93,677	129,166	**454**	55,803
c) By geographical distribution					
In Malaysia		**454**	55,803	**454**	55,803
Outside Malaysia:					
– Singapore		**14,994**	356	**–**	–
– Hong Kong		**69,799**	73,007	**–**	–
– Thailand		**8,430**	–	**–**	–
		93,677	129,166	**454**	55,803
d) Movement in allowance for impaired loans and advances					
Individual impairment allowance					
Balance as at the beginning of the financial year		**54,887**	12,301	**9,966**	9,711
Net allowance made	33	**48,949**	47,904	**5**	5,178
Amount written off		**(347)**	(5,252)	**–**	(4,923)
Business transferred to holding company		**(9,966)**	–	**(9,966)**	–
Exchange differences		**(6,618)**	(66)	**–**	–
Balance as at the end of the financial year		**86,905**	54,887	**5**	9,966
Collective impairment allowance					
Balance as at the beginning of the financial year		**230**	2,250	**452**	2,474
Net allowance written back	33	**(229)**	(2,020)	**(451)**	(2,022)
Balance as at the end of the financial year		**1**	230	**1**	452

8 CLIENTS' AND BROKERS' BALANCES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Amounts owing by clients	**1,061,043**	1,055,739	**633,810**	552,160
Allowance for impaired balances:				
– Individual impairment allowance	**(28,551)**	(16,568)	**(6,789)**	(7,924)
– Collective impairment allowance	**(3,331)**	(16,608)	**(20)**	(47)
	1,029,161	1,022,563	**627,001**	544,189
Amounts owing by brokers	**230,439**	679,891	**185,971**	107,672
Amounts owing by clearing houses and stock exchanges	**339,994**	388,330	**88,946**	138,538
Balance as at the end of the financial year	**1,599,594**	2,090,784	**901,918**	790,399
Individual impairment allowance				
Balance as at the beginning of the financial year	**16,568**	17,777	**7,924**	7,629
Net allowance made/(written back)	**6,911**	(301)	**(1,135)**	1,368
Transfer from collective allowance	**12,634**	–	**–**	–
Amount written off	**(7,323)**	(1,073)	**–**	(1,073)
Exchange differences	**(239)**	165	**–**	–
Balance as at the end of the financial year	**28,551**	16,568	**6,789**	7,924
Collective impairment allowance				
Balance as at the beginning of the financial year	**16,608**	6,654	**47**	2,409
Net allowance (written back)/made	**(219)**	9,445	**(27)**	(2,362)
Transfer to individual allowance	**(12,634)**	–	**–**	–
Exchange differences	**(424)**	509	**–**	–
Balance as at the end of the financial year	**3,331**	16,608	**20**	47

9 OTHER ASSETS

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Other receivables	(i)	**75,660**	67,668	**44,397**	37,950
Unit trust fee receivables		**18,238**	14,804	**–**	–
Management fee receivables		**8,580**	10,831	**–**	–
Cash collateral in relation to derivative transactions		**–**	8,532	**–**	8,532
Deposits		**36,183**	41,943	**7,412**	6,511
Prepayments		**21,681**	19,302	**6,401**	4,812
Amount receivable for release of units from funds		**43,592**	99,785	**–**	–
Transferable memberships		**340**	349	**262**	262
Amount due from holding company	(ii)	**12**	11,075	**–**	11,075
Amount due from subsidiaries	(ii)	**–**	–	**12,257**	4,636
Amount due from related companies	(ii)	**437**	425	**25**	69
		204,723	274,714	**70,754**	73,847

(i) Other receivables of the Group and the Bank are stated net of allowance for impairment losses of RM16,654,000 (2016: RM17,029,000) and RM15,904,000 (2016: RM15,745,000) respectively. During the current financial year, there was written off against allowance for impairment losses of the Group and the Bank of RM1,671,000 (2016: RM7,827,000) and NIL (2016: RM5,644,000) respectively.

(ii) Amounts due from holding company/subsidiaries/related companies are unsecured, interest free and repayable on demand.

10 DERIVATIVE ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments are used by the Group and the Bank for economic hedges and for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Group's and the Bank's accounting policies.

The table below shows the Group's and the Bank's derivative financial instruments as at the date of statements of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative asset) and gross negative (derivative liability) fair values at the date of statements of financial position are analysed below.

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Derivative assets:				
– Trading derivatives	**344**	7,325	**343**	7,202
Derivative liabilities:				
– Trading derivatives	**(46,013)**	(37,197)	**(45,873)**	(36,425)
	(45,669)	(29,872)	**(45,530)**	(29,223)

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Group		
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2017			
Trading derivatives			
Foreign exchange related contracts:			
– Forwards/Swaps/Spot	41,145	88	43
Equity related contracts:			
– Options	7,262	–	–
Interest rate related contracts:			
– Swaps	90,000	256	23
Structured warrants	233,286	–	45,947
	371,693	344	46,013

	Bank		
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2017			
Trading derivatives			
Foreign exchange related contracts:			
– Forwards/Swaps/Spot	35,441	87	36
Equity related contracts:			
– Options	7,262	–	–
Interest rate related contracts:			
– Swaps	90,000	256	23
Structured warrants	229,726	–	45,814
	362,429	343	45,873

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Group		
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2016			
Trading derivatives			
Foreign exchange related contracts:			
– Forwards/Swaps/Spot	209,077	2,876	22,184
– Options	280,096	3,697	2,910
	489,173		
Equity related contracts:			
– Options	14,368	123	23
Interest rate related contracts:			
– Swaps	230,000	629	263
Structured warrants	107,939	–	11,817
	841,480	7,325	37,197

	Bank		
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2016			
Trading derivatives			
Foreign exchange related contracts:			
– Forwards/Swaps/Spot	209,077	2,876	22,184
– Options	280,096	3,697	2,910
	489,173		
Equity related contracts:			
– Options	9,771	–	23
Interest rate related contracts:			
– Swaps	230,000	629	263
Structured warrants	94,331	–	11,045
	823,275	7,202	36,425

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

(i) Fair value hedges

Fair value hedges are used by the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in foreign exchange rates. The Bank uses non-derivatives financial liability to hedge against foreign exchange risk of investment in a subsidiary. For designated and qualifying fair value hedges, the changes in fair value of hedging instrument and hedged item in relation to the hedged risk are recognised in the income statements.

Included in the other operating income is the net gains and losses arising from fair value hedges during the financial year as follows:

	Bank	
	2017 RM'000	**2016 RM'000**
Gain/(Loss) on hedging instruments *	**6,597**	(7,036)
(Loss)/Gain on the hedged items attributable to the hedged risk	**(6,597)**	7,036
	–	–

* Hedging instrument includes non-derivative financial liabilities used to hedge foreign exchange risk from investment in a subsidiary.

(ii) Net investment hedge

The Group's statements of financial position is affected by gains and losses as a result of the revaluation of net assets of its subsidiary companies denominated in currencies other than its functional currency. The Group hedges its exposures to foreign exchange risk via the designation of foreign currency denominated interbank borrowings and the fair value as at 31 December 2017 amounting to RM278,356,000 (2016: RM278,678,000). The hedging relationship was fully effective for the total hedging period and as of the reporting date. No amounts were withdrawn from equity during the financial year as there was no disposal of foreign operations.

11 STATUTORY DEPOSITS

		Group		Bank	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Statutory deposits with BNM	(i)	**51,650**	80,700	**51,650**	80,700
Statutory deposits with National Bank of Cambodia ('NBC')	(ii)	**4,010**	4,444	**–**	–
		55,660	85,144	**51,650**	80,700

(i) Non-interest bearing statutory deposits are maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2009, the amount of which is determined as a set percentage of total eligible liabilities.

(ii) Non-interest bearing statutory deposits maintained with NBC as capital guarantee deposits in compliance with Securities and Exchange Commission of Cambodia ('SECC')'s Prakas No. 009 on the Licensing of Securities Firms and Securities Representatives for operating as a securities underwriter in Cambodia.

12 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after appropriate set off, are shown in the statements of financial position:

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Deferred tax assets	**14,839**	19,477	**1,180**	7,919
Deferred tax liabilities	**(2,612)**	(3,189)	**–**	–
	12,227	16,288	**1,180**	7,919
Deferred tax assets:				
– Settled more than 12 months	**8,429**	8,043	**–**	–
– Settled within 12 months	**21,893**	22,931	**13,542**	15,592
Deferred tax liabilities:				
– Settled more than 12 months	**(12,205)**	(7,814)	**(8,951)**	(4,476)
– Settled within 12 months	**(5,890)**	(6,872)	**(3,411)**	(3,197)
	12,227	16,288	**1,180**	7,919

12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following:

Group	Note	Property, plant and equipment and other intangible assets RM'000	Financial investments AFS RM'000	Tax losses RM'000	Other liabilities RM'000	Other temporary differences RM'000	Total RM'000
2017							
Balance as at the beginning of the financial year		**(9,380)**	**(2,839)**	**6,728**	**19,367**	**2,412**	**16,288**
Transfer from/(to) income statements	35	**1,283**	**–**	**(1,840)**	**(3,369)**	**5,970**	**2,044**
Transfer to equity	37	**–**	**(5,336)**	**–**	**(159)**	**–**	**(5,495)**
Exchange difference		**40**	**–**	**(78)**	**(138)**	**(434)**	**(610)**
Balance as at the end of the financial year		**(8,057)**	**(8,175)**	**4,810**	**15,701**	**7,948**	**12,227**
2016							
Balance as at the beginning of the financial year		(9,886)	731	3,439	30,072	2,517	26,873
Transfer from/(to) income statements	35	511	531	3,008	(10,662)	(105)	(6,717)
Transfer (to)/from equity	37	–	(4,101)	–	359	–	(3,742)
Exchange differences		(5)	–	281	(402)	–	(126)
Balance as at the end of the financial year		(9,380)	(2,839)	6,728	19,367	2,412	16,288

12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following: (continued)

Bank	Note	Property, plant and equipment and other intangible assets RM'000	Financial investments AFS RM'000	Other liabilities RM'000	Total RM'000
2017					
Balance as at the beginning of the financial year		**(5,267)**	**(2,405)**	**15,591**	**7,919**
Transfer from/(to) income statements	35	**1,079**	**–**	**(2,049)**	**(970)**
Transfer to equity	37	**–**	**(5,769)**	**–**	**(5,769)**
Balance as at the end of the financial year		**(4,188)**	**(8,174)**	**13,542**	**1,180**
2016					
Balance as at the beginning of the financial year		(5,418)	1,696	24,785	21,063
Transfer from/(to) income statements	35	151	–	(9,194)	(9,043)
Transfer to equity	37	–	(4,101)	–	(4,101)
Balance as at the end of the financial year		(5,267)	(2,405)	15,591	7,919

13 INVESTMENTS IN SUBSIDIARIES

	Note	Bank 2017 RM'000	Bank 2016 RM'000
Unquoted shares, at cost:			
– In Malaysia		**307,202**	307,202
– Outside Malaysia		**1,349,749**	1,349,737
		1,656,951	1,656,939
Fair value changes arising from fair value hedges	10(i)	**47,138**	53,735
		1,704,089	1,710,674
Accumulated impairment losses		**(225,949)**	(205,949)
		1,478,140	1,504,725

During the financial year ended 31 December 2017, impairment losses of RM20,000,000 arises from investment in RHB Securities Singapore Pte. Ltd. ('RHBSS') as the recoverable amount of the CGU was less than the carrying value of the CGU.

If the CAGR used in the value-in-use calculation for the fee income had been 4 basis points lower than management estimates at 31 December 2017 (i.e. 10.59% instead of 10.63%), the Bank would have recognised additional impairment for cost of investment of RHBSS amounting to RM5,000,000.

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows:

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group		Effective equity interest held by the non-controlling interest		Principal activities
			2017 %	2016 %	2017 %	2016 %	
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for foreign beneficial shareholders
RHB Nominees Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services for foreign beneficial shareholders
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services for Malaysian beneficial shareholders
RHB Asset Management Sdn Bhd	Malaysia	10,000,000	**100**	100	**–**	–	Rendering of investment management services, management of unit trust funds and private retirement schemes and provision of investment advisory services
RHB Islamic International Asset Management Berhad	Malaysia	13,000,000	**100**	100	**–**	–	Rendering of Islamic fund management services and management of Islamic unit trust funds
RHB Research Institute Sdn Bhd	Malaysia	500,000	**100**	100	**–**	–	Providing research services relating to corporate and maintaining data pertaining to public quoted institutions, equities, bonds and all other forms of financial instruments
RHB Private Equity Holdings Sdn Bhd	Malaysia	110,000,002	**100**	100	**–**	–	Investment holding
RHB Private Equity Management Ltd	Malaysia	USD1	**100**	100	**–**	–	Investment holding, investment management and other ancillary services for private equity business
RHB Private Equity Fund Ltd [2]	Cayman Islands	USD10,001	**100**	100	**–**	–	Investment company

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows: (continued)

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2017 %	Effective equity interest held by the Group 2016 %	Effective equity interest held by the non-controlling interest 2017 %	Effective equity interest held by the non-controlling interest 2016 %	Principal activities
RHB International Investments Pte Ltd [1]	Singapore	SGD12,000,000	**100**	100	**–**	–	Investment holding
RHB Asset Management Pte Ltd [1]	Singapore	SGD12,100,000	**100**	100	**–**	–	Fund management
RHB Hong Kong Limited [1, 7]	Hong Kong	HKD300,000,000	**100**	100	**–**	–	Investment holding
RHB Securities Hong Kong Limited [1, 7]	Hong Kong	HKD340,000,000	**100**	100	**–**	–	Securities dealing and provision of securities margin financing and advising on securities
RHB Futures Hong Kong Limited [1, 7]	Hong Kong	HKD35,000,000	**100**	100	**–**	–	Dealing in futures and options contracts
RHB Finance Hong Kong Limited [1, 7]	Hong Kong	HKD1	**100**	100	**–**	–	Money lending
RHB Capital Hong Kong Limited [1, 7]	Hong Kong	HKD10,000,000	**100**	100	**–**	–	Provision of corporate finance advisory services and to engage in securities dealing activities incidental to its corporate finance advisory activities
RHB Fundamental Capital Hong Kong Limited [1, 7]	Hong Kong	HKD10,000,000	**100**	100	**–**	–	Investment activities
RHB Asset Management Limited [1, 7]	Hong Kong	HKD17,000,000	**100**	100	**–**	–	Dealing in securities, advising on securities and provision of asset management services
RHB Wealth Management Hong Kong Limited [1, 7]	Hong Kong	HKD5,000,000	**100**	100	**–**	–	Negotiating or arranging contracts of insurance in or from Hong Kong as the agent of the policy holder or potential policy holder or advising on matters related to insurance
RHB (China) Investment Advisory Co Ltd [1, 7]	People's Republic of China	USD2,000,000	**100**	100	**–**	–	Consulting for investment, business advisory and related services

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows: (continued)

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group		Effective equity interest held by the non-controlling interest		Principal activities
			2017 %	2016 %	2017 %	2016 %	
PT RHB Sekuritas Indonesia [1] *(formerly known as PT RHB Securities Indonesia)*	Indonesia	IDR204,082 million	**99**	99	**1**	1	Securities brokerage and underwriting
PT RHB Asset Management Indonesia [1]	Indonesia	IDR50,000 million	**98.62**	98.62	**1.38**	1.38	Investment manager
RHB Securities Singapore Pte. Ltd. [1]	Singapore	SGD75,000,000	**100**	100	**–**	–	Provision of stock and share broking services and corporate finance advisory services
RHB Nominees Singapore Pte. Ltd. [1]	Singapore	SGD2	**100**	100	**–**	–	Inactive
Summit Nominees Pte. Ltd. [1]	Singapore	SGD2,000	**100**	100	**–**	–	Inactive
RHB Research Institute Singapore Pte. Ltd. [1]	Singapore	SGD175,000	**100**	100	**–**	–	Financial advisory services
RHB Securities (Thailand) Public Company Limited [1]	Thailand	THB819,171,600	**99.95**	99.95	**0.05**	0.05	Provision of stock and derivatives broking services
RHB Indochina Securities Plc. [1]	Cambodia	USD12,500,000	**100**	100	**–**	–	Securities underwriting, dealing, brokerage and investment advisory service
RHB Entrepreneur Fund [1, 5, ^]	Singapore	-	**49.54**	49.09	**50.46**	50.91	Invest in securities of companies that possess entrepreneurial characteristics as determined by the Manager
RHB Trustees Berhad	Malaysia	6,000,000	**80**	80	**20**	20	Professional retail trustee services (will writing, estate planning and private trustees) and corporate trustees services (collective investment schemes)
Malaysian Trustees Berhad	Malaysia	550,000	**80**	80	**20**	20	Engage in the business of trustee agents, executors and administrators pursuant to the Trust Companies Act, 1949

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows: (continued)

Name of company	Country of incorporation	Share capital (in RM unless otherwise stated)	Effective equity interest held by the Group		Effective equity interest held by the non-controlling interest		Principal activities
			2017 %	2016 %	2017 %	2016 %	
Dormant subsidiaries							
RHB Excel Sdn Bhd [4]	Malaysia	200,000,000	**100**	100	**–**	–	Dormant
RHB Progressive Sdn Bhd [4]	Malaysia	13,500,000	**100**	100	**–**	–	Dormant
RHB Marketing Services Sdn Bhd [3]	Malaysia	100,000	**100**	100	**–**	–	Dormant
RHB Unit Trust Management Berhad [4]	Malaysia	5,000,000	**100**	100	**–**	–	Dormant
RHB Futures and Options Sdn Bhd	Malaysia	10,000,000	**100**	100	**–**	–	Dormant
RHB Research Sdn Bhd [6]	Malaysia	500,000	**100**	100	**–**	–	Dormant
RHB International Asset Management Sdn Bhd	Malaysia	7,000,000	**100**	100	**–**	–	Dormant
RHBIB Nominees (Tempatan) Sdn Bhd [6]	Malaysia	3,670,000	**100**	100	**–**	–	Dormant
RHBIB Nominees (Asing) Sdn Bhd [6]	Malaysia	2,670,000	**100**	100	**–**	–	Dormant
RHB Islamic Asset Management Sdn Bhd	Malaysia	4,000,000	**100**	100	**–**	–	Dormant
TCL Nominees (Tempatan) Sdn Bhd [6]	Malaysia	644,000	**100**	100	**–**	–	Dormant
TCL Nominees (Asing) Sdn Bhd [6]	Malaysia	4,000	**100**	100	**–**	–	Dormant
KE-ZAN Nominees (Tempatan) Sdn Bhd [6]	Malaysia	650,000	**100**	100	**–**	–	Dormant
KE-ZAN Nominees (Asing) Sdn Bhd [6]	Malaysia	10,000	**100**	100	**–**	–	Dormant
RHBIM Berhad	Malaysia	10,000,000	**100**	100	**–**	–	Dormant

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows: (continued)

Notes:

1 Subsidiaries audited by a member firm of PricewaterhouseCoopers International Limited which is a separate and independent legal entity from PricewaterhouseCoopers, Malaysia.

2 Subsidiary not audited pursuant to Companies Law (2013 Revision), in Cayman Islands.

3 The companies have commenced member's voluntary winding up on 16 February 2011.

4 The companies have commenced member's voluntary winding up on 28 March 2012.

5 The Bank has acquired effective control in the Fund via capital injection amounting to SGD5,000,000 (equivalent to RM15,325,000) on 22 January 2016 and additional capital injection of SGD15,000,000 (equivalent to RM45,105,000) on 15 March 2016. The Group is deemed to have de facto control of the Fund even though it has less than 50% of the voting rights.

6 The companies have commenced member's voluntary winding up on 30 June 2017.

7 Subsidiaries audited by a firm other than a member firms of PricewaterhouseCoopers International Limited for the financial year ended 2016.

^ The funds are subsidiaries consolidated in the Group as the Bank controls the funds in accordance with MFRS 10 'Consolidated Financial Statements'.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Share of net assets of associates	(a)	**41,071**	40,603	**5,028**	5,028
Less: Allowance for impairment loss		**(2,650)**	(2,650)	**–**	–
		38,421	37,953	**5,028**	5,028
Share of net assets of joint ventures	(b)	**29,523**	30,806	**27,399**	27,399
Less: Allowance for impairment loss		**(13,770)**	(13,770)	**(11,370)**	(11,370)
		15,753	17,036	**16,029**	16,029
		54,174	54,989	**21,057**	21,057

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Share of net assets of associates

The details of the associates are as follows:

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest 2017 %	Effective equity interest 2016 %	Principal activities
RHB Finexasia.Com Sdn Bhd ('Finexasia')	Malaysia	11,361,111	**40.05**	40.05	Investment holding, development of products and provision of services related to IT
Prostar Capital (Asia-Pacific) Ltd. [1] ('Prostar')	Cayman Islands	USD60	**33.33**	33.33	Investment holding with subsidiaries involved in investment advisory and management of private equity funds
Satin Straits Sdn Bhd [2] ('Satin Straits')	Malaysia	5,000,000	**–**	–	Investment holding

Notes:

1 Held through RHB Private Equity Management Ltd, a subsidiary of RHB Private Equity Holdings Sdn Bhd.

As the Group's share of cumulative losses of RM3,618,000 (2016: RM3,717,000) as at 31 December 2017 has exceeded its interest in Prostar, the Group does not recognise further losses in its financial statements.

2 Held through RHB Private Equity Holdings Sdn Bhd, a subsidiary of RHB Investment Bank Berhad. The Group is deemed to have significant influence via its rights under the shareholder's agreement.

As the Group subscribed for RM45,000,000 of Redeemable Convertible Preference Shares ('RCPS') and the Group is entitled for full principal repayment upon maturity and with upside potential upon the trade sales or listing of the underlying investment, the Group will only share the profits of the Company.

There are no capital commitments or contingent liabilities relating to the Group's interest in the associates as at 31 December 2017.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Share of net assets of associates (continued)

Summarised financial information of material associates which are accounted for using the equity method is as follows:

(i) Summarised statements of financial position

	Finexasia		Prostar		Satin Straits		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets								
Cash and cash equivalents	**14,668**	13,590	**10**	41	**53**	53	**14,731**	13,684
Other current assets	**592**	440	**27**	77	**–**	–	**619**	517
Non current assets	**–**	–	**–**	–	**24,279**	27,086	**24,279**	27,086
Total assets	**15,260**	14,030	**37**	118	**24,332**	27,139	**39,629**	41,287
Liabilities								
Financial liabilities	**(26)**	(35)	**(10,893)**	(11,269)	**(39)**	(39)	**(10,958)**	(11,343)
Other current liabilities	**(450)**	(379)	**–**	–	**(61)**	(61)	**(511)**	(440)
Total liabilities	**(476)**	(414)	**(10,893)**	(11,269)	**(100)**	(100)	**(11,469)**	(11,783)
Net Assets/(Liabilities)	**14,784**	13,616	**(10,856)**	(11,151)	**24,232**	27,039	**28,160**	29,504

(ii) Summarised statements of comprehensive income

	Finexasia		Prostar		Satin Straits		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income	**392**	380	**–**	–	**–**	–	**392**	380
Interest expense	**–**	–	**–**	–	**–**	–	**–**	–
Net interest income	**392**	380	**–**	–	**–**	–	**392**	380
Other operating income	**3,034**	2,633	**12,852**	14,895	**–**	–	**15,886**	17,528
Net operating income	**3,426**	3,013	**12,852**	14,895	**–**	–	**16,278**	17,908
Other operating expenses	**(1,884)**	(1,953)	**(13,654)**	(20,611)	**(2,807)**	(5,461)	**(18,345)**	(28,025)
Including: Depreciation and amortisation	**(36)**	(12)	**–**	–	**–**	–	**(36)**	(12)
Profit/(Loss) before taxation	**1,542**	1,060	**(802)**	(5,716)	**(2,807)**	(5,461)	**(2,067)**	(10,117)
Taxation	**(374)**	(265)	**–**	–	**–**	–	**(374)**	(265)
Net profit/(loss) for the financial year	**1,168**	795	**(802)**	(5,716)	**(2,807)**	(5,461)	**(2,441)**	(10,382)

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Share of net assets of associates (continued)

Summarised financial information of material associates which are accounted for using the equity method is as follows: (continued)

(iii) Reconciliation of summarised financial information presented to the carrying amount of its interest in associates

	Finexasia		Prostar		Satin Straits		Total	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Balance as at the beginning of the financial year	**13,616**	12,821	**(11,151)**	(4,751)	**27,039**	–	**29,504**	8,070
Acquisition during the financial year	**–**	–	**–**	–	**–**	32,500	**–**	32,500
Net profit/(loss) for the financial year	**1,168**	795	**(802)**	(5,716)	**(2,807)**	(5,461)	**(2,441)**	(10,382)
Translation reserves	**–**	–	**1,097**	(684)	**–**	–	**1,097**	(684)
Balance as at the end of the financial year	**14,784**	13,616	**(10,856)**	(11,151)	**24,232**	27,039	**28,160**	29,504
Equity interest attributable to net assets	**5,921**	5,453	**–***	–*	**32,500#**	32,500#	**38,421**	37,953
Goodwill	**2,650**	2,650	**–**	–	**–**	–	**2,650**	2,650
Accumulated impairment loss	**(2,650)**	(2,650)	**–**	–	**–**	–	**(2,650)**	(2,650)
Carrying value	**5,921**	5,453	**–**	–	**32,500**	32,500	**38,421**	37,953

* Kindly refer to Note 1 of Note 14(a) to the financial statements.
# Kindly refer to Note 2 of Note 14(a) to the financial statements.

(b) Share of net assets of joint ventures

The details of the joint ventures are as follows:

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest 2017 %	Effective equity interest 2016 %	Principal activities
Vietnam Securities Corporation ('VSEC')	Vietnam	VND135 billion	**49**	49	Securities brokerage, securities investment, consultancy and self-trading
RHB GC- Millennium Capital Pte. Ltd. ('RHB GC')	Singapore	SGD10,000	**40**	40	Investment activities

There are no capital commitments or contingent liabilities relating to the Group's interest in the joint ventures as at 31 December 2017.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Share of net assets of joint ventures (continued)

Summarised financial information of material joint ventures which are accounted for using the equity method is as follows:

(i) Summarised statements of financial position

	VSEC		RHB GC		Total	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Assets						
Cash and cash equivalents	**32,412**	33,913	**24**	26	**32,436**	33,939
Other current assets	**451**	532	**62**	4	**513**	536
Total assets	**32,863**	34,445	**86**	30	**32,949**	34,475
Liabilities						
Financial liabilities	**(135)**	(60)	**(32)**	–	**(167)**	(60)
Other current liabilities	**(77)**	(208)	**(24)**	–	**(101)**	(208)
Total liabilities	**(212)**	(268)	**(56)**	–	**(268)**	(268)
Net Assets	**32,651**	34,177	**30**	30	**32,681**	34,207

(ii) Summarised statements of comprehensive income

	VSEC		RHB GC		Total	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Interest income	**2,392**	2,078	**–**	–	**2,392**	2,078
Interest expense	**(2)**	(1)	**–**	–	**(2)**	(1)
Net interest income	**2,390**	2,077	**–**	–	**2,390**	2,077
Other operating income	**17**	1,036	**33**	36	**50**	1,072
Net operating income	**2,407**	3,113	**33**	36	**2,440**	3,149
Other operating expenses	**(1,413)**	(1,271)	**(33)**	(36)	**(1,446)**	(1,307)
Including:						
Depreciation and amortisation	**(63)**	(150)	**–**	–	**(63)**	(150)
Profit before taxation	**994**	1,842	**–**	–	**994**	1,842
Taxation	**(197)**	(364)	**–**	–	**(197)**	(364)
Net profit for the financial year	**797**	1,478	**–**	–	**797**	1,478

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Share of net assets of joint ventures (continued)

Summarised financial information of material joint ventures which are accounted for using the equity method is as follows: (continued)

(iii) Reconciliation of summarised financial information presented to the carrying amount of its interest in joint ventures

	VSEC		RHB GC		Total	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Balance as at the beginning of the financial year	**34,177**	32,450	**30**	30	**34,207**	32,480
Net profit for the financial year	**797**	1,478	**–**	–	**797**	1,478
Translation reserves	**(2,323)**	249	**–**	–	**(2,323)**	249
Balance as at the end of the financial year	**32,651**	34,177	**30**	30	**32,681**	34,207
Equity interest attributable to net assets	**15,999**	16,747	**12**	12	**16,011**	16,759
Goodwill	**14,204**	14,204	**–**	–	**14,204**	14,204
Accumulated impairment losses	**(13,770)**	(13,770)	**–**	–	**(13,770)**	(13,770)
Exchange differences	**(692)**	(157)	**–**	–	**(692)**	(157)
Carrying value	**15,741**	17,024	**12**	12	**15,753**	17,036

15 PROPERTY, PLANT AND EQUIPMENT

Group	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2017						
Cost						
Balance as at the beginning of the financial year		**98,487**	**84,466**	**144,462**	**11,504**	**338,919**
Additions		**3,775**	**1,874**	**8,242**	**100**	**13,991**
Disposals		**–**	**(8)**	**(351)**	**(35)**	**(394)**
Written off		**(781)**	**(565)**	**(1,987)**	**–**	**(3,333)**
Exchange differences		**(1,642)**	**(745)**	**(3,054)**	**(379)**	**(5,820)**
Balance as at the end of the financial year		**99,839**	**85,022**	**147,312**	**11,190**	**343,363**
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		**67,911**	**73,973**	**127,014**	**9,619**	**278,517**
Charge for the financial year	31	**5,550**	**4,694**	**11,150**	**914**	**22,308**
Disposals		**–**	**(8)**	**(351)**	**(35)**	**(394)**
Written off		**(512)**	**(559)**	**(1,655)**	**–**	**(2,726)**
Exchange differences		**(991)**	**(600)**	**(2,711)**	**(333)**	**(4,635)**
Balance as at the end of the financial year		**71,958**	**77,500**	**133,447**	**10,165**	**293,070**
Net book value as at the end of the financial year		**27,881**	**7,522**	**13,865**	**1,025**	**50,293**

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2016						
Cost						
Balance as at the beginning of the financial year		104,075	84,309	137,885	12,006	338,275
Additions		7,020	3,435	7,936	–	18,391
Disposals		(37)	(127)	(142)	(846)	(1,152)
Written off		(13,409)	(4,231)	(3,251)	–	(20,891)
Exchange differences		838	1,080	2,034	344	4,296
Balance as at the end of the financial year		98,487	84,466	144,462	11,504	338,919
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		73,067	72,289	116,440	9,001	270,797
Charge for the financial year	31	5,628	5,180	12,102	1,019	23,929
Disposals		(13)	(120)	(115)	(670)	(918)
Written off		(11,292)	(4,188)	(3,249)	–	(18,729)
Exchange differences		521	812	1,836	269	3,438
Balance as at the end of the financial year		67,911	73,973	127,014	9,619	278,517
Net book value as at the end of the financial year		30,576	10,493	17,448	1,885	60,402

Bank	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2017						
Cost						
Balance as at the beginning of the financial year		**72,892**	**54,233**	**83,328**	**3,915**	**214,368**
Additions		**2,686**	**1,234**	**2,541**	**–**	**6,461**
Written off		**(641)**	**(420)**	**(1,578)**	**–**	**(2,639)**
Balance as at the end of the financial year		**74,937**	**55,047**	**84,291**	**3,915**	**218,190**
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		**52,960**	**52,904**	**77,057**	**3,645**	**186,566**
Charge for the financial year	31	**3,620**	**769**	**4,614**	**168**	**9,171**
Written off		**(437)**	**(420)**	**(1,578)**	**–**	**(2,435)**
Balance as at the end of the financial year		**56,143**	**53,253**	**80,093**	**3,813**	**193,302**
Net book value as at the end of the financial year		**18,794**	**1,794**	**4,198**	**102**	**24,888**

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2016						
Cost						
Balance as at the beginning of the financial year		80,411	55,530	80,630	4,172	220,743
Additions		3,917	670	4,070	–	8,657
Disposals		–	(111)	(12)	(257)	(380)
Written off		(11,436)	(1,856)	(1,360)	–	(14,652)
Balance as at the end of the financial year		72,892	54,233	83,328	3,915	214,368
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		58,556	53,807	73,325	3,708	189,396
Charge for the financial year	31	3,823	1,028	5,104	194	10,149
Disposals		–	(111)	(12)	(257)	(380)
Written off		(9,419)	(1,820)	(1,360)	–	(12,599)
Balance as at the end of the financial year		52,960	52,904	77,057	3,645	186,566
Net book value as at the end of the financial year		19,932	1,329	6,271	270	27,802

16 GOODWILL AND OTHER INTANGIBLE ASSETS

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Goodwill on consolidation	(a)	**523,911**	1,269,934	**372,395**	1,118,418
Other intangible assets	(b)				
Customer relationship		**10,795**	13,028	**2,735**	3,301
Brand		**2,389**	2,884	**–**	–
Trading rights and memberships		**1,392**	1,430	**–**	–
Computer software license		**34,117**	33,616	**24,965**	23,785
		572,604	1,320,892	**400,095**	1,145,504

(a) Goodwill on consolidation

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year		**1,269,934**	1,269,934	**1,118,418**	1,118,418
Business transferred to holding company	47(b)	**(746,023)**	–	**(746,023)**	–
Balance as at the end of the financial year		**523,911**	1,269,934	**372,395**	1,118,418

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill on consolidation (continued)

The carrying amount of goodwill allocated to the Group's and the Bank's cash generating units ('CGUs') are as follows:

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
CGUs					
Investment Banking	47(b)	**242,591**	374,438	**229,028**	360,875
Treasury	47(b)	**–**	614,176	**–**	614,176
Asset Management		**143,367**	143,367	**143,367**	143,367
Securities Singapore		**63,948**	63,948	**–**	–
Securities Indonesia		**74,005**	74,005	**–**	–
		523,911	1,269,934	**372,395**	1,118,418

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets or forecasts approved by Directors covering four-years (2016: three-years). Cash flows beyond the four-years (2016: three-years) period are extrapolated using the estimated growth rates and discounted using pre-tax discount rates which reflect the specific risks relating to the CGU.

The cash flow projections are derived based on a number of key factors including the past performance and the management's expectations of the market developments.

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

	Discount rate		Growth rate	
	2017 %	2016 %	2017 %	2016 %
Investment Banking	**11.6**	10.1	**5.0**	4.0
Treasury	**–**	9.9	**–**	4.0
Asset Management	**11.6**	10.0	**5.0**	4.0
Securities Singapore	**5.1**	5.3	**2.3**	1.9
Securities Indonesia	**11.6**	9.0	**5.3**	4.7

The Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. The key assumption used in the impairment test was compounded annual growth rate ('CAGR') in fee income used for discounting the projected cash flows. In each case, except for Securities Singapore CGU, the Group believes that a reasonably possible change in CAGR would not cause the carrying amount materially exceed its recoverable amount.

If the CAGR used in the value-in-use calculation for the fee income had been 46 basis points lower than management estimates at 31 December 2017 (i.e. 10.17% instead of 10.63%), the Group would have the recoverable amount equal to its carrying amount for the Securities Singapore CGU.

If the CAGR used in the value-in-use calculation for the fee income had been 50 basis points lower than management estimates at 31 December 2017 (i.e. 10.13% instead of 10.63%), the Group would have recognised goodwill impairment of RM5,000,000.

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets

Group	Note	Customer relationship RM'000	Brand RM'000	Trading rights and memberships RM'000	Computer software license RM'000	Total RM'000
2017						
Cost						
Balance as at the beginning of the financial year		22,333	25,098	2,783	121,269	171,483
Additions		–	–	–	10,971	10,971
Written off		–	–	–	(3,678)	(3,678)
Exchange differences		–	–	(89)	(696)	(785)
Balance as at the end of the financial year		22,333	25,098	2,694	127,866	177,991
Less: Accumulated amortisation						
Balance as at the beginning of the financial year		9,305	22,214	1,353	84,728	117,600
Charge for the financial year	31	2,233	495	–	10,160	12,888
Written off		–	–	–	(753)	(753)
Exchange differences		–	–	(51)	(386)	(437)
Balance as at the end of the financial year		11,538	22,709	1,302	93,749	129,298
Less: Accumulated impairment loss						
Balance as at the beginning of the financial year		–	–	–	2,925	2,925
Written off		–	–	–	(2,925)	(2,925)
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		10,795	2,389	1,392	34,117	48,693

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets (continued)

Group	Note	Customer relationship RM'000	Brand RM'000	Trading rights and memberships RM'000	Computer software license RM'000	Total RM'000
2016						
Cost						
Balance as at the beginning of the financial year		22,333	25,098	2,650	109,636	159,717
Additions		–	–	–	12,239	12,239
Written off		–	–	–	(1,352)	(1,352)
Exchange differences		–	–	133	746	879
Balance as at the end of the financial year		22,333	25,098	2,783	121,269	171,483
Less: Accumulated amortisation						
Balance as at the beginning of the financial year		7,071	21,719	1,289	75,270	105,349
Charge for the financial year	31	2,234	495	–	10,450	13,179
Written off		–	–	–	(1,340)	(1,340)
Exchange differences		–	–	64	348	412
Balance as at the end of the financial year		9,305	22,214	1,353	84,728	117,600
Less: Accumulated impairment loss						
Balance as at the beginning/end of the financial year		–	–	–	2,925	2,925
Net book value as at the end of the financial year		13,028	2,884	1,430	33,616	50,958

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets (continued)

Bank	Note	Customer relationship RM'000	Brand RM'000	Computer software license RM'000	Total RM'000
2017					
Cost					
Balance as at the beginning of the financial year		5,659	20,153	101,505	127,317
Additions		–	–	8,016	8,016
Written off		–	–	(3,678)	(3,678)
Balance as at the end of the financial year		5,659	20,153	105,843	131,655
Less: Accumulated amortisation					
Balance as at the beginning of the financial year		2,358	20,153	74,795	97,306
Charge for the financial year	31	566	–	6,836	7,402
Written off		–	–	(753)	(753)
Balance as at the end of the financial year		2,924	20,153	80,878	103,955
Less: Accumulated impairment loss					
Balance as at the beginning of the financial year		–	–	2,925	2,925
Written off		–	–	(2,925)	(2,925)
Balance as at the end of the financial year		–	–	–	–
Net book value as at the end of the financial year		2,735	–	24,965	27,700

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets (continued)

Bank	**Note**	**Customer relationship RM'000**	**Brand RM'000**	**Computer software license RM'000**	**Total RM'000**
2016					
Cost					
Balance as at the beginning of the financial year		5,659	20,153	91,916	117,728
Additions		–	–	9,750	9,750
Written off		–	–	(161)	(161)
Balance as at the end of the financial year		5,659	20,153	101,505	127,317
Less: Accumulated amortisation					
Balance as at the beginning of the financial year		1,792	20,153	67,328	89,273
Charge for the financial year	31	566	–	7,616	8,182
Written off		–	–	(149)	(149)
Balance as at the end of the financial year		2,358	20,153	74,795	97,306
Less: Accumulated impairment loss					
Balance as at the beginning/end of the financial year		–	–	2,925	2,925
Net book value as at the end of the financial year		3,301	–	23,785	27,086

17 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(i) By type of deposits				
Short-term deposits	**211,601**	243,406	**211,601**	243,406
Fixed deposits	**210,233**	435,390	**226,348**	451,157
Negotiable instruments of deposits	**–**	3,239	**–**	3,239
	421,834	682,035	**437,949**	697,802
(ii) By type of customer				
Government and statutory bodies	**–**	17,348	**–**	17,348
Business enterprises	**421,834**	664,586	**437,949**	680,353
Individuals	**–**	101	**–**	101
	421,834	682,035	**437,949**	697,802
(iii) By maturity structure of the fixed/ negotiable instrument of deposits				
Due within six months	**421,834**	677,300	**437,949**	693,067
Six months to one year	**–**	4,735	**–**	4,735
	421,834	682,035	**437,949**	697,802

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Licensed banks	**3,035,153**	2,267,902	**3,035,153**	2,267,902
Licensed investment banks	**130,825**	50,140	**130,825**	50,140
Other financial institutions	**70,922**	375,576	**83,446**	446,745
	3,236,900	2,693,618	**3,249,424**	2,764,787

19 CLIENTS' AND BROKERS' BALANCES

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Amounts due to:				
– Clients	**962,428**	1,217,592	**678,919**	464,241
– Brokers	**168,738**	298,594	**93,401**	217,832
– Clearing houses and stock exchanges	**232,359**	224,377	**–**	–
	1,363,525	1,740,563	**772,320**	682,073

20 OTHER LIABILITIES

		Group		Bank	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Other creditors and accruals		**119,291**	110,661	**55,288**	46,124
Structured deposits		**7,281**	9,809	**7,281**	9,809
Deferred income		**3,231**	12,961	**–**	10,000
Remisiers' trust deposits		**62,902**	60,060	**62,902**	60,060
Amount payable for creation of units due to funds		**160,214**	25,792	**–**	–
Amount payable for redemption units		**40,745**	127,651	**–**	–
Short-term employee benefits		**92,381**	101,043	**32,346**	39,393
Amount due to holding company	(i)	**15,619**	17,353	**9,971**	–
Amount due to subsidiaries	(i)	**–**	–	**2,693**	3,965
Amount due to related companies	(i)	**1,252**	8,465	**513**	357
		502,916	473,795	**170,994**	169,708

(i) Amount due to holding company/subsidiaries/related companies are unsecured, interest free and repayable on demand.

21 BORROWINGS

		Group	
	Note	2017 RM'000	2016 RM'000
Unsecured			
Revolving credits:			
– Hong Kong Dollar ('HKD')	(a)(i)	**16,576**	185,691
– United States Dollar ('USD')	(a)(ii)	**479,576**	224,218
Term loan			
– Thai Baht ('THB')	(b)	**62,180**	–
Promissory notes:			
– Thai Baht ('THB')	(c)	**154,047**	142,811
		712,379	552,720

The borrowings of the Group are as follows:

(a) Revolving credits

(i) HKD revolving credits

The unsecured HKD revolving credit facilities of the Group bears interest at rates ranging from 1.69% to 5.18% (2016: 1.56% to 2.56%) per annum.

(ii) USD revolving credits

The unsecured USD revolving credit facilities of the Group which bears interest at rates ranging from 2.65% to 4.07% (2016: 2.33% to 3.10%) per annum and repayable on demand.

(b) Term loan

The unsecured THB term loans of the Group bears interest at rate ranging from 2.50% to 3.60% (2016: Nil) per annum which matured in January 2018.

(c) Promissory notes

The unsecured THB promissory notes of the Group bears interest at rate ranging from 1.85% to 3.25% (2016: 1.85% to 3.53%) per annum and repayable on demand.

22 SUBORDINATED OBLIGATIONS

		Group and Bank	
	Note	2017 RM'000	2016 RM'000
4.40% RM245 million Tier II Subordinated Notes 2012/2022	(a)	**–**	245,561
4.95% RM200 million Tier II Subordinated Notes 2015/2025	(b)	**202,061**	202,034
4.90% RM200 million Tier II Subordinated Notes 2017/2027	(c)	**202,202**	–
		404,263	447,595

(a) 4.40% RM245 million Tier II Subordinated Notes 2012/2022

On 10 December 2012, the Bank issued RM245 million nominal value of Subordinated Notes as follows:

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2012/2022	245	9 December 2022 (Callable on 2017)	4.40% per annum chargeable to 9 December 2022	Accrued and payable semi-annually in arrears

The Bank had fully redeemed the RM245 million Tier II Subordinated Notes 2012/2022 during the current financial year.

(b) 4.95% RM200 million Tier II Subordinated Notes 2015/2025

On 16 April 2015, the Bank issued RM200 million nominal value of Subordinated Notes, being part of its RM1 billion Multi-currency Medium Term Note ('MCMTN') Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2015/2025	200	16 April 2025 (Callable in 2020)	4.95% per annum chargeable to 16 April 2025	Accrued and payable semi-annually in arrears

(c) 4.90% RM200 million Tier II Subordinated Notes 2017/2027

On 11 October 2017, the Bank issued RM200 million nominal value of Subordinated Notes, being part of its RM1 billion MCMTN Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2017/2027	200	11 October 2027 (Callable in 2022)	4.90% per annum chargeable to 11 October 2027	Accrued and payable semi-annually in arrears

23 SHARE CAPITAL

		Group and Bank			
		2017		2016	
	Note	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Issued and fully paid:					
Balance as at the beginning of the financial year		**818,646**	**818,646**	818,646	818,646
Transfer from share premium account pursuant to Companies Act 2016	24(a)	**–**	**1,515,150**	–	–
Capital cancellation	47(b)(ii)	**(718,646)**	**(846,023)**	–	–
Balance as at the end of the financial year		**100,000**	**1,487,773**	818,646	818,646

24 RESERVES

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Retained profits		**669,730**	199,497	**883,218**	351,586
Share premium	(a)	**–**	1,515,150	**–**	1,515,150
Statutory reserves	(b)	**513**	449,721	**–**	449,208
AFS reserves	(c)	**18,861**	876	**26,120**	7,850
Translation reserves	(d)	**111,897**	152,870	**–**	–
Regulatory reserves	(e)	**21,047**	21,279	**13,722**	13,008
		822,048	2,339,393	**923,060**	2,336,802

24 RESERVES (CONTINUED)

(a) Share premium was used to record premium arising from new shares issued in the Bank under the Companies Act 1965. Pursuant to the amendments in Section 74 of the Companies Act 2016 ('New Act'), all shares issued before or upon commencement of New Act shall have no par or nominal value i.e. any amount outstanding in the share premium account shall be part of the entity's paid up share capital upon commencement of New Act. Under the New Act, companies are given a transitional period of 24 months to utilise the balances in share premium account. As at the effective date of New Act on 31 January 2017, the entire balance of share premium had been transferred to paid up share capital of the Bank as disclosed in Note 23.

(b) Statutory reserves in 2017 represent non-distributable profits held by the Thailand's stockbroking subsidiary in compliance with Section 116 of the Public Limited Company Act B.E. 2535 in Thailand.

Pursuant to the revised policy document on Capital Funds and Capital Funds for Islamic Banks by BNM whereby the previous requirement to maintain a reserve fund is no longer required given the implementation of the Capital Conservation Buffer under the Capital Adequacy Framework, statutory reserves which were previously maintained by the Bank and its domestic banking subsidiaries are no longer required and had been transferred to retained profits.

(c) AFS reserves arise from a change in the fair value of financial investments classified as available-for-sale. The unrealised gains or losses are transferred to the income statements upon disposal, derecognition or impairment of such securities.

(d) Translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and joint ventures, and the effect of the effective portion of the net investment hedges.

(e) Regulatory reserve represents the Group's adoption of BNM's Policy on Classification and Impairment Provisions for Loans/Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowances.

25 NON-CONTROLLING INTERESTS ('NCI')

	Group	
	2017 RM'000	**2016 RM'000**
Balance as at the beginning of the financial year	**8,202**	7,764
Share of the profit for the financial year	**1,132**	1,247
Share of other comprehensive loss for the financial year	**(127)**	(122)
Dividend paid to non-controlling interests	**–**	(337)
Disposal of a subsidiary	**–**	(688)
Dilution of interest in a subsidiary	**–**	338
Acquisition of additional interest from NCI	**(12)**	–
Balance as at the end of the financial year	**9,195**	8,202

26 INTEREST INCOME

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Loans and advances	**117,440**	130,829	**65,614**	78,765
Money at call and deposit placements with banks and other financial institutions	**50,386**	37,056	**39,289**	29,841
Financial assets at FVTPL	**115**	367	**109**	137
Financial investments AFS	**47,718**	90,146	**47,436**	89,887
Financial investments HTM	**14,422**	19,571	**14,422**	19,571
Others	**8,053**	21,090	**1,689**	2,559
	238,134	299,059	**168,559**	220,760
Of which:				
Interest income accrued on impaired financial assets	**8,141**	7,652	**744**	7,615

27 INTEREST EXPENSE

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Deposits and placements of bank and other financial institutions	**74,111**	98,427	**75,348**	100,042
Deposits from customers	**20,772**	27,855	**21,215**	28,287
Subordinated obligations	**22,262**	22,233	**22,262**	22,233
Borrowings	**21,128**	16,635	**–**	–
Others	**2,731**	2,237	**56**	452
	141,004	167,387	**118,881**	151,014

28 FEE AND COMMISSION INCOME

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Brokerage income	**322,586**	290,050	**201,594**	161,643
Fund management fees	**230,355**	197,577	**–**	–
Unit trust fee income	**108,509**	82,342	**–**	–
Corporate advisory fees	**48,528**	76,156	**19,826**	25,311
Arrangement fees and underwriting	**25,330**	45,121	**12,792**	37,065
Placement fees	**13,591**	21,010	**8,183**	11,623
Rollover fees	**6,606**	6,642	**5,297**	6,406
Commission	**6,565**	6,626	**1,972**	2,613
Service charges and fees	**3,692**	4,720	**–**	16
Other fee income	**50,777**	40,378	**32,362**	23,406
	816,539	770,622	**282,026**	268,083

29 FEE AND COMMISSION EXPENSES

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Fund management fees	**106,289**	81,373	**–**	–
Unit trust fees	**103,782**	84,957	**–**	–
	210,071	166,330	**–**	–

30 OTHER OPERATING INCOME

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Net gain/(loss) arising from financial instruments at FVTPL				
– net gain on disposal	**47,663**	61,772	**31,928**	14,582
– unrealised gain/(loss) on revaluation	**2,824**	756	**10,382**	(20,919)
– gross dividend income	**10,501**	9,749	**2,449**	2,751
	60,988	72,277	**44,759**	(3,586)
Net gain/(loss) arising from derivatives	**622**	(12,361)	**(13,639)**	23,004

30 OTHER OPERATING INCOME (CONTINUED)

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Net gain arising from financial investments AFS				
– net gain on disposal	**1,614**	4,276	**492**	4,179
– gross dividend income	**1,047**	936	**183**	327
	2,661	5,212	**675**	4,506
Net gain arising from financial investment HTM				
– net gain on redemption	**–**	198	**–**	198
Gross dividend income from subsidiaries in Malaysia	**–**	–	**10,000**	340
Other income				
Net foreign exchange gain/(loss)				
– realised	**43,563**	82,765	**40,580**	82,308
– unrealised	**(37,286)**	(27,294)	**(34,651)**	(29,272)
Net gain on disposal of property, plant and equipment	**32**	113	**–**	49
Gain on redemption of trust fund	**–**	434	**–**	1,880
Other operating income	**82,262**	41,985	**78,422**	37,338
	88,571	98,003	**84,351**	92,303
	152,842	163,329	**126,146**	116,765

31 OTHER OPERATING EXPENSES

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Personnel costs					
Salaries, bonus, wages and allowances		**338,901**	343,334	**138,510**	131,789
Defined contribution plan		**33,159**	34,210	**20,190**	21,216
Other staff related costs		**43,189**	40,514	**21,096**	19,518
		415,249	418,058	**179,796**	172,523
Establishment costs					
Property, plant and equipment					
– Depreciation	15	**22,308**	23,929	**9,171**	10,149
– Written off	15	**607**	2,162	**204**	2,053
Intangible assets					
– Amortisation	16	**12,888**	13,179	**7,402**	8,182
– Written off	16	**–**	12	**–**	12
Information technology expenses		**69,722**	60,049	**43,167**	36,446
Security and escorting charges		**183**	552	**154**	216
Repair and maintenance		**3,770**	4,203	**2,869**	3,133
Rental of premises		**45,578**	52,976	**14,643**	18,785
Water and electricity		**5,456**	6,595	**3,540**	4,663
Rental of equipment		**580**	1,412	**46**	760
Insurance		**5,606**	4,659	**3,930**	2,955
Others		**13,293**	13,366	**9,188**	6,814
		179,991	183,094	**94,314**	94,168
Marketing expenses					
Advertisement and publicity		**5,955**	5,284	**2,304**	4,197
Sales commission		**1,910**	10,897	**624**	7,072
Others		**35,696**	33,892	**7,087**	6,783
		43,561	50,073	**10,015**	18,052
Administration and general expenses					
Communication expenses		**46,691**	50,773	**16,133**	19,170
Auditors' remuneration (Note (i))		**2,679**	2,055	**371**	405
Legal and professional fee		**10,930**	7,693	**2,333**	1,536
Others		**40,113**	35,500	**25,526**	30,274
		100,413	96,021	**44,363**	51,385
		739,214	747,246	**328,488**	336,128

31 OTHER OPERATING EXPENSES (CONTINUED)

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(i) Auditors' remuneration*				
(a) Audit				
Statutory audit				
– Malaysia	**592**	659	**371**	360
– Overseas	**1,895**	1,232	**–**	–
Other audit related	**192**	–	**–**	–
	2,679	1,891	**371**	360
(b) Non-audit				
– Malaysia	**–**	65	**–**	45
– Overseas	**–**	99	**–**	–
	–	164	**–**	45
	2,679	2,055	**371**	405

Included in the personnel costs is the CEO/Managing Director's remuneration (excluding benefits-in-kind) totalling RM3,058,000 (2016: RM3,000,000) for the Group and the Bank, as disclosed in Note 32.

Included in administration and general expenses of the Group and the Bank are non-executive directors' remuneration (excluding benefits-in-kind) totalling RM2,433,000 (2016: RM2,650,000) and RM1,531,000 (2016: RM1,244,000) respectively, as disclosed in Note 32.

* There was no indemnity given to or insurance effected for the Group and the Bank during the financial year.

32 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION

The remuneration of the Chief Executive Officer and Managing Director of the Group and the Bank are as follows:

	Group and Bank			
	Salary and other remuneration RM'000	**Benefits-in-kind (based on an estimated monetary value) RM'000**	**Bonus RM'000**	**Total RM'000**
2017				
Chief Executive Officer				
Robert Angelo Hendro Santoso Huray	**1,728**	**35**	**1,330**	**3,093**
2016				
Chief Executive Officer				
Robert Angelo Hendro Santoso Huray (Appointed on 1 July 2016)	800	26	866	1,692
Managing Director				
Chan Cheong Yuen (Resigned on 1 July 2016)	663	20	671	1,354

32 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of the Directors of the Group and the Bank are as follows:

	Group				Bank			
	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
2017								
Non-executive Directors								
Tan Sri Azlan bin Mohd Zainol	230	24	44	298	170	24	40	234
Chin Yoong Kheong	319	–	127	446	135	–	75	210
Tan Sri Ong Leong Huat @ Wong Joo Hwa	210	–	112	322	135	–	108	243
Patrick Chin Yoke Chung	416	31	357	804	135	–	173	308
Yap Chee Meng	164	–	29	193	135	–	24	159
Tan Sri Dr Rebecca Fatima Sta Maria	135	–	61	196	135	–	61	196
Datuk Nozirah Bahari	153	–	24	177	135	–	19	154
Dato' Darawati Hussain (Appointed on 1 September 2017)	45	–	7	52	45	–	6	51
	1,672	55	761	2,488	1,025	24	506	1,555

Note: During the financial year, Directors of the Group and the Bank are covered under the Directors' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors of the Group and the Bank subject to the term of the policy. The total amount of Directors' Liability Insurance effected for the Group and the Bank was RM208 million and RM200 million respectively. The total amount of premium paid for the Directors' Liability Insurance by the Group and the Bank was RM124,138 and RM76,788 respectively.

32 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of the Directors of the Group and the Bank are as follows: (continued)

	Group				Bank			
	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
2016								
Non-executive Directors								
Tan Sri Azlan bin Mohd Zainol (Appointed on 27 June 2016)	177	26	26	229	77	26	21	124
Chin Yoong Kheong (Appointed on 1 August 2016)	230	–	120	350	50	–	42	92
Tan Sri Ong Leong Huat @ Wong Joo Hwa	260	22	34	316	135	22	29	186
Patrick Chin Yoke Chung	524	–	238	762	120	–	115	235
Yap Chee Meng (Appointed on 1 August 2016)	98	–	10	108	50	–	8	58
Tan Sri Dr Rebecca Fatima Sta Maria (Appointed on 6 December 2016)	9	–	4	13	9	–	4	13
Dato' Abdul Rahman Ahmad (Appointed on 1 March 2016 and resigned on 30 September 2016)	90	–	25	115	70	–	19	89
Abdul Aziz Peru Mohamed (Resigned on 6 February 2016)	203	–	63	266	12	–	30	42
Dato' Mohamed Khadar Merican (Retired on 11 May 2016)	62	–	28	90	43	–	21	64
Lew Foon Keong (Retired on 11 May 2016)	43	–	136	179	43	–	136	179
Tan Sri Saw Choo Boon (Resigned on 1 August 2016)	126	–	66	192	69	–	63	132
Mohamed Ali Ismaeil Ali AlFahim (Resigned on 1 August 2016)	70	–	8	78	70	–	8	78
	1,892	48	758	2,698	748	48	496	1,292

33 ALLOWANCE/(WRITTEN BACK) FOR IMPAIRMENT ON LOANS, ADVANCES AND OTHER LOSSES

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Allowance for impaired loans and advances:				
– Individual impairment allowance made	**48,949**	47,904	**5**	5,178
– Collective impairment allowance written back	**(229)**	(2,020)	**(451)**	(2,022)
Impaired loans written off	**1,261**	–	**802**	–
Impaired loans recovered	**(160)**	(502)	**(46)**	(114)
Allowance/(Written back) for impairment on other receivables and clients' and brokers' balances	**8,180**	15,798	**(1,003)**	5,233
	58,001	61,180	**(693)**	8,275

34 IMPAIRMENT LOSSES (WRITTEN BACK)/MADE ON OTHER ASSETS

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Made for the financial year:				
– Financial investments AFS	**–**	8,726	**–**	8,726
– Financial investments HTM	**–**	1,228	**–**	1,228
– Investments in subsidiaries	**–**	–	**20,000**	10,500
– Investments in an associate	**–**	12,500	**–**	–
Written back for the financial year:				
– Financial investments AFS	**–**	(1,007)	**–**	(1,007)
– Financial investments HTM	**(1,872)**	(3,027)	**(1,872)**	(3,027)
	(1,872)	18,420	**18,128**	16,420

35 TAXATION

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income tax based on profit for the financial year					
– Malaysian income tax		**42,702**	29,433	**29,786**	17,527
– Overseas tax		**705**	2,684	**–**	–
Deferred taxation	12	**(2,044)**	6,717	**970**	9,043
(Over)/Under provision in respect of prior years		**(610)**	3,322	**(1,967)**	3,548
		40,753	42,156	**28,789**	30,118
Current tax					
Current year		**43,407**	32,117	**29,786**	17,527
(Over)/Under provision in respect of prior years		**(610)**	3,322	**(1,967)**	3,548
		42,797	35,439	**27,819**	21,075
Deferred tax					
Origination and reversal of temporary differences	12	**(2,044)**	6,717	**970**	9,043
		(2,044)	6,717	**970**	9,043
		40,753	42,156	**28,789**	30,118

35 TAXATION (CONTINUED)

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the statutory rate is as follows:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
	%	**%**	**%**	**%**
Tax at Malaysian statutory applicable tax rate	**24.0**	24.0	**24.0**	24.0
Tax effects in respect of:				
– Effect of different tax rates in other countries	**15.0**	4.9	**–**	–
– Income not subject to tax	**(14.2)**	(18.8)	**(2.8)**	(1.3)
– Expenses not deductible for tax purposes	**20.3**	27.8	**6.2**	5.6
– Utilisation of previously unrecognised tax losses	**(0.1)**	(1.3)	**–**	–
– Current year loss not recognised as deferred tax assets during the year	**21.8**	16.9	**–**	–
– (Over)/Under provision in respect of prior years	**(1.0)**	4.5	**(1.7)**	3.8
– Temporary differences not recognised in prior years	**–**	(0.6)	**–**	–
Effective tax rate	**65.8**	57.4	**25.7**	32.1

The unabsorbed tax losses and unabsorbed capital allowances carried forward of the Group are as follows:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unabsorbed tax losses carried forward	**177,472**	83,402	**–**	–
Unabsorbed capital allowances carried forward	**720**	677	**–**	–

Deferred tax assets have not been recognised on the above amounts as it is not probable that the relevant subsidiaries will generate sufficient future taxable profits against which the deductible temporary differences can be utilised.

36 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holder of the Group by the weighted average number of outstanding ordinary shares at end of the financial year.

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net profit attributable to equity holder		**20,071**	30,087	**83,138**	63,653
Weighted average number of ordinary shares in issue ('000)					
– Issued ordinary shares at 1 January		**818,646**	818,646	**818,646**	818,646
– Effect of capital cancellation	47(b)(ii)	**(192,952)**	–	**(192,952)**	–
		625,694	818,646	**625,694**	818,646
Basic earnings per share (sen)		**3.21**	3.68	**13.29**	7.78

(b) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding as at 31 December 2017 and 31 December 2016. As a result, the diluted earnings per share equal to the basic earnings per share.

37 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	Before tax RM'000	Tax expense RM'000	Net of tax RM'000
2017			
Financial investments AFS			
– net fair value gain and amount transfer to income statements	**23,530**	**(5,336)**	**18,194**
Actuarial loss on defined benefit plan of subsidiaries			
– net fair value gain and amount transfer to income statements	**888**	**(159)**	**729**
	24,418	**(5,495)**	**18,923**

37 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME (CONTINUED)

Group	Before tax RM'000	Tax expense RM'000	Net of tax RM'000
2016			
Financial investments AFS			
– net fair value loss and amount transfer to income statements	(7,638)	(4,101)	(11,739)
Actuarial gain on defined benefit plan of subsidiaries			
– net fair value loss and amount transfer to income statements	(1,702)	359	(1,343)
	(9,340)	(3,742)	(13,082)

Bank	Before tax RM'000	Tax expense RM'000	Net of tax RM'000
2017			
Financial investments AFS			
– net fair value gain and amount transfer to income statements	**24,039**	**(5,769)**	**18,270**

Bank	Before tax RM'000	Tax expense RM'000	Net of tax RM'000
2016			
Financial investments AFS			
– net fair value gain and amount transfer to income statements	17,100	(4,101)	12,999

38 ORDINARY DIVIDENDS

The Bank does not propose any final dividend for the financial year ended 31 December 2017.

Dividends paid by the Bank's subsidiaries to the non-controlling interest amounting to NIL (2016: RM337,250) during the financial year ended 31 December 2017.

39 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

The related parties of, and their relationship with the Bank are as follows:

Related parties	Relationships
RHB Bank Berhad	Holding company with effective from 14 April 2016 as disclosed in Note 47(c) to the financial statements
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Employee Provident Fund ('EPF')	Substantial shareholder of the holding company, a fund body that is significantly influenced by the government
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Subsidiaries of the Bank as disclosed in Note 13	Subsidiaries
Key management personnel	The key management personnel of the Group and the Bank consists of: – all Directors of the Bank and its key subsidiaries; and – members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel; and (ii) Entities that are controlled, jointly controlled or significantly influenced, by or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Significant related party balances and transactions

In addition to related party disclosures mentioned in Notes 9 and 20, set out below are other significant related party transactions and balances.

Transactions or balances with newly acquired subsidiaries during the financial year are reported as related party transactions or balances from the date of the Group and the Bank are deemed to have control over the subsidiaries.

Other related parties of the Bank comprise of transactions and balances with RHB Bank's subsidiaries.

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

39 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party balances and transactions (continued)

Group 2017	Holding company* RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Interest income on deposits	9,993	–	–	2,854
Interest income on financial investments AFS	–	1,129	–	–
Interest income on financial assets FVTPL	6	–	–	–
Fee income	1,727	8,284	359	836
Brokerage income	–	14,531	93	–
Fund management fees	782	–	–	242
Other operating income	79,319	137	1	–
	91,827	24,081	453	3,932
Expenses				
Insurance premium	–	–	–	1,066
Interest expense on deposits and placements	38,285	1,615	36	–
Interest expense of deposits from customers	–	1,167	–	392
Interest expense on borrowings	1,277	–	–	11,807
Unit trust expenses	9,712	–	–	–
Fund management expenses	3,755	–	–	–
Rental of premises	9,447	–	920	–
Personnel costs	242	–	–	386
Establishment costs	–	–	–	1,162
Administration and general expenses	6,349	–	–	3,522
	69,067	2,782	956	18,335
Amounts due from				
Cash and short-term funds	822,049	–	–	37,177
Deposits and placements with banks and other financial institutions	75,332	–	–	24,982
Clients' and brokers' balances	–	94,255	101	–
Derivative assets	74	–	–	–
Other assets	12	4,913	107	437
	897,467	99,168	208	62,596
Amounts due to				
Deposits from customers	–	32,284	–	14,090
Deposits and placements of banks and other financial institutions	2,553,449	–	–	–
Clients' and brokers' balances	–	24,290	225	–
Derivative liabilities	61	–	–	–
Borrowings	57,151	–	–	479,576
Other liabilities	15,619	62	16	1,252
	2,626,280	56,636	241	494,918

39 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party balances and transactions (continued)

Group 2016	Holding company* RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Interest income on deposits	6,316	–	–	2,198
Interest income on financial investments AFS	1,523	3,284	–	–
Fee income	5,321	11,998	557	1,322
Brokerage income	–	9,832	290	–
Fund management fees	958	–	–	349
Other operating income	29,255	122	55	79
	43,373	25,236	902	3,948
Expenses				
Insurance premium	–	–	–	6,104
Interest expense on deposits and placements	41,027	–	373	–
Interest expense of deposits from customers	–	5,097	–	381
Interest expense on borrowings	821	–	–	8,626
Unit trust expenses	7,442	–	–	–
Fund management expenses	2,846	–	–	–
Rental of premises	7,579	–	9,098	57
Personnel costs	207	–	–	–
Establishment costs	–	–	–	1,080
Marketing expenses	1,316	904	–	–
Administration and general expenses	7,143	–	–	3,265
	68,381	6,001	9,471	19,513
Amounts due from				
Cash and short-term funds	821,710	–	–	43,675
Financial investments AFS	–	45,681	–	–
Clients' and brokers' balances	–	–	51	–
Derivative assets	3,811	–	–	–
Other assets	11,075	836	317	425
	836,596	46,517	368	44,100
Amounts due to				
Deposits from customers	–	131,378	1,198	12,137
Deposits and placements of banks and other financial institutions	2,267,902	–	–	–
Clients' and brokers' balances	–	322	8	–
Derivative liabilities	16,223	–	–	–
Borrowings	55,123	–	–	224,218
Other liabilities	17,353	86	17	8,465
	2,356,601	131,786	1,223	244,820

39 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party balances and transactions (continued)

Bank 2017	Holding company* RM'000	EPF and EPF Group of companies RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
Income					
Interest income on deposits	8,686	–	–	–	653
Interest on loans and advances	–	–	526	–	–
Interest income on financial investments AFS	–	1,129	–	–	–
Interest income on financial assets FVTPL	6	–	–	–	–
Fee income	220	8,171	3,966	100	–
Brokerage income	–	11,349	–	67	–
Rental income	–	–	150	–	–
Other operating income	79,319	137	10,000	1	–
	88,231	20,786	14,642	168	653
Expenses					
Insurance premium	–	–	–	–	401
Interest expense on deposits and placements	38,285	1,615	1,237	36	–
Interest expense on deposits from customers	–	1,167	476	–	392
Rental of premises	7,479	–	–	920	–
Personnel costs	194	–	–	–	–
Establishment costs	–	–	–	–	1,155
Administration and general expenses	50	–	14,968	–	3,324
	46,008	2,782	16,681	956	5,272
Amounts due from					
Cash and short-term funds	782,863	–	–	–	–
Clients' and brokers' balances	–	90,131	–	101	–
Derivative assets	74	–	–	–	–
Other assets	–	4,913	12,257	107	25
	782,937	95,044	12,257	208	25
Amounts due to					
Deposit from customers	–	32,284	16,115	–	14,090
Deposits and placements of banks and other financial institutions	2,553,449	–	12,523	–	–
Clients' and brokers' balances	–	24,290	–	–	–
Derivative liabilities	61	–	–	–	–
Other liabilities	9,971	–	2,693	–	513
	2,563,481	56,574	31,331	–	14,603

39 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party balances and transactions (continued)

Bank 2016	Holding company* RM'000	EPF and EPF Group of companies RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
Income					
Interest income on deposits	6,101	–	–	–	56
Interest on loans and advances	–	–	819	–	–
Interest income on financial investments AFS	1,523	3,284	–	–	–
Fee income	987	11,853	3,783	385	–
Brokerage income	–	9,832	49	189	–
Rental income	–	–	199	–	–
Other operating income	29,255	122	337	55	79
	37,866	25,091	5,187	629	135
Expenses					
Insurance premium	–	–	–	–	5,497
Interest expense on deposits and placements	41,027	–	1,615	373	–
Interest expense on deposits from customers	–	5,097	457	–	381
Rental of premises	7,105	–	–	7,250	–
Personnel costs	197	–	–	–	–
Establishment costs	–	–	–	–	1,079
Marketing expenses	–	904	–	–	–
Administration and general expenses	50	–	17,746	–	2,905
	48,379	6,001	19,818	7,623	9,862
Amounts due from					
Cash and short-term funds	685,197	–	–	–	–
Financial investments AFS	–	45,681	–	–	–
Loans and advances	–	–	44,892	–	–
Clients' and brokers' balances	–	–	–	51	–
Derivative assets	3,811	–	–	–	–
Other assets	11,075	777	4,636	317	69
	700,083	46,458	49,528	368	69
Amounts due to					
Deposits from customers	–	131,378	15,767	1,198	12,137
Deposits and placements of banks and other financial institutions	2,267,902	–	71,169	–	–
Clients' and brokers' balances	–	322	–	8	–
Derivative liabilities	16,223	–	–	–	–
Other liabilities	–	–	3,965	–	357
	2,284,125	131,700	90,901	1,206	12,494

* Kindly refer to Note 47(c) to the financial statements.

39 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Short-term employee benefits				
– Fees	**1,672**	1,892	**1,025**	748
– Salary and other remuneration	**5,324**	4,934	**5,070**	4,672
– Contribution to EPF	**231**	274	**231**	274
– Benefits-in-kind	**98**	88	**66**	88
	7,325	7,188	**6,392**	5,782

The above remuneration includes Directors' remuneration as disclosed in Note 32.

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	Group and Bank	
	2017	**2016**
Outstanding credit exposure with connected parties (RM'000)	**228,757**	243,585
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**3.96%**	8.16%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	**–**	–

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties, which are effective on 1 January 2008.

40 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to customers. Apart from the allowance for commitments and contingencies already made in the financial statements, no material losses are anticipated as a result of these transactions.

The commitments and contingencies comprise the following:

	Group	
	2017 RM'000	**2016 RM'000**
Principal amount		
Irrevocable commitments to extend credit:		
– maturity not exceeding one year	**1,516,982**	2,067,036
– maturity exceeding one year	**4,164**	600
Foreign exchange related contracts:^		
– less than one year	**36,962**	351,858
Interest rate related contracts:^		
– less than one year	**90,000**	140,000
– one year to less than five years	**–**	90,000
Equity related contracts:^		
– less than one year	**7,262**	14,368
	1,655,370	2,663,862

^ These derivatives are revalued on gross position basis and the unrealised gains or losses have been reflected in Note 10 as derivatives assets or derivative liabilities.

40 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The commitments and contingencies comprise the following: (continued)

	Bank	
	2017 RM'000	**2016 RM'000**
Principal amount		
Direct credit substitutes#	**151,583**	184,222
Obligations under underwriting agreements	**45,761**	–
Irrevocable commitments to extend credit:		
– maturity not exceeding one year	**536,472**	357,990
– maturity exceeding one year	**22**	22
Foreign exchange related contracts:^		
– less than one year	**31,258**	351,858
Interest rate related contracts:^		
– less than one year	**90,000**	140,000
– one year to less than five years	**–**	90,000
Equity related contracts:^		
– less than one year	**7,262**	9,771
	862,358	1,133,863

\# Included in direct credit substitutes is financial guarantee contract of RM151,583,000 (2016: RM184,222,000) to external parties for subsidiaries.

^ These derivatives are revalued on gross position basis and the unrealised gains or losses have been reflected in Note 10 as derivative assets or derivative liabilities.

41 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases, is as follows:

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Within one year	**50,152**	42,458	**14,064**	14,204
Between one to five years	**43,462**	63,133	**11,438**	20,479
More than five years	**304**	561	**–**	11
	93,918	106,152	**25,502**	34,694

42 CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Authorised and contracted for				
– Property, plant and equipment	**26,511**	26,113	**17,864**	10,321
– Investment securities	**40,905**	305,767	**–**	–
	67,416	331,880	**17,864**	10,321

43 FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Objectives and Policies

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Group is exposed to a range of other risk types such as market, liquidity, operational, legal, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

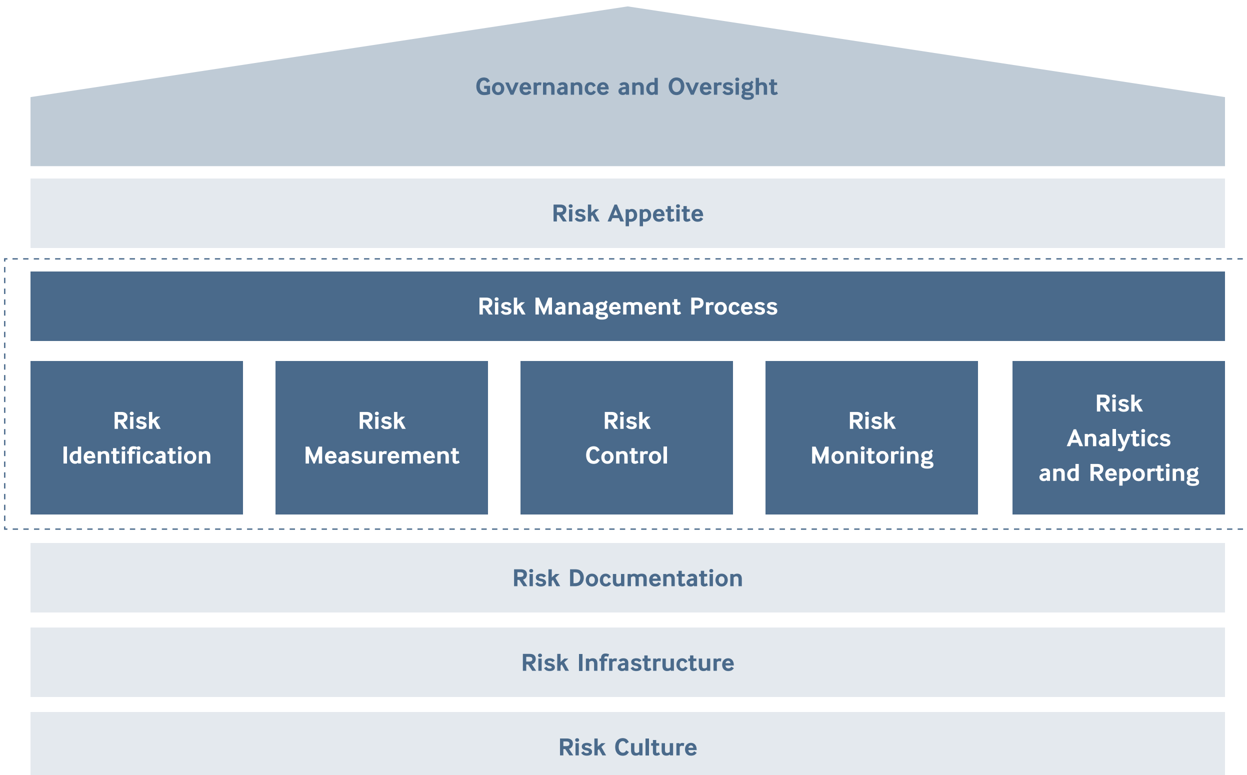
Effective risk management is fundamental to being able to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Group's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group, as follows:

1. It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

2. It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:-



43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

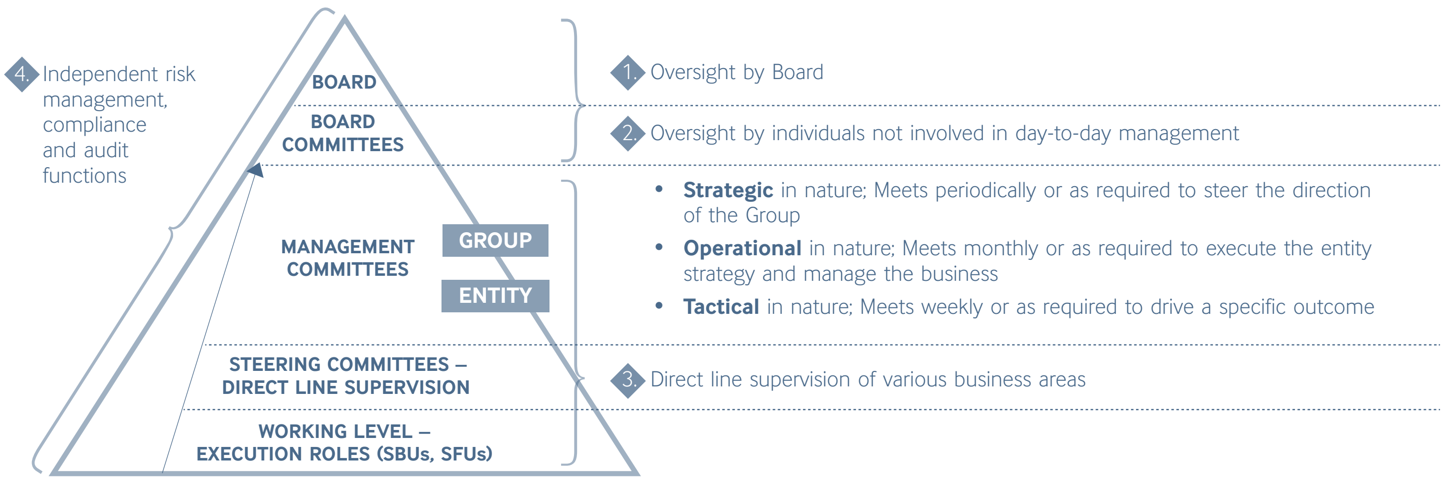
1. Risk Governance from the Boards of Directors of Various Operating Entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

Risk Governance and Organisation

The Board Risk Committee ('BRC') is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising Senior Management of the Group and which reports to the BRC, Islamic Risk Management Committee and the Group Management Committee. There are other committees set up to manage specific areas of risks in the Group. An overview of this government framework at Group level is as below:



43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are: (continued)

Risk Culture

2. Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The Strategic Business Groups ('SBGs') and Strategic Functional Groups ('SFGs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE **Business/Functional Level**	• Responsible for managing day-to-day operational risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE **Group Risk Management & Group Compliance**	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE **Group Internal Audit**	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Environment and Infrastructure

3. Institutionalisation of a Risk-focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Group Risk and Credit Management is independent of the business function to ensure that the necessary balance in risk and return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are: (continued)

Risk Environment and Infrastructure (continued)

3. Institutionalisation of a Risk-focused Organisation (continued)

   The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

   - Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
   - Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
   - Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
   - Analytics and Reporting: Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards to ensure that the risks remain within the established appetite and to support an informed decision-making process.

   The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group.

   In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested into technology, including data management to support the Group's risk management activities.

Risk Appetite

4. Alignment of Risk Management to Business Strategies

   The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

   Risk appetite is set by the Board and reported through various metrics that enable the Group and the Bank to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Group and the Bank are prepared to accept in delivering its strategy.

5. Optimisation of Risk-adjusted Return

   One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

   The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The main areas of financial risks faced by the Group and the Bank and the policies to address these financial risks are set out below:

Major Areas of Risk

As a banking institution with key activities covering corporate banking and advisory services, treasury products and services, and securities and futures related business, the Group and the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

(i) Market risk – the risk of loss arising from adverse movements in market indicators, such as interest rates, credit spreads, equity prices, currency exchange rates and commodity prices.

(ii) Liquidity risk – the risk of the Group and the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iii) Credit risk – the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's and the Bank's lending/financing/underwriting, investment and trading activities from both on- and off-balance sheet transactions.

(iv) Operational risk – the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk.

To mitigate the various business risks of the Group and the Bank, the following has been put in place:

Market Risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Group's and the Bank's financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Group Asset and Liability Committee ('Group ALCO') and the GCRC performs a critical role in the oversight of the management of market risk and supports the BRC in the overall market risk management.
- The Group Risk Management function forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.
- The Group and the Bank apply risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.
- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.
- Periodic stress testing are applied to the Group and the Bank to ascertain market risk under abnormal market conditions.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

To mitigate the various business risks of the Group and the Bank, the following has been put in place: (continued)

Liquidity Risk

- The Group ALCO plays a fundamental role in the asset and liability management of the Group and the Bank, and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.
- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored.
- The Group and the Bank have established a Group Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

Credit Risk

- The Group and the Bank abide to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well-diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses.
- Industry best practices are incorporated into this policy.
- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.
- Group Investment Underwriting Committee (GIUC) deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.
- GCC and GIUC submit to the Board Credit Committee ('BCC') for affirmation or veto if the financing facilities exceed a pre-defined threshold.
- The Group and the Bank also ensure that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated prior to submission to the relevant committees for approval. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Loans/financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

To mitigate the various business risks of the Group and the Bank, the following has been put in place: (continued)

Credit Risk (continued)

- Internal credit rating models are an integral part of the Group's and the Bank's credit risk management, decision-making process, and regulatory capital calculations.
- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.
- Counterparty, industry and product exposure limits/directions are set and risk reward relationship are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.

Operational Risk

- The Group Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the control tools used includes Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management.
- The Group's and the Bank's operational risk management system has integrated applications to support the operational risk management process. This system facilitates the Group's and the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.
- The Group and the Bank has Business Continuity Planning ('BCP') programmes for the major critical business operations and activities at the Head Office, data centre, and branch locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality.
- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.
- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

Group 2017	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short term funds	2,414,212	–	–	–	2,414,212
Deposits and placements with banks and other financial institutions	22,106	–	–	–	22,106
Financial assets at FVTPL	–	823,421	–	–	823,421
Financial investments AFS	–	–	902,249	–	902,249
Financial investments HTM	–	–	–	583,232	583,232
Loans and advances	1,753,928	–	–	–	1,753,928
Clients' and brokers' balances	1,599,594	–	–	–	1,599,594
Other financial assets	183,041	–	–	–	183,041
Derivative assets	–	344	–	–	344
	5,972,881	823,765	902,249	583,232	8,282,127

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	421,834	421,834
Deposits and placements of banks and other financial institutions	–	3,236,900	3,236,900
Bills and acceptances payable	–	6,185	6,185
Clients' and brokers' balances	–	1,363,525	1,363,525
Other financial liabilities	–	502,916	502,916
Derivative liabilities	46,013	–	46,013
Puttable financial instruments	78,825	–	78,825
Borrowings	–	712,379	712,379
Subordinated obligations	–	404,263	404,263
	124,838	6,648,002	6,772,840

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

Group 2016	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-term funds	1,064,383	–	–	–	1,064,383
Deposits and placements with banks and other financial institutions	359,018	–	–	–	359,018
Financial assets at FVTPL	–	612,105	–	–	612,105
Financial investments AFS	–	–	1,856,676	–	1,856,676
Financial investments HTM	–	–	–	398,564	398,564
Loans and advances	1,792,172	–	–	–	1,792,172
Clients' and brokers' balances	2,090,784	–	–	–	2,090,784
Other financial assets	255,412	–	–	–	255,412
Derivative assets	–	7,325	–	–	7,325
	5,561,769	619,430	1,856,676	398,564	8,436,439

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	682,035	682,035
Deposits and placements of banks and other financial institutions	–	2,693,618	2,693,618
Bills and acceptances payable	–	180,931	180,931
Clients' and brokers' balances	–	1,740,563	1,740,563
Other financial liabilities	–	457,087	457,087
Derivative liabilities	37,197	–	37,197
Puttable financial instruments	68,706	–	68,706
Borrowings	–	552,720	552,720
Subordinated obligations	–	447,595	447,595
	105,903	6,754,549	6,860,452

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

Bank 2017	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-term funds	1,738,086	–	–	–	1,738,086
Financial assets at FVTPL	–	149,139	–	–	149,139
Financial investments AFS	–	–	882,153	–	882,153
Financial investments HTM	–	–	–	583,232	583,232
Loans and advances	1,143,551	–	–	–	1,143,551
Clients' and brokers' balances	901,918	–	–	–	901,918
Other financial assets	64,353	–	–	–	64,353
Derivative assets	–	343	–	–	343
	3,847,908	149,482	882,153	583,232	5,462,775

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	437,949	437,949
Deposits and placements of banks and other financial institutions	–	3,249,424	3,249,424
Clients' and brokers' balances	–	772,320	772,320
Other financial liabilities	–	170,994	170,994
Derivative liabilities	45,873	–	45,873
Subordinated obligations	–	404,263	404,263
	45,873	5,034,950	5,080,823

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

Bank 2016	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-term funds	478,126	–	–	–	478,126
Deposits and placements with banks and other financial institutions	350,065	–	–	–	350,065
Financial assets at FVTPL	–	54,854	–	–	54,854
Financial investments AFS	–	–	1,833,518	–	1,833,518
Financial investments HTM	–	–	–	398,564	398,564
Loans and advances	1,121,163	–	–	–	1,121,163
Clients' and brokers' balances	790,399	–	–	–	790,399
Other financial assets	69,035	–	–	–	69,035
Derivative assets	–	7,202	–	–	7,202
	2,808,788	62,056	1,833,518	398,564	5,102,926

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	697,802	697,802
Deposits and placements of banks and other financial institutions	–	2,764,787	2,764,787
Clients' and brokers' balances	–	682,073	682,073
Other financial liabilities	–	156,707	156,707
Derivative liabilities	36,425	–	36,425
Subordinated obligations	–	447,595	447,595
	36,425	4,748,964	4,785,389

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Bank as at 31 December 2017.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Group and the Bank seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

(i) Interest rate sensitivity analysis

The interest rate sensitivity results below shows the impact on profit after tax and equity of financial assets and financial liabilities bearing floating interest rates and fixed rate financial assets and financial liabilities.

	Group		Bank	
	Impact on profit after tax RM'000	Impact on equity RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
2017				
+100 bps	**(9,185)**	**(22,316)**	**(9,983)**	**(22,316)**
-100 bps	**9,185**	**21,821**	**9,983**	**21,821**
2016				
+100 bps	(14,579)	(42,348)	(16,803)	(42,348)
-100 bps	14,580	44,719	16,803	44,719

The results above represent financial assets and liabilities that have been prepared on the following basis:

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and movement for all short-term interest rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short-term interest rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2016: 100 bps) interest rate change impact. For assets and liabilities with non fixed maturity, certain assumptions are made to reflect the actual sensitivity behaviour of these interest bearing assets and liabilities.

Impact on equity represents the changes in fair values of fixed income instruments held in the AFS portfolio arising from the shift in the interest rate.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates (mainly consists of United States Dollar ('USD') and Singapore Dollar ('SGD')) on the consolidated currency position, while other variables remain constant.

	Group Impact on profit after tax RM'000	Bank Impact on profit after tax RM'000
2017		
+10%	**14,070**	**4,087**
-10%	**(14,070)**	**(4,087)**
2016		
+10%	38,701	46,505
-10%	(38,701)	(46,505)

Impact on the profit after taxation is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates:

Group 2017	Non-trading book Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	1,949,800	–	–	–	–	–	464,412	–	2,414,212
Deposits and placements with banks and other financial institutions									
Financial assets at FVTPL	–	14,318	–	7,418	–	–	370	–	22,106
Financial investments AFS	–	–	–	–	–	–	–	823,421	823,421
Financial investments HTM	–	10,015	–	90,865	153,888	549,239	98,242	–	902,249
Loans and advances	–	–	35,050	80,349	10,002	453,312	4,519	–	583,232
– performing	1,746,635	–	–	1	117	404	–	–	1,747,157
– impaired	–	–	–	–	–	–	6,771*	–	6,771
Clients' and brokers' balances	220,222	–	–	–	–	–	1,379,372	–	1,599,594
Other assets	–	100	100	–	–	3,411	201,112	–	204,723
Derivative assets	–	–	–	–	–	–	–	344	344
Statutory deposits	–	–	–	–	–	–	55,660	–	55,660
Tax recoverable	–	–	–	–	–	–	49,225	–	49,225
Deferred tax assets	–	–	–	–	–	–	14,839	–	14,839
Investments in associates and joint ventures	–	–	–	–	–	–	54,174	–	54,174
Property, plant and equipment	–	–	–	–	–	–	50,293	–	50,293
Goodwill and other intangible assets	–	–	–	–	–	–	572,604	–	572,604
TOTAL ASSETS	**3,916,657**	**24,433**	**35,150**	**178,633**	**164,007**	**1,006,366**	**2,951,593**	**823,765**	**9,100,604**

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Group 2017	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
LIABILITIES									
Deposits from customers	380,233	38,282	2,411	–	–	–	908	–	421,834
Deposits and placements of banks and other financial institutions	1,220,901	1,603,301	400,000	–	–	–	12,698	–	3,236,900
Bills and acceptances payable	–	6,185	–	–	–	–	–	–	6,185
Clients' and brokers' balances	102,121	–	–	–	–	–	1,261,404	–	1,363,525
Other liabilities	–	–	–	–	–	–	502,916	–	502,916
Derivative liabilities	–	–	–	–	–	–	–	46,013	46,013
Puttable financial instruments	–	–	–	–	–	–	78,825	–	78,825
Tax liabilities	–	–	–	–	–	–	6,136	–	6,136
Deferred tax liabilities	–	–	–	–	–	–	2,612	–	2,612
Borrowings	712,304	–	–	–	–	–	75	–	712,379
Subordinated obligations	–	–	–	–	200,000	200,000	4,263	–	404,263
TOTAL LIABILITIES	2,415,559	1,647,768	402,411	–	200,000	200,000	1,869,837	46,013	6,781,588
Shareholders' funds	–	–	–	–	–	–	2,309,821	–	2,309,821
Non-controlling interests	–	–	–	–	–	–	9,195	–	9,195
TOTAL LIABILITIES AND EQUITY	2,415,559	1,647,768	402,411	–	200,000	200,000	4,188,853	46,013	9,100,604
On-balance sheet interest sensitivity gap	1,501,098	(1,623,335)	(367,261)	178,633	(35,993)	806,366			
Off-balance sheet interest sensitivity gap	–	–	60,000	–	–	–			
TOTAL INTEREST-SENSITIVITY GAP	1,501,098	(1,623,335)	(307,261)	178,633	(35,993)	806,366			

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Group 2016	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	873,394	–	–	–	–	–	190,989	–	1,064,383
Deposits and placements with banks and other financial institutions									
Financial assets at FVTPL	–	350,466	–	8,487	–	–	65	–	359,018
Financial investments AFS	–	–	–	–	–	–	–	612,105	612,105
Financial investments HTM	1,085	12,327	22,641	207,219	509,865	983,280	120,259	–	1,856,676
Loans and advances	–	30,000	–	20,055	141,130	203,899	3,480	–	398,564
– performing	1,714,222	–	–	3,138	281	443	39	–	1,718,123
– impaired	–	–	–	–	–	–	74,049*	–	74,049
Clients' and brokers' balances	286,643	–	–	–	–	–	1,804,141	–	2,090,784
Other assets	6,475	100	100	–	–	3,260	264,779	–	274,714
Derivative assets	–	–	–	–	–	–	–	7,325	7,325
Statutory deposits	–	–	–	–	–	–	85,144	–	85,144
Tax recoverable	–	–	–	–	–	–	61,528	–	61,528
Deferred tax assets	–	–	–	–	–	–	19,477	–	19,477
Investments in associates and joint ventures	–	–	–	–	–	–	54,989	–	54,989
Property, plant and equipment	–	–	–	–	–	–	60,402	–	60,402
Goodwill and other intangible assets	–	–	–	–	–	–	1,320,892	–	1,320,892
TOTAL ASSETS	2,881,819	392,893	22,741	238,899	651,276	1,190,882	4,060,233	619,430	10,058,173

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Group 2016	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
LIABILITIES									
Deposits from customers	547,404	99,599	28,372	4,690	–	–	1,970	–	682,035
Deposits and placements of banks and other financial institutions	1,894,993	785,584	100	9,000	–	–	3,941	–	2,693,618
Bills and acceptances payable	68,789	87,359	24,783	–	–	–	–	–	180,931
Clients' and brokers' balances	–	–	–	–	–	–	1,740,563	–	1,740,563
Other liabilities	1,132	150	–	8,489	–	–	464,024	–	473,795
Derivative liabilities	–	–	–	–	–	–	–	37,197	37,197
Puttable financial instruments	–	–	–	–	–	–	68,706	–	68,706
Tax liabilities	–	–	–	–	–	–	11,583	–	11,583
Deferred tax liabilities	–	–	–	–	–	–	3,189	–	3,189
Borrowings	552,720	–	–	–	–	–	–	–	552,720
Subordinated obligations	–	–	–	245,000	–	200,000	2,595	–	447,595
TOTAL LIABILITIES	3,065,038	972,692	53,255	267,179	–	200,000	2,296,571	37,197	6,891,932
Shareholders' funds	–	–	–	–	–	–	3,158,039	–	3,158,039
Non-controlling interests	–	–	–	–	–	–	8,202	–	8,202
TOTAL LIABILITIES AND EQUITY	3,065,038	972,692	53,255	267,179	–	200,000	5,462,812	37,197	10,058,173
On-balance sheet interest sensitivity gap	(183,219)	(579,799)	(30,514)	(28,280)	651,276	990,882			
Off-balance sheet interest sensitivity gap	–	–	(40,000)	–	60,000	–			
TOTAL INTEREST-SENSITIVITY GAP	(183,219)	(579,799)	(70,514)	(28,280)	711,276	990,882			

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates.

Bank 2017	Non-trading book Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short term funds	1,736,744	–	–	–	–	–	1,342	–	1,738,086
Financial assets at FVTPL	–	–	–	–	–	–	–	149,139	149,139
Financial investments AFS	–	10,015	–	90,865	153,853	549,238	78,182	–	882,153
Financial investments HTM	–	–	35,050	80,349	10,002	453,312	4,519	–	583,232
Loans and advances									
– performing	1,142,582	–	–	1	116	404	–	–	1,143,103
– impaired	–	–	–	–	–	–	448*	–	448
Clients' and brokers' balances	9,925	–	–	–	–	–	891,993	–	901,918
Other assets	–	–	–	–	–	3,411	67,343	–	70,754
Derivative assets	–	–	–	–	–	–	–	343	343
Statutory deposits	–	–	–	–	–	–	51,650	–	51,650
Tax recoverable	–	–	–	–	–	–	45,470	–	45,470
Deferred tax assets	–	–	–	–	–	–	1,180	–	1,180
Investments in subsidiaries	–	–	–	–	–	–	1,478,140	–	1,478,140
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	–	21,057
Property, plant and equipment	–	–	–	–	–	–	24,888	–	24,888
Goodwill and other intangible assets	–	–	–	–	–	–	400,095	–	400,095
TOTAL ASSETS	**2,889,251**	**10,015**	**35,050**	**171,215**	**163,971**	**1,006,365**	**3,066,307**	**149,482**	**7,491,656**

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Bank 2017	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	396,348	38,282	2,411	–	–	–	908	–	437,949
Deposits and placements of banks and other financial institutions	1,233,425	1,603,301	400,000	–	–	–	12,698	–	3,249,424
Clients' and brokers' balances	–	–	–	–	–	–	772,320	–	772,320
Other liabilities	–	–	–	–	–	–	170,994	–	170,994
Derivative liabilities	–	–	–	–	–	–	–	45,873	45,873
Subordinated obligations	–	–	–	–	200,000	200,000	4,263	–	404,263
TOTAL LIABILITIES	1,629,773	1,641,583	402,411	–	200,000	200,000	961,183	45,873	5,080,823
Total equity	–	–	–	–	–	–	2,410,833	–	2,410,833
TOTAL LIABILITIES AND EQUITY	1,629,773	1,641,583	402,411	–	200,000	200,000	3,372,016	45,873	7,491,656
On-balance sheet interest sensitivity gap	1,259,478	(1,631,568)	(367,361)	171,215	(36,029)	806,365			
Off-balance sheet interest sensitivity gap	–	–	60,000	–	–	–			
TOTAL INTEREST-SENSITIVITY GAP	1,259,478	(1,631,568)	(307,361)	171,215	(36,029)	806,365			

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

Bank 2016	Non-trading book Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short term funds	477,883	–	–	–	–	–	243	–	478,126
Deposits and placements with banks and other financial institutions	–	350,000	–	–	–	–	65	–	350,065
Financial assets at FVTPL	–	–	–	–	–	–	–	54,854	54,854
Financial investments AFS	1,085	12,327	22,641	207,219	509,865	983,280	97,101	–	1,833,518
Financial investments HTM	–	30,000	–	20,055	141,130	203,899	3,480	–	398,564
Loans and advances									
– performing	1,071,877	–	–	3,138	281	443	39	–	1,075,778
– impaired	–	–	–	–	–	–	45,385*	–	45,385
Clients' and brokers' balances	10,723	–	–	–	–	–	779,676	–	790,399
Other assets	–	–	–	–	–	3,260	70,587	–	73,847
Derivative assets	–	–	–	–	–	–	–	7,202	7,202
Statutory deposits	–	–	–	–	–	–	80,700	–	80,700
Tax recoverable	–	–	–	–	–	–	58,393	–	58,393
Deferred tax assets	–	–	–	–	–	–	7,919	–	7,919
Investments in subsidiaries	–	–	–	–	–	–	1,504,725	–	1,504,725
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	–	21,057
Property, plant and equipment	–	–	–	–	–	–	27,802	–	27,802
Goodwill and other intangible assets	–	–	–	–	–	–	1,145,504	–	1,145,504
TOTAL ASSETS	1,561,568	392,327	22,641	230,412	651,276	1,190,882	3,842,676	62,056	7,953,838

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Bank 2016	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
LIABILITIES									
Deposits from customers	563,171	99,599	28,372	4,690	–	–	1,970	–	697,802
Deposits and placements of banks and other financial institutions	1,966,161	785,584	100	9,000	–	–	3,942	–	2,764,787
Clients' and brokers' balances	–	–	–	–	–	–	682,073	–	682,073
Other liabilities	1,132	150	–	8,489	–	–	159,937	–	169,708
Derivative liabilities	–	–	–	–	–	–	–	36,425	36,425
Subordinated obligations	–	–	–	245,000	–	200,000	2,595	–	447,595
TOTAL LIABILITIES	2,530,464	885,333	28,472	267,179	–	200,000	850,517	36,425	4,798,390
Total equity	–	–	–	–	–	–	3,155,448	–	3,155,448
TOTAL LIABILITIES AND EQUITY	2,530,464	885,333	28,472	267,179	–	200,000	4,005,965	36,425	7,953,838
On-balance sheet interest sensitivity gap	(968,896)	(493,006)	(5,831)	(36,767)	651,276	990,882			
Off-balance sheet interest sensitivity gap	–	–	(40,000)	–	60,000	–			
TOTAL INTEREST-SENSITIVITY GAP	(968,896)	(493,006)	(45,831)	(36,767)	711,276	990,882			

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Group has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Group continues to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

The Group and the Bank seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity:

Group 2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	2,312,678	101,534	–	–	–	–	–	2,414,212
Deposits and placements with banks and other financial institutions	–	–	14,318	–	7,788	–	–	22,106
Financial assets at FVTPL	–	17,231	–	23	–	–	806,167	823,421
Financial investments AFS	–	735	13,588	2,064	90,865	703,092	91,905	902,249
Financial investments HTM	–	183	931	38,433	80,349	463,336	–	583,232
Loans and advances	1,642,259	111,161	25	38	62	383	–	1,753,928
Clients' and brokers' balances	1,119,716	479,878	–	–	–	–	–	1,599,594
Other assets	137,659	19,752	5,473	3,082	9,310	4,219	25,228	204,723
Derivative assets	88	–	–	42	214	–	–	344
Statutory deposits	–	–	–	–	–	–	55,660	55,660
Tax recoverable	–	–	–	–	–	–	49,225	49,225
Deferred tax assets	–	–	–	–	–	–	14,839	14,839
Investments in associates and joint ventures	–	–	–	–	–	–	54,174	54,174
Property, plant and equipment	–	–	–	–	–	–	50,293	50,293
Goodwill and other intangible assets	–	–	–	–	–	–	572,604	572,604
TOTAL ASSETS	5,212,400	730,474	34,335	43,682	188,588	1,171,030	1,720,095	9,100,604
LIABILITIES								
Deposits from customers	22,550	358,282	38,523	2,479	–	–	–	421,834
Deposits and placements of banks and other financial institutions	150,834	1,077,976	1,607,973	400,117	–	–	–	3,236,900
Bills and acceptances payable	–	–	6,185	–	–	–	–	6,185
Clients' and brokers' balances	954,467	409,058	–	–	–	–	–	1,363,525
Other liabilities	240,911	180,950	39,014	7,652	11,128	5	23,256	502,916
Derivative liabilities	37	3,580	40,025	118	2,120	–	133	46,013
Puttable financial instruments	78,825	–	–	–	–	–	–	78,825
Tax liabilities	–	–	–	–	–	–	6,136	6,136
Deferred tax liabilities	–	–	–	–	–	–	2,612	2,612
Borrowings	220,378	492,001	–	–	–	–	–	712,379
Subordinated obligations	–	–	–	4,263	–	400,000	–	404,263
TOTAL LIABILITIES	1,668,002	2,521,847	1,731,720	414,629	13,248	400,005	32,137	6,781,588
Total equity	–	–	–	–	–	–	2,319,016	2,319,016
TOTAL LIABILITIES AND EQUITY	1,668,002	2,521,847	1,731,720	414,629	13,248	400,005	2,351,153	9,100,604

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Group 2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	945,278	119,105	–	–	–	–	–	1,064,383
Deposits and placements with banks and other financial institutions	–	–	350,531	–	8,487	–	–	359,018
Financial assets at FVTPL	–	–	–	21	1,000	16,399	594,685	612,105
Financial investments AFS	2,552	2,163	21,493	25,993	207,219	1,506,363	90,893	1,856,676
Financial investments HTM	203	127	30,910	1,657	20,055	345,612	–	398,564
Loans and advances	1,660,322	52,525	2,458	47,301	8,086	21,480	–	1,792,172
Clients' and brokers' balances	1,463,549	627,235	–	–	–	–	–	2,090,784
Other assets	94,126	121,979	19,970	5,296	5,446	4,247	23,650	274,714
Derivative assets	16	1,059	5,256	394	–	600	–	7,325
Statutory deposits	–	–	–	–	–	–	85,144	85,144
Tax recoverable	–	–	–	–	–	–	61,528	61,528
Deferred tax assets	–	–	–	–	–	–	19,477	19,477
Investments in associates and joint ventures	–	–	–	–	–	–	54,989	54,989
Property, plant and equipment	–	–	–	–	–	–	60,402	60,402
Goodwill and other intangible assets	–	–	–	–	–	–	1,320,892	1,320,892
TOTAL ASSETS	4,166,046	924,193	430,618	80,662	250,293	1,894,701	2,311,660	10,058,173
LIABILITIES								
Deposits from customers	310,156	238,661	99,911	28,572	4,735	–	–	682,035
Deposits and placements of banks and other financial institutions	763,013	1,134,243	787,239	102	9,021	–	–	2,693,618
Bills and acceptances payable	–	68,789	87,359	24,783	–	–	–	180,931
Clients' and brokers' balances	1,262,838	477,725	–	–	–	–	–	1,740,563
Other liabilities	189,899	177,728	50,674	6,848	16,843	5,845	25,958	473,795
Derivative liabilities	7	2,291	33,702	257	901	39	–	37,197
Puttable financial instruments	68,706	–	–	–	–	–	–	68,706
Tax liabilities	–	–	–	–	–	–	11,583	11,583
Deferred tax liabilities	–	–	–	–	–	–	3,189	3,189
Borrowings	481,344	71,376	–	–	–	–	–	552,720
Subordinated obligations	–	–	–	–	245,561	202,034	–	447,595
TOTAL LIABILITIES	3,075,963	2,170,813	1,058,885	60,562	277,061	207,918	40,730	6,891,932
Total equity	–	–	–	–	–	–	3,166,241	3,166,241
TOTAL LIABILITIES AND EQUITY	3,075,963	2,170,813	1,058,885	60,562	277,061	207,918	3,206,971	10,058,173

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Bank 2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	1,684,964	53,122	–	–	–	–	–	1,738,086
Financial assets at FVTPL	–	–	–	23	–	–	149,116	149,139
Financial investments AFS	–	735	13,588	2,064	90,865	703,091	71,810	882,153
Financial investments HTM	–	183	931	38,433	80,349	463,336	–	583,232
Loans and advances	1,143,030	13	25	38	62	383	–	1,143,551
Clients' and brokers' balances	631,343	270,575	–	–	–	–	–	901,918
Other assets	67,343	–	–	–	–	3,411	–	70,754
Derivative assets	87	–	–	42	214	–	–	343
Statutory deposits	–	–	–	–	–	–	51,650	51,650
Tax recoverable	–	–	–	–	–	–	45,470	45,470
Deferred tax assets	–	–	–	–	–	–	1,180	1,180
Investments in subsidiaries	–	–	–	–	–	–	1,478,140	1,478,140
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	21,057
Property, plant and equipment	–	–	–	–	–	–	24,888	24,888
Goodwill and other intangible assets	–	–	–	–	–	–	400,095	400,095
TOTAL ASSETS	3,526,767	324,628	14,544	40,600	171,490	1,170,221	2,243,406	7,491,656
LIABILITIES								
Deposits from customers	22,550	374,397	38,523	2,479	–	–	–	437,949
Deposits and placements of banks and other financial institutions	150,834	1,090,499	1,607,973	400,118	–	–	–	3,249,424
Clients' and brokers' balances	540,624	231,696	–	–	–	–	–	772,320
Other liabilities	13,177	157,817	–	–	–	–	–	170,994
Derivative liabilities	37	3,573	40,025	118	2,120	–	–	45,873
Subordinated obligations	–	–	–	4,263	–	400,000	–	404,263
TOTAL LIABILITIES	727,222	1,857,982	1,686,521	406,978	2,120	400,000	–	5,080,823
Total equity	–	–	–	–	–	–	2,410,833	2,410,833
TOTAL LIABILITIES AND EQUITY	727,222	1,857,982	1,686,521	406,978	2,120	400,000	2,410,833	7,491,656

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Bank 2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	465,804	12,322	–	–	–	–	–	478,126
Deposits and placements with banks and other financial institutions	–	–	350,065	–	–	–	–	350,065
Financial assets at FVTPL	–	–	–	21	1,000	16,399	37,434	54,854
Financial investments AFS	2,552	2,163	21,493	25,993	207,219	1,506,363	67,735	1,833,518
Financial investments HTM	203	127	30,910	1,657	20,055	345,612	–	398,564
Loans and advances	1,041,824	14	2,458	47,301	8,086	21,480	–	1,121,163
Clients' and brokers' balances	553,279	237,120	–	–	–	–	–	790,399
Other assets	62,057	537	7,713	60	211	3,269	–	73,847
Derivative assets	16	1,059	5,133	394	–	600	–	7,202
Statutory deposits	–	–	–	–	–	–	80,700	80,700
Tax recoverable	–	–	–	–	–	–	58,393	58,393
Deferred tax assets	–	–	–	–	–	–	7,919	7,919
Investments in subsidiaries	–	–	–	–	–	–	1,504,725	1,504,725
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	21,057
Property, plant and equipment	–	–	–	–	–	–	27,802	27,802
Goodwill and other intangible assets	–	–	–	–	–	–	1,145,504	1,145,504
TOTAL ASSETS	2,125,735	253,342	417,772	75,426	236,571	1,893,723	2,951,269	7,953,838
LIABILITIES								
Deposits from customers	325,923	238,661	99,911	28,572	4,735	–	–	697,802
Deposits and placements of banks and other financial institutions	834,182	1,134,243	787,239	102	9,021	–	–	2,764,787
Clients' and brokers' balances	477,451	204,622	–	–	–	–	–	682,073
Other liabilities	4,759	156,280	150	–	8,519	–	–	169,708
Derivative liabilities	7	2,291	32,930	257	901	39	–	36,425
Subordinated obligations	–	–	–	–	245,561	202,034	–	447,595
TOTAL LIABILITIES	1,642,322	1,736,097	920,230	28,931	268,737	202,073	–	4,798,390
Total equity	–	–	–	–	–	–	3,155,448	3,155,448
TOTAL LIABILITIES AND EQUITY	1,642,322	1,736,097	920,230	28,931	268,737	202,073	3,155,448	7,953,838

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the cash outflows for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

Group	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2017							
LIABILITIES							
Deposits from customers	**381,427**	**41,222**	**–**	**–**	**–**	**–**	**422,649**
Deposits and placements of banks and other financial institutions	**1,230,652**	**2,022,021**	**–**	**–**	**–**	**–**	**3,252,673**
Bills and acceptances payable	**–**	**6,185**	**–**	**–**	**–**	**–**	**6,185**
Clients' and brokers' balances	**1,363,525**	**–**	**–**	**–**	**–**	**–**	**1,363,525**
Other financial liabilities	**421,875**	**50,570**	**11,516**	**18,980**	**–**	**–**	**502,941**
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	**(15,607)**	**–**	**–**	**–**	**–**	**–**	**(15,607)**
– Outflow	**15,645**	**7**	**–**	**–**	**–**	**–**	**15,652**
– Net settled derivatives	**3,580**	**40,204**	**2,185**	**1**	**–**	**–**	**45,970**
Puttable financial instruments	**78,825**	**–**	**–**	**–**	**–**	**–**	**78,825**
Borrowings	**712,379**	**–**	**–**	**–**	**–**	**–**	**712,379**
Subordinated obligations	**–**	**9,823**	**9,877**	**234,517**	**219,573**	**–**	**473,790**
TOTAL FINANCIAL LIABILITIES	**4,192,301**	**2,170,032**	**23,578**	**253,498**	**219,573**	**–**	**6,858,982**
2016							
Deposits from customers	549,480	129,431	4,844	–	–	–	683,755
Deposits and placements of banks and other financial institutions	1,898,618	790,930	9,342	–	–	–	2,698,890
Bills and acceptances payable	68,895	112,738	–	–	–	–	181,633
Clients' and brokers' balances	1,740,563	–	–	–	–	–	1,740,563
Other financial liabilities	393,211	57,764	16,998	5,846	–	–	473,819
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(911)	(20,806)	–	–	–	–	(21,717)
– Outflow	1,880	42,022	–	–	–	–	43,902
– Net settled derivatives	1,389	12,339	1,133	151	–	–	15,012
Puttable financial instruments	68,706	–	–	–	–	–	68,706
Borrowings	552,720	–	–	–	–	–	552,720
Subordinated obligations	–	–	265,623	–	224,764	–	490,387
TOTAL FINANCIAL LIABILITIES	5,274,551	1,124,418	297,940	5,997	224,764	–	6,927,670

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

Bank	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2017							
Deposits from customers	**397,565**	**41,222**	**–**	**–**	**–**	**–**	**438,787**
Deposits and placements of banks and other financial institutions	**1,243,193**	**2,022,021**	**–**	**–**	**–**	**–**	**3,265,214**
Clients' and brokers' balances	**772,320**	**–**	**–**	**–**	**–**	**–**	**772,320**
Other financial liabilities	**171,008**	**–**	**–**	**–**	**–**	**–**	**171,008**
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	**(15,607)**	**–**	**–**	**–**	**–**	**–**	**(15,607)**
– Outflow	**15,645**	**–**	**–**	**–**	**–**	**–**	**15,645**
– Net settled derivatives	**3,573**	**40,143**	**2,120**	**–**	**–**	**–**	**45,836**
Subordinated obligations	**–**	**9,823**	**9,877**	**234,517**	**219,573**	**–**	**473,790**
TOTAL FINANCIAL LIABILITIES	**2,587,697**	**2,113,209**	**11,997**	**234,517**	**219,573**	**–**	**5,166,993**
2016							
Deposits from customers	565,247	129,431	4,844	–	–	–	699,522
Deposits and placements of banks and other financial institutions	1,969,786	790,930	9,342	–	–	–	2,770,058
Clients' and brokers' balances	682,073	–	–	–	–	–	682,073
Other financial liabilities	160,908	152	8,648	–	–	–	169,708
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(911)	(20,806)	–	–	–	–	(21,717)
– Outflow	1,880	42,022	–	–	–	–	43,902
– Net settled derivatives	1,330	11,972	900	39	–	–	14,241
Subordinated obligations	–	–	265,623	–	224,764	–	490,387
TOTAL FINANCIAL LIABILITIES	3,380,313	953,701	289,357	39	224,764	–	4,848,174

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's commitments and contingencies:

Group	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2017			
Irrevocable commitments to extend credit	**1,516,982**	**4,164**	**1,521,146**
TOTAL COMMITMENTS AND CONTINGENCIES	**1,516,982**	**4,164**	**1,521,146**
2016			
Irrevocable commitments to extend credit	2,067,036	600	2,067,636
TOTAL COMMITMENTS AND CONTINGENCIES	2,067,036	600	2,067,636

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

Bank	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2017			
Obligations under underwriting agreements	**45,761**	**–**	**45,761**
Direct credit substitutes	**151,583**	**–**	**151,583**
Irrevocable commitments to extend credit	**536,472**	**22**	**536,494**
TOTAL COMMITMENTS AND CONTINGENCIES	**733,816**	**22**	**733,838**
2016			
Direct credit substitutes	184,222	–	184,222
Irrevocable commitments to extend credit	357,990	22	358,012
TOTAL COMMITMENTS AND CONTINGENCIES	542,212	22	542,234

Undrawn loans commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group and the Bank. The Group and the Bank expect that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as off balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Group and the Bank:

	Group	
	2017 RM'000	**2016 RM'000**
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**2,414,019**	1,064,215
Deposits and placements with banks and other financial institutions	**22,106**	359,018
Financial assets and investments portfolios (exclude equity instruments):		
– Fair value through profit or loss	**23**	17,421
– Available-for-sale	**810,343**	1,765,783
– Held-to-maturity	**583,232**	398,564
Loans and advances	**1,753,928**	1,792,172
Clients' and brokers' balances	**1,599,594**	2,090,784
Other financial assets	**183,041**	255,412
Derivative assets	**344**	7,325
	7,366,630	7,750,694
Credit risk exposure relating to off-balance sheet items:		
Commitments and contingencies	**1,521,146**	2,067,636
Total maximum credit risk exposure	**8,887,776**	9,818,330

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

	Bank	
	2017 RM'000	**2016 RM'000**
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**1,738,003**	478,051
Deposits and placements with banks and other financial institutions	**–**	350,065
Financial assets and investments portfolios (exclude equity instruments):		
– Fair value through profit or loss	**23**	17,421
– Available-for-sale	**810,343**	1,765,783
– Held-to-maturity	**583,232**	398,564
Loans and advances	**1,143,551**	1,121,163
Clients' and brokers' balances	**901,918**	790,399
Other financial assets	**64,353**	69,035
Derivative assets	**343**	7,202
	5,241,766	4,997,683
Credit risk exposure relating to off-balance sheet items:		
Commitments and contingencies	**733,838**	542,234
Total maximum credit risk exposure	**5,975,604**	5,539,917

(ii) Collaterals

The main types of collateral obtained by the Group and the Bank are as follows:

(a) Fixed deposits and cash deposits/margin

(b) Land and buildings

(c) Quoted shares, warrants and unquoted securities

The Group and the Bank also accepts non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, which are subject to internal guidelines on eligibility.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for loans and advances as at 31 December 2017 for the Group and the Bank are 99.3% (2016: 99.4%) and 100.0% (2016: 95.2%) respectively and clients' and brokers' balances as at 31 December 2017 for the Group and the Bank are 96.4% (2016: 96.0%) and 98.5% (2016: 98.0%) respectively. The financial effect of collateral held for the other financial assets are insignificant.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality

The Group and the Bank assess credit quality of loans and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
– Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Group and Bank
– Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Group and Bank
– No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system

The credit quality of financial assets other than loans and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

– AAA to AA3
– A1 to A3
– Baa1 to Baa3
– P1 to P3

(a) Loans and advances

Loans and advances are summarised as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Neither past due nor impaired	**1,747,157**	1,718,123	**1,143,103**	1,075,778
Individually impaired	**93,677**	129,166	**454**	55,803
Gross loans and advances	**1,840,834**	1,847,289	**1,143,557**	1,131,581
Less: Individual impairment allowance	**(86,905)**	(54,887)	**(5)**	(9,966)
Collective impairment allowance	**(1)**	(230)	**(1)**	(452)
Net loans and advances	**1,753,928**	1,792,172	**1,143,551**	1,121,163

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(a) Loans and advances (continued)

(i) Loans and advances neither past due nor impaired

Analysis of loans and advances that are neither past due nor impaired analysed based on the Group's and the Bank's internal credit grading system is as follows:

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Good	**–**	399,620	**–**	75,388
No rating	**1,747,157**	1,318,503	**1,143,103**	1,000,390
	1,747,157	1,718,123	**1,143,103**	1,075,778

Loans and advances classified as non-rated mainly comprise of loans under the standardised approach for credit risk including share margin financing and staff loans.

(ii) Loans and advances that are individually determined to be impaired are as follows:

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Individually impaired loans	**93,677**	129,166	**454**	55,803

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, derivative assets and other assets are summarised as follows:

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other financial assets RM'000	Derivative assets RM'000
2017							
Neither past due nor impaired	**2,436,125**	**23**	**810,343**	**583,232**	**1,544,698**	**180,924**	**344**
Past due but not impaired	**–**	**–**	**–**	**–**	**54,896**	**426**	**–**
Impaired	**–**	**–**	**5,259**	**79,405**	**31,825**	**18,345**	**–**
	2,436,125	**23**	**815,602**	**662,637**	**1,631,419**	**199,695**	**344**
Less: Impairment losses	**–**	**–**	**(5,259)**	**(79,405)**	**(31,825)**	**(16,654)**	**–**
	2,436,125	**23**	**810,343**	**583,232**	**1,599,594**	**183,041**	**344**
2016							
Neither past due nor impaired	1,423,233	17,421	1,750,013	398,004	2,054,376	254,648	7,325
Past due but not impaired	–	–	–	–	36,050	764	–
Impaired	–	–	105,984	109,376	33,534	17,029	–
	1,423,233	17,421	1,855,997	507,380	2,123,960	272,441	7,325
Less: Impairment losses	–	–	(90,214)	(108,816)	(33,176)	(17,029)	–
	1,423,233	17,421	1,765,783	398,564	2,090,784	255,412	7,325

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, derivative assets and other assets are summarised as follows: (continued)

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other financial assets RM'000	Derivative assets RM'000
2017							
Neither past due nor impaired	**1,738,003**	**23**	**810,343**	**583,232**	**901,918**	**64,353**	**343**
Impaired	**–**	**–**	**5,259**	**79,405**	**6,809**	**15,904**	**–**
	1,738,003	**23**	**815,602**	**662,637**	**908,727**	**80,257**	**343**
Less: Impairment losses	**–**	**–**	**(5,259)**	**(79,405)**	**(6,809)**	**(15,904)**	**–**
	1,738,003	**23**	**810,343**	**583,232**	**901,918**	**64,353**	**343**
2016							
Neither past due nor impaired	828,116	17,421	1,750,013	398,004	790,399	69,035	7,202
Impaired	–	–	105,984	109,376	7,971	15,745	–
	828,116	17,421	1,855,997	507,380	798,370	84,780	7,202
Less: Impairment losses	–	–	(90,214)	(108,816)	(7,971)	(15,745)	–
	828,116	17,421	1,765,783	398,564	790,399	69,035	7,202

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows:

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other financial assets RM'000	Derivative assets RM'000
2017							
AAA to AA3	–	–	–	–	–	–	214
AA	–	22	–	–	–	–	42
A1 to A3	–	–	–	8,834	–	–	–
Baa1 to Baa3	–	–	–	–	–	–	–
P1 to P3	2,412,420	–	–	–	–	2,599	88
Non-rated including:	23,705	1	810,343	574,398	1,544,698	178,325	–
– Malaysian Government Securities	–	–	139,092	–	–	–	–
– Malaysian Government Investment Issues	–	1	140,795	457,199	–	–	–
– Corporate bonds/Sukuk	–	–	419,600	105,637	–	–	–
– SPK Bonds	–	–	69,474	–	–	–	–
– Khazanah bonds	–	–	41,382	11,562	–	–	–
– Others	23,705	–	–	–	1,544,698	178,325	–
	2,436,125	23	810,343	583,232	1,544,698	180,924	344

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows: (continued)

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other financial assets RM'000	Derivative assets RM'000
2016							
AAA to AA3	–	30	846,438	45,739	–	–	477
AA	–	–	–	–	–	–	3,012
A1 to A3	–	–	263,881	9,810	–	–	–
Baa1 to Baa3	–	1	40,442	–	–	–	–
P1 to P3	1,374,243	1,000	–	–	–	19,896	3,713
Non-rated including:	48,990	16,390	599,252	342,455	2,054,376	234,752	123
– Malaysian Government Securities	–	–	217,072	20,295	–	–	–
– Malaysian Government Investment Issues	–	–	148,794	245,678	–	–	–
– Corporate bonds/Sukuk	–	16,390	124,999	65,363	–	–	–
– SPK Bonds	–	–	68,919	–	–	–	–
– Khazanah bonds	–	–	39,468	11,119	–	–	–
– Others	48,990	–	–	–	2,054,376	234,752	123
	1,423,233	17,421	1,750,013	398,004	2,054,376	254,648	7,325

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows: (continued)

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other financial assets RM'000	Derivative assets RM'000
2017							
AAA to AA3	–	–	–	–	–	–	214
AA	–	22	–	–	–	–	42
A1 to A3	–	–	–	8,834	–	–	–
Baa1 to Baa3	–	–	–	–	–	–	–
P1 to P3	1,738,003	–	–	–	–	25	87
Non-rated including:	–	1	810,343	574,398	901,918	64,328	–
– Malaysian Government Securities	–	–	139,092	–	–	–	–
– Malaysian Government Investment Issues	–	1	140,795	457,199	–	–	–
– Corporate bonds/Sukuk	–	–	419,600	105,637	–	–	–
– SPK Bonds	–	–	69,474	–	–	–	–
– Khazanah bonds	–	–	41,382	11,562	–	–	–
– Others	–	–	–	–	901,918	64,328	–
	1,738,003	23	810,343	583,232	901,918	64,353	343

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows: (continued)

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other financial assets RM'000	Derivative assets RM'000
2016							
AAA to AA3	–	30	846,438	45,739	–	–	477
AA	–	–	–	–	–	–	3,012
A1 to A3	–	–	263,881	9,810	–	–	–
Baa1 to Baa3	–	1	40,442	–	–	–	–
P1 to P3	828,116	1,000	–	–	–	19,676	3,713
Non-rated including:	–	16,390	599,252	342,455	790,399	49,359	–
– Malaysian Government Securities	–	–	217,072	20,295	–	–	–
– Malaysian Government Investment Issues	–	–	148,794	245,678	–	–	–
– Corporate bonds/Sukuk	–	16,390	124,999	65,363	–	–	–
– SPK Bonds	–	–	68,919	–	–	–	–
– Khazanah bonds	–	–	39,468	11,119	–	–	–
– Others	–	–	–	–	790,399	49,359	–
	828,116	17,421	1,750,013	398,004	790,399	69,035	7,202

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitments and contingencies, are set out below:

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
2017								
Agriculture	–	–	19,851	–	424	–	2,013	22,288
Mining and quarrying	–	–	–	–	232	–	–	232
Manufacturing	–	–	–	–	–	–	4,278	4,278
Electricity, gas and water	–	22	95,560	20,049	–	–	–	115,631
Construction	–	–	–	–	–	–	–	–
Real estate	–	–	–	–	–	–	–	–
Purchase of landed property	–	–	–	–	488	–	18	506
Wholesale & retail trade and restaurants & hotel	–	–	–	–	819	–	2,448	3,267
Transport, storage and communication	–	–	–	4,930	3,389	–	1,611	9,930
Finance, insurance and business services	2,436,125	–	263,790	92,220	343,301	608	306,732	3,442,776
Government and government agencies	–	1	431,142	457,199	–	–	–	888,342
Purchase of securities	–	–	–	–	1,396,910	1,602,925	1,204,046	4,203,881
Purchase of transport vehicles	–	–	–	–	33	–	–	33
Others	–	–	–	8,834	8,333	182,777	–	199,944
	2,436,125	23	810,343	583,232	1,753,929	1,786,310	1,521,146	8,891,108

~ Excludes equity instrument amounting to RM823,398,000.

@ Excludes equity instrument amounting to RM91,906,000.

\# Excludes collective impairment allowance amounting to RM1,000.

* Excludes collective impairment allowance amounting to RM3,331,000. Other financial assets include other assets and derivative assets.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitments and contingencies, are set out below: (continued)

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
2016								
Agriculture	–	–	19,711	–	27,359	–	–	47,070
Mining and quarrying	–	–	–	–	232	–	3,267	3,499
Manufacturing	–	16,390	24,301	560	3,524	714	6,093	51,582
Electricity, gas and water	–	1,030	45,342	30,302	–	–	–	76,674
Construction	–	–	222,703	5,304	3,137	–	1	231,145
Real estate	–	–	–	–	–	–	278	278
Purchase of landed property	–	–	–	–	672	–	18	690
Wholesale & retail trade and restaurants & hotel	–	–	–	–	–	–	3,614	3,614
Transport, storage and communication	–	–	139,761	–	–	142	–	139,903
Finance, insurance and business services	1,160,908	1	879,180	86,615	372,229	8,012	456,373	2,963,318
Government and government agencies	–	–	434,785	265,973	–	–	–	700,758
Purchase of securities	–	–	–	–	1,366,279	2,107,515	1,522,518	4,996,312
Purchase of transport vehicles	–	–	–	–	53	–	–	53
Others	262,325	–	–	9,810	18,917	253,746	75,474	620,272
	1,423,233	17,421	1,765,783	398,564	1,792,402	2,370,129	2,067,636	9,835,168

~ Excludes equity instrument amounting to RM594,684,000.

@ Excludes equity instrument amounting to RM90,893,000.

Excludes collective impairment allowance amounting to RM230,000.

* Excludes collective impairment allowance amounting to RM16,608,000. Other financial assets include other assets and derivative assets.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
2017								
Agriculture	–	–	19,851	–	424	–	2,013	22,288
Mining and quarrying	–	–	–	–	232	–	–	232
Manufacturing	–	–	–	–	–	–	3,940	3,940
Electricity, gas and water	–	22	95,560	20,049	–	–	–	115,631
Construction	–	–	–	–	–	–	–	–
Real estate	–	–	–	–	–	–	–	–
Purchase of landed property	–	–	–	–	488	–	18	506
Wholesale & retail trade and restaurants & hotel	–	–	–	–	819	–	361	1,180
Transport, storage and communication	–	–	–	4,930	3,389	–	1,611	9,930
Finance, insurance and business services	1,738,003	–	263,790	92,220	305,778	605	244,546	2,644,942
Government and government agencies	–	1	431,142	457,199	–	–	–	888,342
Purchase of securities	–	–	–	–	824,056	901,939	481,349	2,207,344
Purchase of transport vehicles	–	–	–	–	33	–	–	33
Others	–	–	–	8,834	8,333	64,090	–	81,257
	1,738,003	23	810,343	583,232	1,143,552	966,634	733,838	5,975,625

~ Excludes equity instrument amounting to RM149,116,000.

@ Excludes equity instrument amounting to RM71,810,000.

Excludes collective impairment allowance amounting to RM1,000.

* Excludes collective impairment allowance amounting to RM20,000. Other financial assets include other assets and derivative assets.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitments and contingencies, are set out below: (continued)

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
2016								
Agriculture	–	–	19,711	–	27,359	–	–	47,070
Mining and quarrying	–	–	–	–	232	–	3,267	3,499
Manufacturing	–	16,390	24,301	560	3,524	714	6,093	51,582
Electricity, gas and water	–	1,030	45,342	30,302	–	–	–	76,674
Construction	–	–	222,703	5,304	3,137	–	1	231,145
Real estate	–	–	–	–	–	–	278	278
Purchase of landed property	–	–	–	–	672	–	18	690
Wholesale & retail trade and restaurants & hotel	–	–	–	–	–	–	144	144
Transport, storage and communication	–	–	139,761	–	–	142	–	139,903
Finance, insurance and business services	828,116	1	879,180	86,615	400,954	7,975	220,046	2,422,887
Government and government agencies	–	–	434,785	265,973	–	–	–	700,758
Purchase of securities	–	–	–	–	666,767	790,446	311,304	1,768,517
Purchase of transport vehicles	–	–	–	–	53	–	–	53
Others	–	–	–	9,810	18,917	67,406	1,083	97,216
	828,116	17,421	1,765,783	398,564	1,121,615	866,683	542,234	5,540,416

~ Excludes equity instrument amounting to RM37,433,000.

@ Excludes equity instrument amounting to RM67,735,000.

Excludes collective impairment allowance amounting to RM452,000.

* Excludes collective impairment allowance amounting to RM47,000. Other financial assets include other assets and derivative assets.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting financial assets and financial liabilities

The Group and the Bank report financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table shows the impact of netting arrangement on:

i. all financial assets and liabilities that are reported on the statements of financial position; and

ii. all derivative financial instruments (offsetting arrangement and financial collateral) but do not qualify for netting.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Effects of offsetting on the statements of financial position		Related amounts not offset		
Group	Gross amounts RM'000	Net amounts reported on statements of financial position RM'000	Financial investments RM'000	Financial collateral RM'000	Net amount RM'000
2017					
Financial assets					
Derivative assets	**344**	**344**	**(61)**	**–**	**283**
Financial liabilities					
Derivative liabilities	**46,013**	**46,013**	**(61)**	**–**	**45,952**
2016					
Financial assets					
Derivative assets	7,325	7,325	(3,813)	–	3,512
Financial liabilities					
Derivative liabilities	37,197	37,197	(3,813)	(7,789)	25,595

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting financial assets and financial liabilities (continued)

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements: (continued)

Bank	Effects of offsetting on the statements of financial position		Related amounts not offset		
	Gross amounts RM'000	Net amounts reported on statements of financial position RM'000	Financial investments RM'000	Financial collateral RM'000	Net amount RM'000
2017					
Financial assets					
Derivative assets	**343**	**343**	**(61)**	**–**	**282**
Financial liabilities					
Derivative liabilities	**45,873**	**45,873**	**(61)**	**–**	**45,812**
2016					
Financial assets					
Derivative assets	7,202	7,202	(3,813)	–	3,389
Financial liabilities					
Derivative liabilities	36,425	36,425	(3,813)	(7,789)	24,823

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement

The Group and the Bank analyse their financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial assets at FVTPL	463,539	23	359,859	823,421
– quoted securities	463,539	–	–	463,539
– unquoted securities	–	23	359,859	359,882
Financial investments AFS	58,828	810,343	33,078	902,249
– money market instruments	–	390,744	–	390,744
– quoted securities	58,828	–	–	58,828
– unquoted securities	–	419,599	33,078	452,677
Derivative assets	–	344	–	344
	522,367	810,710	392,937	1,726,014
Financial liabilities				
Derivative liabilities	45,947	66	–	46,013
Puttable financial instruments	78,825	–	–	78,825
	124,772	66	–	124,838

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy: (continued)

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2016				
Financial assets				
Financial assets at FVTPL	443,173	1,031	167,901	612,105
– quoted securities	443,173	–	–	443,173
– unquoted securities	–	1,031	167,901	168,932
Financial investments AFS	59,753	1,750,013	46,910	1,856,676
– money market instruments	–	474,253	–	474,253
– quoted securities	59,753	–	–	59,753
– unquoted securities	–	1,275,760	46,910	1,322,670
Derivative assets	–	7,325	–	7,325
	502,926	1,758,369	214,811	2,476,106
Financial liabilities				
Derivative liabilities	11,817	25,380	–	37,197
Puttable financial instruments	68,706	–	–	68,706
	80,523	25,380	–	105,903

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial assets at FVTPL	**149,116**	**23**	**–**	**149,139**
– quoted securities	**149,116**	**–**	**–**	**149,116**
– unquoted securities	**–**	**23**	**–**	**23**
Financial investments AFS	**41,530**	**810,343**	**30,280**	**882,153**
– money market instruments	**–**	**390,744**	**–**	**390,744**
– quoted securities	**41,530**	**–**	**–**	**41,530**
– unquoted securities	**–**	**419,599**	**30,280**	**449,879**
Derivative assets	**–**	**343**	**–**	**343**
	190,646	**810,709**	**30,280**	**1,031,635**
Financial liabilities				
Derivative liabilities	**45,814**	**59**	**–**	**45,873**

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy: (continued)

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2016				
Financial assets				
Financial assets at FVTPL	37,433	1,031	16,390	54,854
– quoted securities	37,433	–	–	37,433
– unquoted securities	–	1,031	16,390	17,421
Financial investments AFS	39,400	1,750,013	44,105	1,833,518
– money market instruments	–	474,253	–	474,253
– quoted securities	39,400	–	–	39,400
– unquoted securities	–	1,275,760	44,105	1,319,865
Derivative assets	–	7,202	–	7,202
	76,833	1,758,246	60,495	1,895,574
Financial liabilities				
Derivative liabilities	11,045	25,380	–	36,425

There were no transfers between Level 1 and Level 2 during the financial year.

Qualitative disclosures of valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include quoted securities and unit trusts.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement (continued)

Qualitative disclosures of valuation techniques (continued)

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio-economic reasons and unquoted corporate loan stocks. Fair values for shares held for socio-economic reasons are based on the net tangible assets of the affected companies. For unquoted corporate loan stocks, discounted cash flow analysis has been performed to determine the recoverability of the instrument.

Reconciliation of fair value measurements in Level 3:

The following represents the changes in Level 3 instruments for the Group and the Bank:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balance as at the beginning of the financial year	**214,811**	273,934	**60,495**	83,333
Total gains/(losses) recognised in other comprehensive income	**1,945**	(19,451)	**1,945**	3,679
Total (losses)/gains recognised in income statements				
– Other operating (loss)/income	**(10,355)**	(4,936)	**322**	(17,791)
– Impairment losses made	**–**	(8,726)	**–**	(8,726)
– Reversal of impairment losses	**–**	640	**–**	640
Purchases	**243,928**	252,043	**–**	–
Settlements	**(10,685)**	(239,217)	**–**	(640)
Business transferred to holding company	**(32,482)**	–	**(32,482)**	–
Transfer to investments in an associates	**–**	(45,000)	**–**	–
Exchange differences	**(14,225)**	5,524	**–**	–
Balance as at the end of the financial year	**392,937**	214,811	**30,280**	60,495

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of each financial assets and liabilities presented on the statements of financial position of the Group and the Bank approximates the carrying amounts as at the reporting date, except for the following:

	Group		Bank	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
2017				
Financial assets				
Financial investments HTM	**583,232**	**579,621**	**583,232**	**579,621**
Loans and advances	**1,753,928**	**1,753,928**	**1,143,551**	**1,143,551**
	2,337,160	**2,333,549**	**1,726,783**	**1,723,172**
Financial liabilities				
Deposits from customers	**421,834**	**421,834**	**437,949**	**437,949**
Deposits and placements of banks and other financial institutions	**3,236,900**	**3,236,900**	**3,249,424**	**3,249,424**
Subordinated obligations	**404,263**	**400,654**	**404,263**	**400,654**
	4,062,997	**4,059,388**	**4,091,636**	**4,088,027**
2016				
Financial assets				
Financial investments HTM	398,564	394,990	398,564	394,990
Loans and advances	1,792,172	1,792,172	1,121,163	1,121,163
	2,190,736	2,187,162	1,519,727	1,516,153
Financial liabilities				
Deposits from customers	682,035	682,025	697,802	697,792
Deposits and placements of banks and other financial institutions	2,693,618	2,693,627	2,764,787	2,764,795
Subordinated obligations	447,595	444,393	447,595	444,393
	3,823,248	3,820,045	3,910,184	3,906,980

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy the Group's and the Bank's assets and liabilities not measured at fair value at 31 December 2017 but for which fair value is disclosed:

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial investments HTM	**–**	**579,598**	**23**	**579,621**
Loans and advances	**–**	**1,753,928**	**–**	**1,753,928**
	–	**2,333,526**	**23**	**2,333,549**
Financial liabilities				
Deposits from customers	**–**	**421,834**	**–**	**421,834**
Deposits and placements of banks and other financial institutions	**–**	**3,236,900**	**–**	**3,236,900**
Subordinated obligations	**–**	**400,654**	**–**	**400,654**
	–	**4,059,388**	**–**	**4,059,388**
2016				
Financial assets				
Financial investments HTM	–	394,407	583	394,990
Loans and advances	–	1,792,172	–	1,792,172
	–	2,186,579	583	2,187,162
Financial liabilities				
Deposits from customers	–	682,025	–	682,025
Deposits and placements of banks and other financial institutions	–	2,693,627	–	2,693,627
Subordinated obligations	–	444,393	–	444,393
	–	3,820,045	–	3,820,045

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy the Group's and the Bank's assets and liabilities not measured at fair value at 31 December 2017 but for which fair value is disclosed: (continued)

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial investments HTM	**–**	**579,598**	**23**	**579,621**
Loans and advances	**–**	**1,143,551**	**–**	**1,143,551**
	–	**1,723,149**	**23**	**1,723,172**
Financial liabilities				
Deposits from customers	**–**	**437,949**	**–**	**437,949**
Deposits and placements of banks and other financial institutions	**–**	**3,249,424**	**–**	**3,249,424**
Subordinated obligations	**–**	**400,654**	**–**	**400,654**
	–	**4,088,027**	**–**	**4,088,027**
2016				
Financial assets				
Financial investments HTM	–	394,407	583	394,990
Loans and advances	–	1,121,163	–	1,121,163
	–	1,515,570	583	1,516,153
Financial liabilities				
Deposits from customers	–	697,792	–	697,792
Deposits and placements of banks and other financial institutions	–	2,764,795	–	2,764,795
Subordinated obligations	–	444,393	–	444,393
	–	3,906,980	–	3,906,980

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair values are based on the following methodologies and assumptions:

(i) Cash and short-term funds and deposits and placements with financial institutions

For cash and short-term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Financial assets at FVTPL, financial investments HTM and AFS

The estimated fair value of financial assets at FVTPL, financial investments HTM and AFS is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicate yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for similar instrument at the date of statement of financial position.

(iii) Loans and advances

For floating rate loans, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risk and maturities.

The fair values of impaired loans are represented by their carrying value, net of impairment allowance.

(iv) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in "other assets and liabilities" are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

(v) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(vi) Deposits and placements of banks and other financial institutions and bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair values are based on the following methodologies and assumptions: (continued)

(vii) Borrowings

For floating rate borrowings, the carrying value is generally a reasonable estimate of fair value.

The estimated fair values of other borrowings with maturities of less than six months approximate the carrying values. For other borrowings with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

(viii) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statements of financial position.

(ix) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(x) Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group or the Bank would receive to sell or pay to transfer the contracts at the date of statements of financial position.

45 CAPITAL ADEQUACY RATIO

BNM guidelines on capital adequacy requires the Group and the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

The capital adequacy ratios of the Group and the Bank are as follows:

	Group		Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Common Equity Tier I ('CET I')/Tier I Capital				
Paid-up ordinary share capital	**1,487,773**	818,646	**1,487,773**	818,646
Share premium	**–**	1,515,150	**–**	1,515,150
Retained profits	**669,730**	199,497	**883,218**	351,586
Other reserves	**112,410**	602,591	**–**	449,208
AFS reserves	**18,861**	876	**26,120**	7,850
	2,288,774	3,136,760	**2,397,111**	3,142,440
Less: Goodwill	**(523,911)**	(1,269,934)	**(372,395)**	(1,118,418)
Investments in subsidiaries, associates and joint ventures (portion deducted from CET I Capital)*	**(43,339)**	(32,993)	**(1,199,358)**	(915,469)
Other intangible assets (include associated deferred tax liabilities)	**(48,693)**	(50,958)	**(27,700)**	(27,086)
55% of cumulative gains of AFS financial instruments	**(10,374)**	(482)	**(14,366)**	(4,318)
Other deductions	**(12)**	(29)	**(12)**	(29)
Deferred tax assets	**(14,839)**	(19,477)	**(1,180)**	(7,919)
Reduction in excess of Tier II Capital due to insufficient Tier II Capital#	**–**	–	**–**	(151,853)
Total CET I Capital	**1,647,606**	1,762,887	**782,100**	917,348
Qualifying non-controlling interests recognised as Tier I Capital	**21,055**	12,321	**–**	–
Total Tier I Capital	**1,668,661**	1,775,208	**782,100**	917,348
Tier II Capital				
Subordinated obligations**	**–**	245,000	**–**	245,000
Subordinated obligations meeting all relevant criteria	**400,000**	200,000	**400,000**	200,000
Qualifying non-controlling interests recognised as Tier II Capital	**4,861**	2,822	**–**	–
Collective impairment allowance and regulatory reserves^	**15,696**	29,873	**8,987**	13,460
	420,557	477,695	**408,987**	458,460
Less: Investments in subsidiaries, associates and joint ventures*	**(10,835)**	(21,996)	**(299,839)**	(458,460)
Total Tier II Capital	**409,722**	455,699	**109,148**	–
Total Capital	**2,078,383**	2,230,907	**891,248**	917,348

45 CAPITAL ADEQUACY RATIO (CONTINUED)

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Capital ratios				
Before proposed dividends:				
CET I Capital Ratio	**32.987%**	30.376%	**34.995%**	29.623%
Tier I Capital Ratio	**33.409%**	30.588%	**34.995%**	29.623%
Total Capital Ratio	**41.612%**	38.440%	**39.878%**	29.623%
After proposed dividends:				
CET I Capital Ratio	**32.987%**	30.376%	**34.995%**	29.623%
Tier I Capital Ratio	**33.409%**	30.588%	**34.995%**	29.623%
Total Capital Ratio	**41.612%**	38.440%	**39.878%**	29.623%

* Investment in subsidiaries are subject to gradual deduction in the calculation under CET I Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Capital Adequacy Framework (Capital Components).

\# The remaining portion of regulatory adjustments not deducted in the calculation of Tier II Capital shall be deducted in the next higher tier of capital as prescribed under paragraph 31.1 of the BNM's Capital Adequacy Framework (Capital Components).

** Subordinated obligations that are recognised as Tier II Capital instruments are subject to the gradual phase-out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 the BNM's Capital Adequacy Framework (Capital Components).

^ Excludes collective impairment allowance attributable to loans and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on 'Classification and Impairment Provisions for Loans/Financing'.

Includes the qualifying regulatory reserves for non-impaired loans of the Group and the Bank of RM12,384,000 (2016: RM13,082,000) and RM8,987,000 (2016: RM13,008,000) respectively.

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Credit risk	**1,255,650**	2,389,833	**718,961**	1,269,201
Market risk	**2,049,361**	1,485,510	**610,542**	676,232
Operational risk	**1,689,666**	1,928,196	**905,417**	1,151,279
Total risk-weighted assets	**4,994,677**	5,803,539	**2,234,920**	3,096,712

The total risk-weighted assets of the Group and the Bank are computed based on BNM's Guidelines on Risk Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

46 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined RHB Banking Group's Management Committee as its chief operating decision-maker.

The business segment results are prepared based on the Group's internal management reporting, which reflects the organisation's management reporting structure. Internal allocation of costs for example back office support, centralised cost, funding centre and the application of transfer pricing, where appropriate, has been used in preparing the segmental reporting.

The Group's business segments are organised into the following main segments reflecting the Group's internal reporting structure:

(a) Investment Banking

Investment banking provides services for advisory, fund raising in the structuring and issuance of debt securities and capital market instruments, corporate and debt restructuring, mergers and acquisitions, private placements, underwriting, structuring of bilateral lending, project financing, loans syndication, infrastructure financing, initial public offerings of equity related instruments, private placements and underwriting. This segment also covers facilities for equity share trading in local and foreign markets, share margin financing, futures broking products and services, custodian and nominees services, investment cash management and unit trust funds.

Included in Investment Banking are Stockbroking and Investment Banking products and services to RHB regional customers in Singapore, Hong Kong, Indonesia and Thailand.

(b) Treasury

Treasury and money market operations are involved in proprietary trading of various financial products that include short-term money market instruments, long term securities and foreign exchange and derivatives products, as well as funding centre.

(c) Asset Management

Asset Management business focuses on providing investment management services, unit trust fund management services, Islamic funds management services, wills and trustee services.

During the financial year, no one group of related customers accounted for more than 10% of the Group's revenue.

46 SEGMENT REPORTING (CONTINUED)

(a) Segment analysis

Group	Investment Banking RM'000	Treasury RM'000	Asset Management RM'000	Others and Elimination RM'000	Total RM'000
2017					
External revenue	609,167	82,540	164,733	–	856,440
Inter-segment revenue	12,351	1,237	(3,200)	(10,388)	–
Segment revenue	621,518	83,777	161,533	(10,388)	856,440
Other operating expenses:	(625,475)	(14,660)	(99,467)	388	(739,214)
Including:					
Depreciation of property, plant and equipment	(20,969)	(235)	(1,104)	–	(22,308)
Amortisation of intangible assets	(11,221)	(1,106)	(561)	–	(12,888)
(Allowance)/Written back for impairment on loans, advances and other losses	(58,120)	–	119	–	(58,001)
Impairment losses written back on other assets	1,872	–	–	–	1,872
	(60,205)	69,117	62,185	(10,000)	61,097
Share of results of associates					468
Share of results of joint ventures					391
Profit before taxation					61,956
Taxation					(40,753)
Net profit for the financial year					21,203

46 SEGMENT REPORTING (CONTINUED)

(a) Segment analysis (continued)

Group	Investment Banking RM'000	Treasury RM'000	Asset Management RM'000	Others and Elimination RM'000	Total RM'000
2017					
Segment assets	5,235,022	4,085,672	714,083	(1,576,322)	8,458,455
Goodwill	380,544	–	143,367	–	523,911
Investments in associates and joint ventures					54,174
Tax recoverable					49,225
Deferred tax assets					14,839
Total assets					9,100,604
Segment liabilities	1,937,165	3,378,691	440,079	(99,737)	5,656,198
Tax liabilities					6,136
Deferred tax liabilities					2,612
Borrowings					712,379
Subordinated obligations					404,263
Total liabilities					6,781,588
Other segment items					
Capital expenditure	22,299	944	1,719	–	24,962

46 SEGMENT REPORTING (CONTINUED)

(a) Segment analysis (continued)

Group	Investment Banking RM'000	Treasury RM'000	Asset Management RM'000	Others and Elimination RM'000	Total RM'000
2016					
External revenue	682,616	79,242	138,784	(1,349)	899,293
Inter-segment revenue	2,728	1,615	(3,972)	(371)	–
Segment revenue	685,344	80,857	134,812	(1,720)	899,293
Other operating expenses:	(627,157)	(20,330)	(100,130)	371	(747,246)
Including:					
Depreciation of property, plant and equipment	(22,731)	(251)	(947)	–	(23,929)
Amortisation of intangible assets	(11,155)	(1,643)	(381)	–	(13,179)
Allowance for impairment on loans, advances and other losses	(60,544)	–	(636)	–	(61,180)
Impairment losses made on other assets	(9,927)	(8,493)	–	–	(18,420)
	(12,284)	52,034	34,046	(1,349)	72,447
Share of results of associates					319
Share of results of joint ventures					724
Profit before taxation					73,490
Taxation					(42,156)
Net profit for the financial year					31,334

46 SEGMENT REPORTING (CONTINUED)

(a) Segment analysis (continued)

Group	Investment Banking RM'000	Treasury RM'000	Asset Management RM'000	Others and Elimination RM'000	Total RM'000
2016					
Segment assets	5,936,191	3,875,168	614,346	(1,773,460)	8,652,245
Goodwill	512,391	614,176	143,367	–	1,269,934
Investments in associates and joint ventures					54,989
Tax recoverable					61,528
Deferred tax assets					19,477
Total assets					10,058,173
Segment liabilities	2,485,995	3,119,390	379,833	(108,373)	5,876,845
Tax liabilities					11,583
Deferred tax liabilities					3,189
Borrowings					552,720
Subordinated obligations					447,595
Total liabilities					6,891,932
Other segment items					
Capital expenditure	27,939	–	2,691	–	30,630

46 SEGMENT REPORTING (CONTINUED)

(b) The geographical information is prepared based on the location of the assets:

	Revenue RM'000	Segment assets RM'000	Capital expenditure RM'000
2017			
Attributed to the country of domicile:			
– Malaysia	**538,131**	**7,085,159**	**17,118**
Attributed to foreign countries:			
– Singapore	**104,059**	**709,538**	**3,811**
– Hong Kong	**47,889**	**224,992**	**505**
– Indonesia	**74,590**	**345,752**	**1,713**
– Thailand	**89,719**	**693,411**	**1,815**
– Cambodia	**2,052**	**41,752**	**–**
	856,440	**9,100,604**	**24,962**
2016			
Attributed to the country of domicile:			
– Malaysia	529,628	7,105,059	20,333
Attributed to foreign countries:			
– Singapore	153,510	1,216,825	4,842
– Hong Kong	59,923	508,255	1,756
– Indonesia	84,167	417,600	1,262
– Thailand	70,398	764,482	2,366
– Cambodia	1,667	45,952	71
	899,293	10,058,173	30,630

47 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR AND PRECEDING FINANCIAL YEAR

Current Year

(a) During the current financial year, the Bank and its holding company, RHB Bank have undertaken an internal reorganisation which includes the following:

RHB Finex, a company in which RHB Bank Berhad ('RHB Bank') holds a 100% effective equity interest through its 59.95% direct shareholding and a 40.05% indirect shareholding through the Bank, which in turn is a wholly-owned subsidiary of RHB Bank, had on 6 August 2015 entered into a subscription agreement ('Agreement') with Silverlake International Capital Market Solution Limited ('Silverlake Capital'), to each subscribe for 50% redeemable convertible preference shares ('RCPS') of USD1.00 each at par in Digital Financial Lab Limited ('DFLL') for RM10 million each ('Proposed Subscription'). The Agreement is conditional on the fulfilment of certain terms and conditions, including regulatory approval.

Further to discussions with our local regulator, certain terms of the proposal have been reviewed and a revised proposal was submitted to Bank Negara Malaysia ('BNM') on 17 June 2016.

Following receipt of BNM's letter dated 6 March 2017 rejecting the revised proposal, the Agreement entered into on 6 August 2015 has by mutual consent been terminated on 5 May 2017.

47 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR AND PRECEDING FINANCIAL YEAR (CONTINUED)

Current Year (continued)

(b) Internal Reorganisation – Transfer of Certain Businesses of the Bank to RHB Bank

During the current financial year, the Bank and its holding company, RHB Bank have undertaken an internal reorganisation which includes the following:

i) Transfer of Treasury Business and Transfer of Structured Lending Business (collectively the 'Business Transfers')

The Business Transfers entail the transfer of a certain portion of treasury business and the structured lending business of the Bank to RHB Bank by way of a business transfer scheme pursuant to Section 100 of the Financial Services Act, 2013 ('FSA') and the Order of the High Court of Malaya pursuant to Sections 102 and 104 of the FSA.

- Certain portion of the treasury business comprising FVTPL at fair value of RM16,390,000, AFS and HTM at amortised cost amounting to RM835,879,000 and RM46,232,000 respectively, with the corresponding goodwill of RM614,176,000 and liabilities of RM1,512,677,000.
- The structured lending business comprising portfolio at net carrying amount of RM6,080,000, with corresponding goodwill of RM131,847,000 and liabilities of RM137,927,000.

Approvals from the relevant regulatory authorities have been obtained and the Business Transfers was effectively completed on 24 July 2017, based on the respective carrying value of the relevant securities and structured lending, with the corresponding goodwill. The Business Transfers do not have any significant effect to the financial results of the Bank and there is no financial impact from the Group's perspective.

ii) Capital Repayment

The capital repayment entails the Bank cancelling a portion of its consolidated share capital (which includes the issued and paid-up share capital and the share premium).

The High Court of Malaya had on 18 September 2017, granted an order confirming the cancellation of 718,646,000 shares of the Bank amounting to RM846,023,000 from the entire consolidated issued capital of RM2,333,796,000 (representing issued capital of RM818,646,000 and the share premium amount formerly in the share premium account being RM1,515,150,000) pursuant to Section 116 of the Companies Act, 2016. The capital repayment was effectively completed on 25 September 2017, and the Bank remains as wholly-owned subsidiary of RHB Bank upon completion of the capital repayment.

Prior Year

(c) Group Internal Reorganisation

Upon completion of the Group Internal Reorganisation on 14 April 2016, the Bank is wholly-owned by RHB Bank Berhad and the Directors regard RHB Bank Berhad, a listed company incorporated in Malaysia, as the holding company.

(d) RHB Nominees Hong Kong Limited, an wholly-owned subsidiary of the Bank, has been dissolved upon its deregistration on 25 November 2016 pursuant to Section 751(3) of the Hong Kong Companies Ordinance, Chapter 622.

48 SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

(a) Proposed acquisition of the remaining 51% equity interest in Vietnam Securities Corporation ('VSEC') not held by the Bank

On 9 February 2018, the Bank entered into a conditional share purchase agreement ('CSPA') with Chu Thi Phuong Dung, Truong Lan Anh and Viet Quoc Insurance Broker Joint Stock Company for the acquisition of the remaining 51% equity interest in VSEC comprising 6,885,000 existing common shares of VND10,000 each in VSEC for a purchase consideration of VND121,629,915,000 (equivalent to approximately USD5.365 million or RM21.285 million) to be satisfied wholly in cash.

The Proposed Acquisition is subject to the approvals of BNM and State Securities Commission of Vietnam ('Vietnam SSC'). With the signing of the CSPA, the Bank will submit an application to BNM for the approval of the Proposed Acquisition and Vietnam SSC for the approval of the Proposed Acquisition and the conversion of the status of VSEC from a joint stock company into a single-member limited liability company ('Conversion').

Upon completion of the Proposed Acquisition and subject to approval from Vietnam SSC for the Conversion, VSEC will become a wholly-owned subsidiary of the Bank.

The Proposed Acquisition will not have any effect on the issued capital and RHB Bank's shareholdings of the Bank, and it is not expected to have any material effect on the earnings and net assets of the Bank for the financial year ending 31 December 2018.

The Proposed Acquisition is expected to be completed by the second quarter of 2018.

49 CHANGE IN THE COMPOSITION OF THE GROUP

On 23 March 2017, the Bank acquired additional 37,500 ordinary shares of THB2.61 each in RHB Securities (Thailand) Public Company Limited ('RST') from its minority shareholders for a total cash consideration of THB 97,875 (equivalent to RM12,511), thereby increasing the Bank's equity interest in RST from 99.949% to 99.954% as of 31 December 2017.

50 COMPARATIVE INFORMATION

The following comparative balances have been reclassified to comfort to current year's presentation which more accurately reflect the nature of the relevant transactions. The Bank's prior results are not affected by these reclassification.

	Group		
	As previously reported RM'000	**Reclassification RM'000**	**As restated RM'000**
Income Statements			
Fee and commission income	**745,004**	**25,618**	**770,622**
Fee and commission expenses	**(140,712)**	**(25,618)**	**(166,330)**

51 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 February 2018.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251 (2) OF THE COMPANIES ACT, 2016

We, Tan Sri Azlan bin Mohd Zainol and Chin Yoong Kheong, two of the Directors of RHB Investment Bank Berhad do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 53 to 213 are drawn up so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017 and financial performance of the Group and of the Bank for the financial year ended 31 December 2017 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Director in accordance with a resolution of the Directors dated 26 February 2018.

TAN SRI AZLAN BIN MOHD ZAINOL
CHAIRMAN

CHIN YOONG KHEONG
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Kuala Lumpur
27 February 2018

STATUTORY DECLARATION

PURSUANT TO SECTION 251 (1) OF THE COMPANIES ACT, 2016

I, Tan Boon Ching, the Officer primarily responsible for the financial management of RHB Investment Bank Berhad, do solemnly and sincerely declare that, the financial statements set out on pages 53 to 213 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

TAN BOON CHING

Subscribed and solemnly declared by the abovenamed Tan Boon Ching at Kuala Lumpur in Wilayah Persekutuan on 27 February 2018.

COMMISSIONER FOR OATHS
Kuala Lumpur
27 February 2018

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF RHB INVESTMENT BANK BERHAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Investment Bank Berhad ("the Bank") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017 and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 53 to 213.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditors' report, and the 2017 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the Directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 13 to the financial statements.

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
02682/10/2019 J
Chartered Accountant

Kuala Lumpur
27 February 2018

CONTENTS

LIST OF TABLES

STATEMENT BY CHIEF EXECUTIVE DIRECTOR

In accordance with the requirements of Bank Negara Malaysia's Guideline on Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), and on behalf of the Board of Directors and Senior Management of RHB Investment Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of RHB Investment Bank Berhad for the year ended 31 December 2017 are accurate and complete.

ROBERT ANGELO HENDRO SANTOSO HURAY
Chief Executive Director

BASEL II PILLAR 3 DISCLOSURES

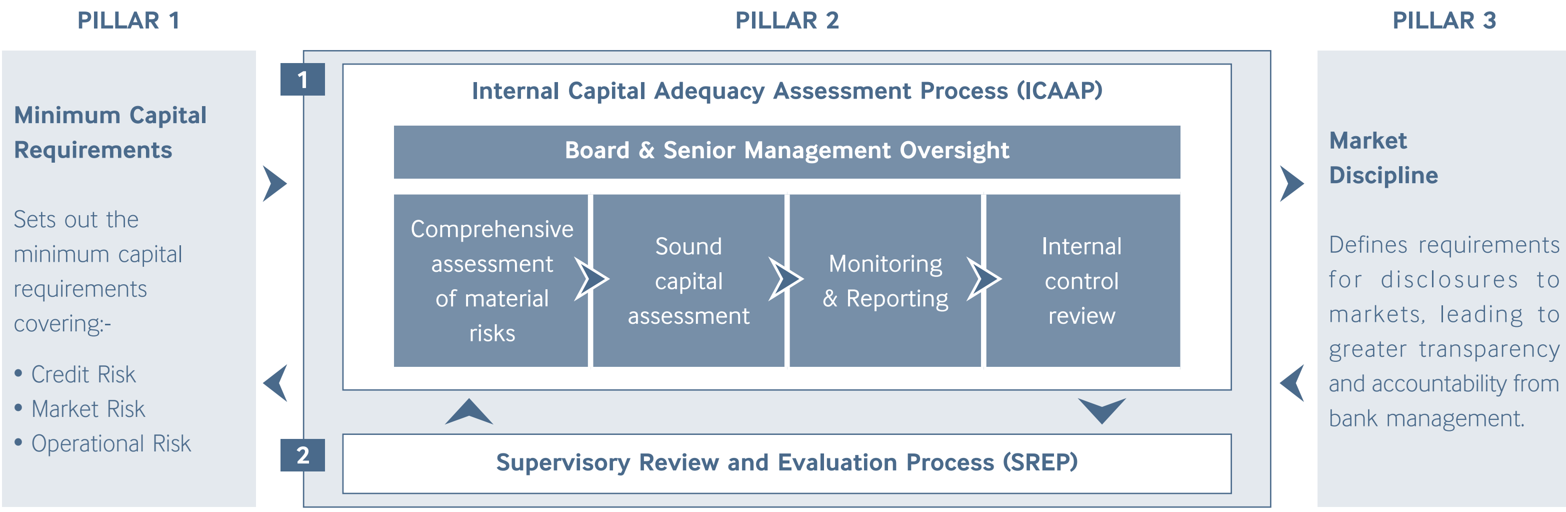
1.0 INTRODUCTION

This document describes RHB Investment Bank Berhad's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) issued by Bank Negara Malaysia (BNM's Pillar 3 Guidelines).

BNM's guidelines on Capital Adequacy Framework (Basel II – Risk-Weighted Assets) provide and specify the approaches for quantifying the risk-weighted assets for credit risk, market risk and operational risk.

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. Basel II is designed to be a catalyst for more advanced risk management techniques, enterprise-wide culture of risk management and improved corporate governance and public disclosure.

The Basel II approach based on the three pillars can be diagrammatically depicted as below:



Pillar 1 provides guidelines for calculation of risk-weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume.

For the purpose of complying with regulatory requirements under Basel II Pillar 1, the approaches adopted by the Bank are as follows:

Entity	Credit Risk	Market Risk	Operational Risk
RHB Investment Bank Berhad	Standardised Approach	Standardised Approach	Basic Indicator Approach

1.0 INTRODUCTION (CONTINUED)

Pillar 2 comprises two components as follows:

- Placing obligations on banks to develop an Internal Capital Adequacy Assessment Process, and setting capital targets that commensurate with the banking institution's risk profile and control environment; and
- Placing obligations on the supervisory authority to evaluate how well banking institutions are assessing their capital needs relative to their risks and to intervene, where appropriate.

Pillar 3 covers external communication of risk and capital information by banks. The purpose of the Pillar 3 disclosures is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through a set of disclosure requirements that will allow market participants to assess information on banking institutions' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

Basis of Disclosure

The annual Pillar 3 disclosure report is published in accordance with BNM's Pillar 3 Guidelines. This disclosure report has been verified and approved internally in line with the RHB Banking Group: Basel II Pillar 3 Disclosure Policy.

Comparative Information

This document covers the qualitative and quantitative information for financial year ended 31 December 2017 with comparative quantitative information of the preceding financial year 2016.

Frequency of Disclosure

The qualitative disclosures contained herein are updated on an annual basis and more frequently, if there are significant changes in the interim reporting period. The disclosures on capital adequacy and structure are made on a quarterly basis and all other quantitative disclosures are made on a semi–annual basis in accordance to the Group's reporting period.

Medium and Location of Disclosure

RHB Investment Bank Berhad's Pillar 3 disclosure report is made available under the Investor Relations section of RHB Banking Group's website at www.rhbgroup.com as a separate report in the Bank's Annual Report 2017, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Investment Bank Berhad's information is presented on a consolidated basis, ie RHB Investment Bank Berhad with its overseas operations, its subsidiaries, and its overseas joint venture company, and is referred to as "RHB Investment Bank Group" or "the Bank".

The Bank's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, except where the types of investment to be deducted from eligible capital as guided by BNM's Guideline on Capital Adequacy Framework (Capital Components).

The Bank offers advisory and fund raising services and issuances of various forms of debt securities comprising bonds, commercial papers and medium term notes, and asset-backed securities for Islamic finance facilities. The Bank also distributes a full array of domestic and global unit trust funds including Shariah compliant funds, derivatives and structured products.

The transfer of funds for regulatory capital within the RHB Investment Bank Group is subject to shareholders' and regulatory approval.

During the financial year 2017, there were no capital deficiencies in RHB Investment Bank Berhad or in any of its subsidiaries and its associate company.

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to manage capital prudently and to maintain a strong capital position to drive sustainable business growth and seek strategic opportunities to enhance shareholders' value, and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting regulatory requirements.

With a comprehensive capital management, the Bank aims to have a sound capital management practice that is aligned to BNM's ICAAP requirements.

The management of capital involves capital strategy, capital planning and capital allocation/structuring/optimisation.

- **Capital Strategy**

  Capital strategy includes the determination of target capital under both normal and stressed market conditions and considers the business risk and strategic objectives, external credit ratings, and capital adequacy requirements. A comprehensive capital adequacy assessment is conducted at least annually to ensure that the target capital level is appropriate.

3.0 CAPITAL MANAGEMENT (CONTINUED)

- **Capital Planning**

Based on strategic direction and regulatory requirements, the Bank formulates a comprehensive and forward looking capital plan to:

(i) support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate and aligned with the Bank's risk appetite;

(ii) provide adequate capital for business growth, changes in asset mix or to cover unanticipated losses.

The capital plan describes the actions required to raise capital in a timely manner in both normal and stressed conditions as assumed in the stress scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Bank maintains adequate capital on a forward-looking basis. The Bank also establishes a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer and deliberated at the Group Capital and Risk Committee (GCRC) for endorsement, and submitted to Board Risk Committee (BRC) and the Board for approval.

- **Capital Allocation/Structuring/Optimisation**

The Bank determines the amount of capital allocated to each entity and business line based on capital performance target and available funding. An efficient allocation of capital drives returns for the Bank's shareholders.

Capital structuring affects the Bank through its impact on cash flow and cost of capital. The Bank adopts capital structuring that maximises value and minimises overall cost of capital. In order to achieve optimum capital structure, the Bank determines the levels, mix and structure of internal and regulatory capital in line with its current and planned levels of business activities, risk appetite and desired level of capital adequacy.

The Bank optimises its capital by integrating risk-based capital into strategy and aligning this with performance measurement.

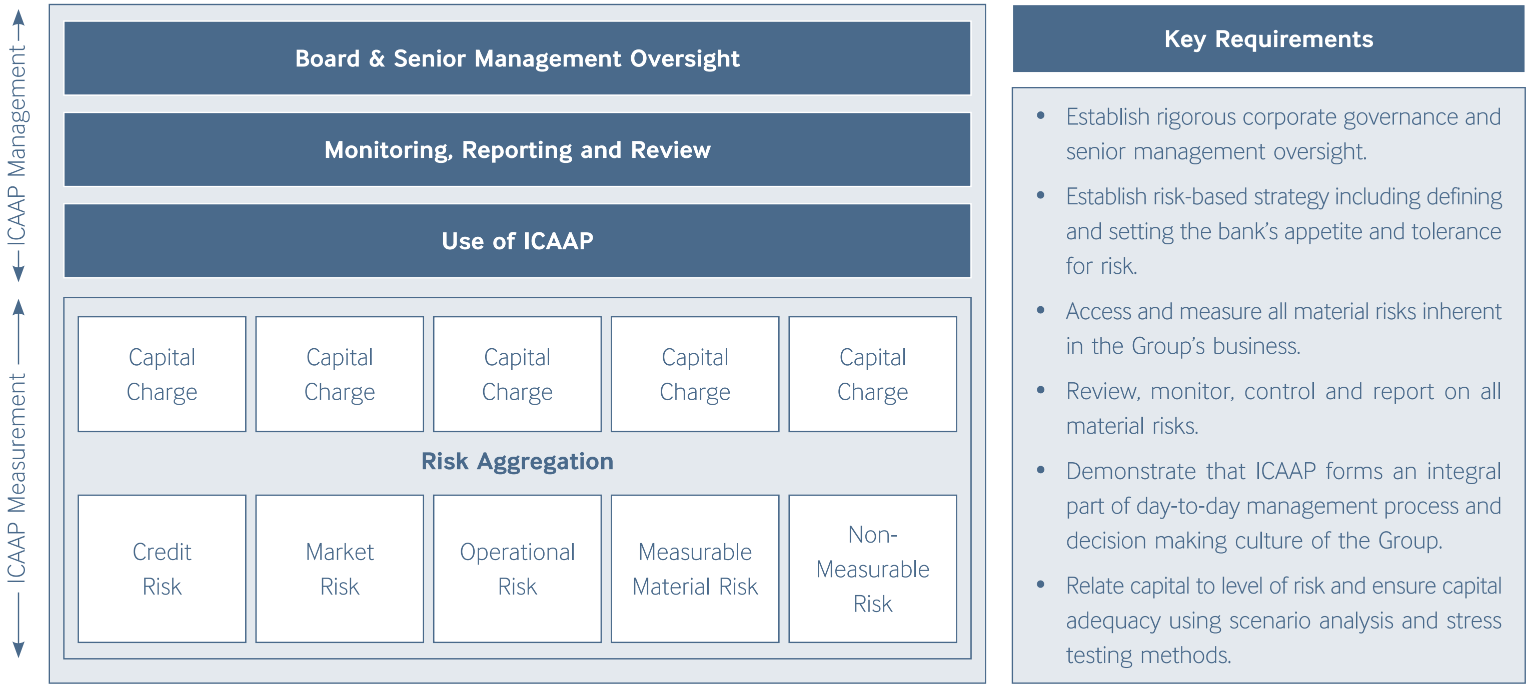
The Bank also aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

In line with BNM's Guideline on ICAAP under the Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has implemented ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy is assessed in relation to the Bank's risk profile, and strategies are in place to maintain appropriate capital levels.

The ICAAP Framework developed and adopted across the Bank summarises the key ICAAP requirements into two functional categories, namely; ICAAP Measurement and ICAAP Management as depicted below:



3.2 Basel III Implementation

The implementation of Basel III for capital components by BNM in Malaysia has commenced with effect from 1 January 2013. Under the Basel III rules, banking institutions are required to strengthen the quality of their capital by maintaining higher minimum capital requirements and holding capital buffers namely the capital conservation buffer and the countercyclical capital buffer. However, the requirements are subject to a series of transitional arrangements with a gradual phase-in commencing 2013.

The Bank has implemented BNM's liquidity standards on Liquidity Coverage Ratio (LCR) effective from 1 June 2015 after reporting the LCR under observation since June 2012. BNM has adopted the phased-in arrangement for Malaysian banking institutions to comply with the minimum requirement of 60% in 2015 with incremental of 10% each year thereafter until 100% from 1 January 2019 onwards. The Bank continues to report on Net Stable Funding Ratio (NSFR) under observation. The result produced during the observation period facilitates the Bank's strategy in managing the appropriate balance sheet structure for achieving optimal NSFR.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework (Capital Components) sets out the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital. As of 1 January 2015, banking institutions are required to maintain, at all times, the following minimum capital adequacy ratios:

Calendar Year	Common Equity Tier I (CET I) Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
2015 onwards	4.5%	6.0%	8.0%

In addition, the Bank is required to maintain additional capital buffers in the form of CET I capital above the minimum CET I, Tier I and Total Capital ratios set out above. The capital buffers shall comprise of capital conservation buffer (CCB) and countercyclical capital buffer (CCyB). The CCB is intended to enable the banking system to withstand future periods of stress and will be phased-in as follows:

Calendar Year	CCB
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

CCyB is determined based on the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures. This buffer is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. Application of CCyB above the minimum capital ratios is in the range of 0.0% to 2.5%. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios (continued)

The capital ratios of RHB Investment Bank Berhad on consolidated basis (RHB Investment Bank Group), and on global basis (RHB Investment Bank) as at 31 December 2017 and 31 December 2016 are:

Table 1: Capital Adequacy Ratios

	RHB Investment Bank Group		RHB Investment Bank	
	2017	**2016**	**2017**	**2016**
Before proposed dividends:				
Common Equity Tier I Capital Ratio	**32.987%**	30.376%	**34.995%**	29.623%
Tier I Capital Ratio	**33.409%**	30.588%	**34.995%**	29.623%
Total Capital Ratio	**41.612%**	38.440%	**39.878%**	29.623%
After proposed dividends:				
Common Equity Tier I Capital Ratio	**32.987%**	30.376%	**34.995%**	29.623%
Tier I Capital Ratio	**33.409%**	30.588%	**34.995%**	29.623%
Total Capital Ratio	**41.612%**	38.440%	**39.878%**	29.623%

The above capital ratios are above the minimum level required by BNM.

3.4 Minimum Capital Requirements and Risk-Weighted Assets ('RWA')

The following table shows the breakdown of RWA by risk types as at 31 December 2017 and 31 December 2016:

Table 2: Risk-Weighted Assets ('RWA') by Risk Types

	RHB Investment Bank Group		RHB Investment Bank	
Risk Types	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Credit RWA	**1,255,650**	2,389,833	**718,961**	1,269,201
Market RWA	**2,049,361**	1,485,510	**610,542**	676,232
Operational RWA	**1,689,666**	1,928,196	**905,417**	1,151,279
Total RWA	**4,994,677**	**5,803,539**	**2,234,920**	**3,096,712**

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.4 Minimum Capital Requirements and Risk-Weighted Assets ('RWA') (continued)

The following tables show the breakdown of RWA by risk types and the corresponding capital requirement as at 31 December 2017 and 31 December 2016:

Table 3a: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31 December 2017

	RWA		Minimum Capital Requirements	
Risk Types	**RHB Investment Bank Group RM'000**	**RHB Investment Bank RM'000**	**RHB Investment Bank Group RM'000**	**RHB Investment Bank RM'000**
Credit Risk				
Under Standardised Approach	**1,255,650**	**718,961**	**100,452**	**57,517**
Market Risk				
Under Standardised Approach	**2,049,361**	**610,542**	**163,949**	**48,843**
Operational Risk				
Under Basic Indicator Approach	**1,689,666**	**905,417**	**135,173**	**72,433**
Total	**4,994,677**	**2,234,920**	**399,574**	**178,793**

Table 3b: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31 December 2016

	RWA		Minimum Capital Requirements	
Risk Types	**RHB Investment Bank Group RM'000**	**RHB Investment Bank RM'000**	**RHB Investment Bank Group RM'000**	**RHB Investment Bank RM'000**
Credit Risk				
Under Standardised Approach	2,389,833	1,269,201	191,187	101,536
Market Risk				
Under Standardised Approach	1,485,510	676,232	118,841	54,099
Operational Risk				
Under Basic Indicator Approach	1,928,196	1,151,279	154,256	92,102
Total	**5,803,539**	**3,096,712**	**464,284**	**247,737**

Capital requirement for the three risk types is derived by multiplying the risk-weighted assets by 8%.

The reduction in Credit RWA was mainly due to the transfer of bonds/sukuk portfolio exposures to RHB Bank Berhad.

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline Capital Adequacy Framework (Capital Components). These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Bank. Tier I capital consists primarily of ordinary share capital, share premium, retained profits, other reserves and hybrid Tier I capital securities. Tier II capital consists of subordinated obligations and collective impairment allowance. Refer to Note 45 to the Financial Statements for the terms of these capital instruments.

BNM had on 3 May 2017, issued a Revised Policy Document on Capital Fund (Revised Policy Document) and the revised component of capital funds shall exclude share premium and reserve fund. The Revised Policy Document is only applicable for banking institutions operating in Malaysia.

The Bank had on 18 September 2017 obtained a confirmation order from the High Court with regards to the capital repayment (Confirmation Order) by cancelling 718,646,000 ordinary shares amounting to RM846,023,000 from the entire consolidated issued capital of the Bank of RM2,333,796,000 and the credit of RM846,023,000 arising from the said cancellation has been distributed to the shareholder of the Bank on 25 September 2017. On the same date, the Confirmation Order was lodged with the Companies Commission of Malaysia. The capital repayment forms part of Bank's capital management strategy which seeks to achieve a more efficient capital structure.

The following table represents the capital position of RHB Investment Bank Group and RHB Investment Bank as at 31 December 2017 and 31 December 2016:

Table 4: Capital Structure

	RHB Investment Bank Group		RHB Investment Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Common Equity Tier I Capital/Tier I Capital				
Paid up ordinary share capital	**1,487,773**	818,646	**1,487,773**	818,646
Share premium	**–**	1,515,150	**–**	1,515,150
Retained profits	**669,730**	199,497	**883,218**	351,586
Other reserves	**112,410**	602,591	**–**	449,208
Available for sale ('AFS') reserves	**18,861**	876	**26,120**	7,850
Less:				
Goodwill	**(523,911)**	(1,269,934)	**(372,395)**	(1,118,418)
Investments in subsidiaries, associates and joint ventures (portion deducted from CET I Capital)*	**(43,339)**	(32,993)	**(1,199,358)**	(915,469)
Intangible assets	**(48,693)**	(50,958)	**(27,700)**	(27,086)
55% of cumulative gains arising from change in value of AFS instruments	**(10,374)**	(482)	**(14,366)**	(4,318)
Other deductions	**(12)**	(29)	**(12)**	(29)
Deferred tax assets	**(14,839)**	(19,477)	**(1,180)**	(7,919)
Reduction in excess of Tier II Capital due to insufficient Tier II capital#	**–**	–	**–**	(151,853)
Total Common Equity Tier I Capital	**1,647,606**	**1,762,887**	**782,100**	**917,348**
Qualifying non controlling interest recognised as Tier I Capital	**21,055**	12,321	**–**	–
Total Tier I Capital	**1,668,661**	**1,775,208**	**782,100**	**917,348**

4.0 CAPITAL STRUCTURE (CONTINUED)

Table 4: Capital Structure (continued)

	RHB Investment Bank Group		RHB Investment Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	Restated 2016 RM'000
Tier II Capital				
Subordinated obligations subject to gradual phase out treatment**	**–**	245,000	**–**	245,000
Subordinated obligations meeting all relevant criteria	**400,000**	200,000	**400,000**	200,000
Qualifying non controlling interest recognised as Tier II Capital	**4,861**	2,822	**–**	–
Collective impairment allowances and regulatory reserves^	**15,696**	29,873	**8,987**	13,460
Less:				
Investments in subsidiaries, associates and joint ventures	**(10,835)**	(21,996)	**(299,840)**	(458,460)
Total Tier II Capital	**409,722**	**455,699**	**109,147**	**–**
Total Capital	**2,078,383**	**2,230,907**	**891,247**	**917,348**

* Investments in subsidiaries are subject to gradual deduction using the corresponding deduction approach under CET I Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

\# The remaining portion of regulatory adjustments not deducted in calculation of Tier II Capital shall be deducted in the next higher tier of capital as prescribed under paragraph 31.1 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

** Subordinated obligations that are recognised as Tier II capital instruments are subject to gradual phase out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

^ Excludes collective assessment impairment allowance attributable to loans, advances, and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Advances.

Includes the qualifying regulatory reserves for loans of the RHB Investment Group and the RHB Investment Bank of RM12,384,000 (31 December 2016: RM13,082,000) and RM8,987,000 (31 December 2016: RM13,008,000) respectively.

5.0 RISK MANAGEMENT

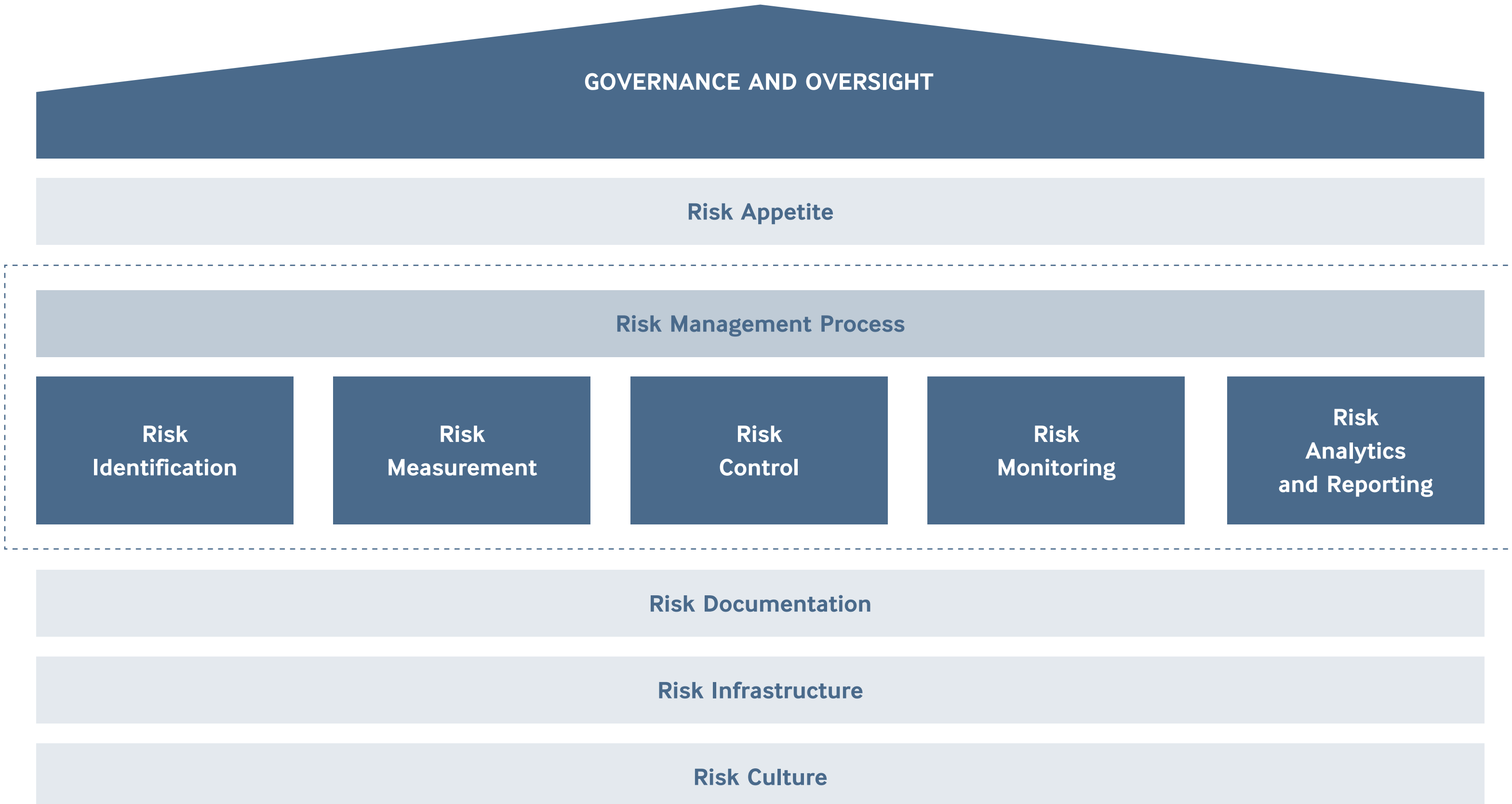
Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group (the Group), as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



The following sections describe some of these risk management content areas.

5.0 RISK MANAGEMENT (CONTINUED)

OVERARCHING RISK MANAGEMENT PRINCIPLES

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

- Risk governance from the Boards of Directors of various operating entities within the Group;
- Clear understanding of risk management ownership;
- Institutionalisation of a risk-focused organisation;
- Alignment of risk management to business strategies; and
- Optimisation of risk-adjusted returns.

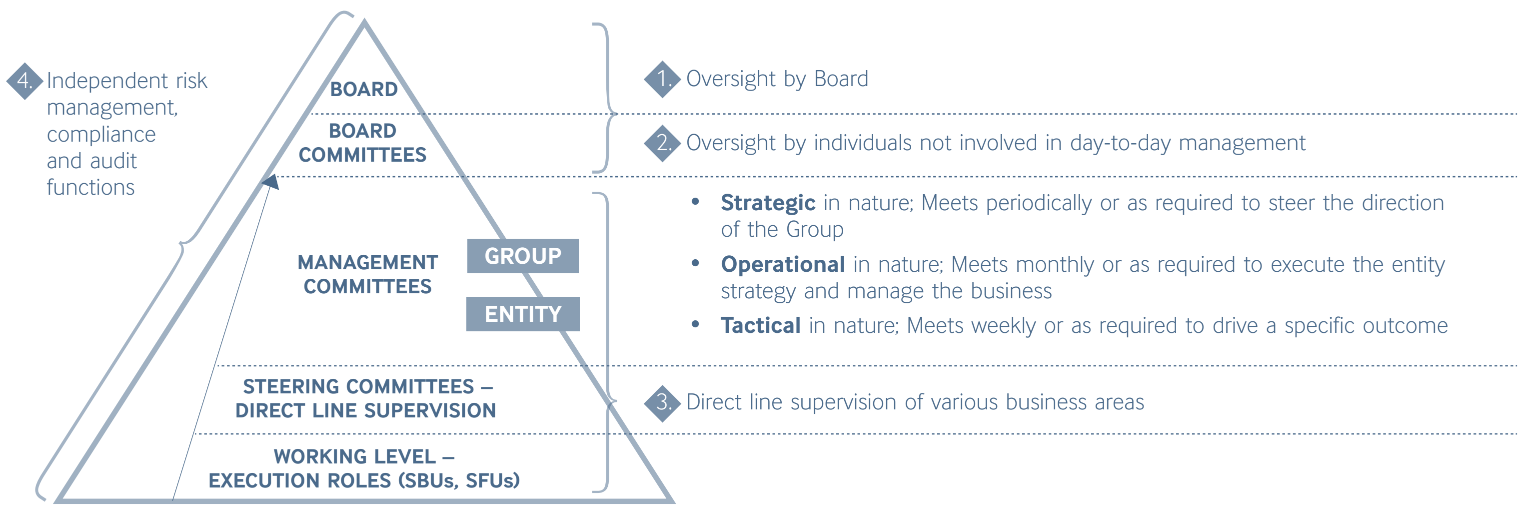
Principle 1: Risk Governance from the Boards of Directors of various operating entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

RISK GOVERNANCE AND ORGANISATION

The Board of Directors (Board), through the BRC, GCRC and the Group Risk & Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board Committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports to the BRC/Islamic Risk Management Committee and the Group Management Committee (GMC). There are other committees set up to manage specific areas of risks in the Group. An overview of this governance framework at Group level is as below:



5.0 RISK MANAGEMENT (CONTINUED)

RISK CULTURE

Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The strategic business units (SBUs) and strategic functional units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE **Business/Functional Level**	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE **Group Risk Management & Group Compliance**	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE **Group Internal Audit**	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

RISK ENVIRONMENT AND INFRASTRUCTURE

Principle 3: Institutionalisation of a Risk-Focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Central Risk Management Function

Group Risk & Credit Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The roles and responsibilities of the Group Chief Risk Officer include:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing a pro-active, balanced and risk-attuned culture within the Group;
- Advising Senior Management, the GCRC, BRC and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies; and
- Administering the delegation of discretionary powers to Management personnel within the Group.

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Management Function (continued)

Group Risk & Credit Management consisting of Group Risk Management, Group Credit Management and Group Risk Operations provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Key areas for which Group Risk Management is responsible for include the Group's risk policy and framework, day-to-day risk measurement and monitoring, providing timely risk analysis to management, and ensuring compliance to regulatory risk reporting requirements.

Group Credit Management oversees the Group-wide credit evaluation and assessment, approval and credit monitoring functions by providing credit risk assessment assurance on credit proposals, highlighting key risks and potential problematic accounts, and improving credit process efficiency.

Group Risk Operations is responsible for strategising and implementing a comprehensive enterprise-wide risk governance framework, and managing the development of robust risk management infrastructure and tools, aligned with the Group's strategy for growth and keeping pace with the market requirements and competitive business environment. Group Risk Operations drives the operationalisation of the Group's risk transformation initiatives in establishing risk management as a valuable business partner.

Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards to ensure that the risks remain within the established appetite and to support an informed decision-making process.

5.0 RISK MANAGEMENT (CONTINUED)

Risk and Control Environment (continued)

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested into technology, including data management to support the Group's risk management activities.

RISK APPETITE

Principle 4: Alignment of Risk Management to Business Strategies

The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite is set by the Board and reported through various metrics that enable the Group to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Group is prepared to accept in delivering its strategy.

Principle 5: Optimisation of Risk-Adjusted Returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's lending/financing/underwriting, investment and trading activities from both on and off-balance sheet transactions.

6.1 Credit Risk Management Oversight and Organisation

The Group Credit Committee (GCC) is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold.

GCC will direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Group's loan/asset book. GCC also acts as the body which, through the BRC, recommends to the respective Boards, on matters pertaining to credit risk (such as credit and underwriting evaluation/approval/procedure, and delegated lending/financing authorities).

The Group Investment Underwriting Committee (GIUC) deliberates, approves and rejects stockbroking/equities/futures business related proposals such as equity underwriting, equity derivatives and structured products, and share margin financing.

The BCC's main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC and/or GIUC, (ii) overseeing the management of impaired and high risk accounts, and (iii) approving credit transactions to connected parties up to the defined threshold limits. BCC also endorses policy loans/financing and loans/financing required by BNM to be referred to the respective Boards for approval.

The Group Credit Management has the functional responsibility to ensure that internal processes and credit underwriting standards are adhered to before financing proposals are approved. All financing proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit manager and decided upon by the management.

All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review by Group Internal Audit.

With the exception of credit applications for consumer and approved products under programme lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Loans/financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

Within Group Risk Management, the Group Credit Risk Management has the functional responsibility for credit risk management, portfolio risk monitoring, risk reporting and development of credit policies and guidelines. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the GCRC, BRC and the Board. These reports include various credit risk aspects such as portfolio quality, and concentration risk exposures by business portfolio. Such reporting allows Senior Management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach

The Bank's credit risk management framework is founded upon guidelines issued by BNM (such as Guideline on Best Practices for the Management of Credit Risk, Guidelines on Investment Banks and Single Counterparty Exposures Limit) and industry best practices. The Bank abides by its Group Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Industry's best practices are instilled in the continual updating of the Group Credit Policy.

The Bank's credit risk management process is documented in Group Credit Guidelines (GCG) and the Group Credit Procedures Manual (GCPM) which set out the operational procedures and guidelines governing the credit management processes within the Group.

The GCG and GCPM have been designed to ensure that:

- The process of credit initiation, administration, supervision and management of loan/financing and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- Procedures and guidelines governing the credit function are in compliance with the credit policies of the Group.

Lending/Financing to Corporate and Institutional Customers

Loans/financing to corporate and institutional customers are undertaken in the course of its share margin/trading or investment banking activities in derivatives and debt securities.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment banking activities, the Bank is also exposed to credit risk from trading, derivative and equity/debt securities activities. Relevant credit guidelines are established to govern the credit risk via guidance on derivatives, hedging and investment related activities of the different exposures.

Lending/Financing to Share Margin Financing

Loans/financing to share margin clients are based on credit/financing facilities made available to these clients for trading or redemption of securities that are listed in Bursa Malaysia Berhad in accordance with the Bursa Securities Rules.

For share margin financing, credit risk is mitigated through the establishment of appropriate approving authority structure/matrix for the extension of trading/credit limits. Within clearly defined guidelines approved by the Board and in line with applicable laws and regulations, credit risk management also encompasses the systematic credit assessment, close monitoring of limits, exposures and concentration risk to counterparties or issuers, through timely management reporting procedures.

6.0 CREDIT RISK (CONTINUED)

6.3 Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)

The management of the following off-balance sheet exposures of the Bank is in accordance to the credit risk management approach as set out under Section 6.2 of this document:

- Underwriting commitments in respect of the Bank's debt capital or equity capital market activities;
- Commitments to extend credit/financing including the unutilised or undrawn portions of credit facilities; and
- Principal or notional amount of derivative financial instruments.

Counterparty Credit Risk

Counterparty Credit Risk is the risk that the entity with whom one has entered into a financial contract (the counterparty to the contract) will fail to fulfil their side of the contractual agreement (eg they default). Counterparty risk is typically defined as arising from two broad classes of financial products:

- Over-the-counter derivatives such as interest rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and lending/financing.

Derivative financial instruments are primarily entered into for hedging purposes. The Bank may also take trading derivative positions, within pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

All outstanding financial derivative positions are marked-to-market on a daily basis. The Bank's Treasury Operations Department monitors counterparties' positions and promptly escalates any shortfall in the threshold levels to the relevant parties for next course of action.

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches

The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2017 compared with 31 December 2016, segregated by:

- the various types of asset classes, showing details of the exposures by type of approaches, before and after credit risk mitigation (CRM), the corresponding RWA and capital requirements;
- disclosure on off-balance sheet and counterparty credit risk;
- geographical distribution;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 5a: Summary of Credit Exposures with Credit Risk Mitigation ('CRM') by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2017

RHB Investment Bank Group Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Exposures under Standardised Approach ('SA')				
On-Balance Sheet Exposures				
Sovereigns & Central Banks	1,685,257	1,685,257	5,777	462
Public Sector Entities	60,869	60,869	–	–
Banks, Development Financial Institutions & MDBs	1,583,523	1,583,523	407,489	32,599
Insurance Cos, Securities Firms & Fund Managers	75,590	75,590	75,590	6,047
Corporates	1,640,988	525,391	9,203	736
Regulatory Retail	625,921	2,819	2,114	169
Residential Mortgages	486	486	170	14
Higher Risk Assets	17,727	17,727	26,591	2,127
Other Assets	1,962,771	1,962,771	642,447	51,396
Securitisation Exposures	–	–	–	–
Equity Exposures	32,608	32,608	32,608	2,609
Defaulted Exposures	7,318	2,425	2,431	194
Total On-Balance Sheet Exposures	**7,693,058**	**5,949,466**	**1,204,420**	**96,353**
Off-Balance Sheet Exposures				
OTC Derivatives	861	425	85	7
Off-balance sheet exposures other than OTC derivatives or credit derivatives	305,478	57,523	51,145	4,092
Defaulted Exposures	–	–	–	–
Total Off-Balance Sheet Exposures	**306,339**	**57,948**	**51,230**	**4,099**
Total On and Off-Balance Sheet Exposures	**7,999,397**	**6,007,414**	**1,255,650**	**100,452**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 5b: Summary of Credit Exposures with Credit Risk Mitigation ('CRM') by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2016

RHB Investment Bank Group Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Exposures under Standardised Approach ('SA')				
On-Balance Sheet Exposures				
Sovereigns & Central Banks	744,001	744,001	1,962	157
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions & MDBs	1,946,684	1,946,684	484,671	38,774
Insurance Cos, Securities Firms & Fund Managers	613,755	613,755	613,755	49,100
Corporates	2,706,122	1,029,732	239,560	19,165
Regulatory Retail	–	–	–	–
Residential Mortgages	566	566	198	16
Higher Risk Assets	28	28	42	3
Other Assets	1,936,121	1,936,121	727,363	58,189
Securitisation Exposures	–	–	–	–
Equity Exposures	33,091	33,091	48,665	3,893
Defaulted Exposures	96,198	78,462	106,323	8,506
Total On Balance Sheet Exposures	**8,076,566**	**6,382,440**	**2,222,539**	**177,803**
Off-Balance Sheet Exposures				
OTC Derivatives	13,380	12,794	2,662	213
Off-balance sheet exposures other than OTC derivatives or credit derivatives	413,707	164,628	164,632	13,171
Defaulted Exposures	–	–	–	–
Total Off-Balance Sheet Exposures	**427,087**	**177,422**	**167,294**	**13,384**
Total On and Off-Balance Sheet Exposures	**8,503,653**	**6,559,862**	**2,389,833**	**191,187**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 6a: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2017

RHB Investment Bank Group Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	–		–	–
NIFs and obligations under underwriting agreement	–		–	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo style transactions	–		–	–
Foreign exchange related contracts	**36,962**	**34**	**34**	**7**
1 year or less	*36,962*	*34*	*34*	*7*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Interest rate related contracts	**90,000**	**256**	**391**	**78**
1 year or less	*90,000*	*256*	*391*	*78*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Equity related contracts	**7,262**	**–**	**436**	**–**
1 year or less	*7,262*	*–*	*436*	*–*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and credit lines, with original maturity of over 1 year	4,164		2,082	5
Other commitments, such as formal standby facilities and credit lines, with original maturity of up to 1 year	1,516,982		303,396	51,140
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	–		–	–
Total	**1,655,370**	**290**	**306,339**	**51,230**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 6b: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2016

RHB Investment Bank Group Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	–		–	–
NIFs and obligations under underwriting agreement	–		–	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo style transactions	–		–	–
Foreign exchange related contracts	351,858	6,573	10,725	2,241
1 year or less	*351,858*	*6,573*	*10,725*	*2,241*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Interest rate related contracts	230,000	629	1,669	340
1 year or less	*140,000*	*29*	*169*	*40*
Over 1 year to 5 years	*90,000*	*600*	*1,500*	*300*
Over 5 years	–	–	–	–
Equity related contracts	14,368	125	987	80
1 year or less	*14,368*	*125*	*987*	*80*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and credit lines, with original maturity of over 1 year	600		300	15
Other commitments, such as formal standby facilities and credit lines, with original maturity of up to 1 year	2,067,036		413,407	164,617
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	–		–	–
Total	**2,663,862**	**7,327**	**427,088**	**167,293**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Geographical Distribution as at 31 December 2017

RHB Investment Bank Group Exposure Class	Malaysia RM'000	Singapore RM'000	Hong Kong RM'000	Indonesia RM'000	Thailand RM'000	Cambodia RM'000	Total RM'000
Exposures under Standardised Approach							
Sovereigns & Central Banks	1,681,247	–	–	–	–	4,010	1,685,257
Public Sector Entities	60,869	–	–	–	–	–	60,869
Banks, Development Financial Institutions & MDBs	1,256,715	78,037	42,733	87,810	81,959	36,693	1,583,947
Insurance Cos, Securities Firms & Fund Managers	31,122	15,680	17,964	1,545	9,279	–	75,590
Corporates	1,235,102	125,097	138,095	78,696	214,908	–	1,791,898
Regulatory Retail	536,440	47,143	88,102	48,807	67,743	–	788,235
Residential Mortgages	495	–	–	–	–	–	495
Higher Risk Assets	17,443	35	–	–	249	–	17,727
Other Assets	1,204,905	331,656	62,442	136,287	226,431	1,050	1,962,771
Total	**6,024,338**	**597,648**	**349,336**	**353,145**	**600,569**	**41,753**	**7,966,789**

Note:
This table excludes equity and securitisation exposures

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Geographical Distribution as at 31 December 2016

RHB Investment Bank Group Exposure Class	Malaysia RM'000	Singapore RM'000	Hong Kong RM'000	Indonesia RM'000	Thailand RM'000	Cambodia RM'000	Total RM'000
Exposures under Standardised Approach							
Sovereigns & Central Banks	739,557	–	–	–	–	4,444	744,001
Public Sector Entities	–	–	–	–	–	–	–
Banks, Development Financial Institutions & MDBs	1,555,638	172,203	52,485	93,733	44,628	40,390	1,959,077
Insurance Cos, Securities Firms & Fund Managers	41,536	554,104	15,453	1	2,661	–	613,755
Corporates	2,158,244	112,668	597,592	59,595	288,506	–	3,216,605
Regulatory Retail	–	–	–	–	–	–	–
Residential Mortgages	566	–	–	–	–	–	566
Higher Risk Assets	36	–	–	–	–	–	36
Other Assets	1,081,519	295,707	65,464	264,649	228,064	1,119	1,936,522
Total	**5,577,096**	**1,134,682**	**730,994**	**417,978**	**563,859**	**45,953**	**8,470,562**

Note:
This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2017

RHB Investment Bank Group Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	–	–	–	–	–	–	–	–	1,685,257	–	–	1,685,257
Public Sector Entities	–	–	–	–	–	–	–	–	60,869	–	–	60,869
Banks, Development Financial Institutions & MDBs	–	–	–	–	–	–	–	1,583,947	–	–	–	1,583,947
Insurance Cos, Securities Firms & Fund Managers	–	–	–	–	–	–	–	75,590	–	–	–	75,590
Corporates	26,486	232	856	176,128	–	83,262	49,215	638,602	–	817,117	–	1,791,898
Regulatory Retail	–	–	–	–	–	–	–	–	–	788,235	–	788,235
Residential Mortgages	–	–	–	–	–	–	–	–	–	495	–	495
Higher Risk Assets	–	–	–	–	–	–	–	17,727	–	–	–	17,727
Other Assets	–	–	–	–	–	–	–	507,475	–	–	1,455,296	1,962,771
Total	26,486	232	856	176,128	–	83,262	49,215	2,823,341	1,746,126	1,605,847	1,455,296	7,966,789

Note:

This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2016

RHB Investment Bank Group Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufac-turing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Commu-nication RM'000	Finance, Insurance, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	–	–	–	–	–	–	–	43,243	700,758	–	–	744,001
Public Sector Entities	–	–	–	–	–	–	–	–	–	–	–	–
Banks, Development Financial Institutions & MDBs	–	–	–	–	–	–	–	1,959,077	–	–	–	1,959,077
Insurance Cos, Securities Firms & Fund Managers	–	–	–	–	–	–	–	613,755	–	–	–	613,755
Corporates	75,678	886	45,995	45,414	195,390	114,084	85,126	1,097,295	61,299	1,495,438	–	3,216,605
Regulatory Retail	–	–	–	–	–	–	–	–	–	–	–	–
Residential Mortgages	–	–	–	–	–	–	–	–	–	566	–	566
Higher Risk Assets	–	–	–	–	–	–	–	–	–	36	–	36
Other Assets	–	–	–	–	–	–	–	455,486	–	–	1,481,036	1,936,522
Total	**75,678**	**886**	**45,995**	**45,414**	**195,390**	**114,084**	**85,126**	**4,168,856**	**762,057**	**1,496,040**	**1,481,036**	**8,470,562**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 9a: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2017

RHB Investment Bank Group Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	997,026	504,084	184,147	1,685,257
Public Sector Entities	–	60,869	–	60,869
Banks, Development Financial Institutions & MDBs	1,495,017	–	88,930	1,583,947
Insurance Cos, Securities Firms & Fund Managers	–	–	75,590	75,590
Corporates	1,306,264	460,352	25,282	1,791,898
Regulatory Retail	788,199	32	4	788,235
Residential Mortgages	–	102	393	495
Higher Risk Assets	284	–	17,443	17,727
Other Assets	–	–	1,962,771	1,962,771
Total	**4,586,790**	**1,025,439**	**2,354,560**	**7,966,789**

Note:
This table excludes equity and securitisation exposures

Table 9b: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2016

RHB Investment Bank Group Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	20,295	475,032	248,674	744,001
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions & MDBs	462,201	317,668	1,179,208	1,959,077
Insurance Cos, Securities Firms & Fund Managers	–	–	613,755	613,755
Corporates	2,257,296	476,972	482,337	3,216,605
Regulatory Retail	–	–	–	–
Residential Mortgages	–	242	324	566
Higher Risk Assets	–	–	36	36
Other Assets	401	–	1,936,121	1,936,522
Total	**2,740,193**	**1,269,914**	**4,460,455**	**8,470,562**

Note:
This table excludes equity and securitisation exposures

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Standardised Approach

Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

The following tables show the Bank's credit exposures for its portfolios with the corresponding risk weights and RWA under the Standardised Approach, after credit risk mitigation (CRM):

Table 10a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2017

RHB Investment Bank Group Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	1,672,414	60,869	–	–	516,188	–	–	–	914,412	–	3,163,883	–
20%	8,833	–	1,342,485	–	–	–	–	–	507,390	–	1,858,708	371,742
35%	–	–	–	–	–	–	495	–	–	–	495	173
50%	–	–	204,769	–	–	396	–	–	–	–	205,165	102,583
75%	–	–	–	–	–	28,311	–	–	–	–	28,311	21,233
100%	4,010	–	36,693	75,590	42,708	139	–	–	540,969	32,608	732,717	732,717
150%	–	–	–	–	–	408	–	17,727	–	–	18,135	27,203
Total Exposures	1,685,257	60,869	1,583,947	75,590	558,896	29,254	495	17,727	1,962,771	32,608	6,007,414	1,255,650

Table 10b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2016

RHB Investment Bank Group Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	734,191	–	–	–	205,734	–	–	–	844,690	–	1,784,615	–
20%	9,810	–	1,691,030	–	705,795	–	–	–	455,486	–	2,862,121	572,424
35%	–	–	–	–	–	–	566	–	–	–	566	198
50%	–	–	237,999	–	50,976	–	–	–	–	–	288,975	144,488
75%	–	–	–	–	–	–	–	–	–	–	–	–
100%	–	–	30,048	613,755	243,217	–	–	–	636,346	1,943	1,525,309	1,525,309
150%	–	–	–	–	67,092	–	–	36	–	31,148	98,276	147,414
Total Exposures	744,001	–	1,959,077	613,755	1,272,814	–	566	36	1,936,522	33,091	6,559,862	2,389,833

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings

For sovereigns, corporate and banking institutions, external ratings from approved external credit assessment institutions (ECAIs), where available, are used to calculate the risk-weighted assets and regulatory capital.

The process used to map ECAIs issuer ratings or comparable ECAIs issue ratings, are in accordance to the standards prescribed by BNM. Approved ECAIs are as follows:

- Standard & Poor's (S&P);
- Moody's Investor Services (Moody's);
- Fitch Ratings (Fitch);
- Malaysian Rating Corporation Berhad (MARC);
- RAM Rating Services Berhad; and
- Rating and Investment Information, Inc (R&I).

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose.

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Bank's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs:

Table 11a: Rated Exposures According to Ratings by External Credit Assessment Institutions ('ECAIs') as at 31 December 2017

RHB Investment Bank Group

Ratings of Corporates by Approved ECAIs	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		–	–	–	–	60,869
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	75,590
Corporates		–	–	–	–	558,896

Short Term Ratings of Banking Institutions by Approved ECAIs	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, Development Financial Institutions & MDBs		–	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Bank's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs: (continued)

Table 11a: Rated Exposures According to Ratings by External Credit Assessment Institutions ('ECAIs') as at 31 December 2017 (continued)

RHB Investment Bank Group

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	1,681,247	–	4,010	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		1,181,675	68,718	48	–	–	333,506

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Group's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs: (continued)

Table 11b: Rated Exposures According to Ratings by External Credit Assessment Institutions ('ECAIs') as at 31 December 2016

RHB Investment Bank Group

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures						
Public Sector Entities		–	–	–	–	–
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	613,755
Corporates		705,794	39,607	20,901	3,288	503,224

Short Term Ratings of Banking Institutions by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures						
Banks, Development Financial Institutions & MDBs		–	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

The following tables show the Group's credit exposures for 31 December 2017 compared with 31 December 2016, according to the ratings by ECAIs: (continued)

Table 11b: Rated Exposures According to Ratings by External Credit Assessment Institutions ('ECAIs') as at 31 December 2016 (continued)

RHB Investment Bank Group

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	744,001	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		567,968	228,956	19,541	30,047	–	1,112,565

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Bank generally does not enter into a credit/financing commitment solely on the basis of collateral provided. All credit facilities/commitments are granted based on prior analysis of the credit standing of the borrower/counterparty with a legitimate credit purpose and a good debt servicing ability, and on the Bank's ability to adequately ring-fence the source(s) of repayment. Attention is also paid to ensure that the credit transaction is within BNM's directives on lending by an investment bank.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Bank's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor. Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, shares and unit trusts, while physical collateral includes land and buildings and vehicles. Apart from financial collateral and physical collateral, the Bank as part of the RHB Banking Group adopts the Group's standards on the acceptance of guarantors as credit risk mitigants, where relevant.

Collateral is valued in accordance with the Bank's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/ securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently during the annual/periodic renewal of facilities, as well as updated into the Bank's collateral system.

The Bank may also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Bank does not employ the use of derivative credit instruments or on-balance sheet netting to mitigate its credit exposures. Where possible, the Bank enters into International Swaps and Derivatives Association (ISDA) Master Agreement with its derivative and swap counterparties as the master agreement provides the legal certainty that the credit exposures between counterparties will be netted.

Equity securities or collaterals acquired arising from debt conversions are accounted for as disposal of the financing and acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business rather than as an impairment of the original instrument.

The Bank has established mechanism to monitor credit and market concentration within its credit mitigation.

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach as at 31 December 2017 compared with 31 December 2016:

Table 12a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2017

RHB Investment Bank Group Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	1,685,257	–	–
Public Sector Entities	60,869	60,869	–
Banks, Development Financial Institutions & MDBs	1,583,523	–	–
Insurance Cos, Securities Firms & Fund Managers	75,590	–	–
Corporates	1,640,988	516,188	1,115,597
Regulatory Retail	625,921	–	623,103
Residential Mortgages	486	–	–
Higher Risk Assets	17,727	–	–
Other Assets	1,962,771	–	–
Securitisation Exposures	–	–	–
Equity Exposures	32,608	–	–
Defaulted Exposures	7,318	–	4,893
Total On-Balance Sheet Exposures	7,693,058	577,057	1,743,593
Off-Balance Sheet Exposures			
OTC Derivatives	861	–	436
Off-balance sheet exposures other than OTC derivatives or credit derivatives	305,478	–	247,955
Defaulted Exposures	–	–	–
Total Off-Balance Sheet Exposures	306,339	–	248,391
Total On and Off-Balance Sheet Exposures	7,999,397	577,057	1,991,984

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (continued)

Table 12b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2016

RHB Investment Bank Group Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	744,001	–	–
Public Sector Entities	–	–	–
Banks, Development Financial Institutions & MDBs	1,946,684	–	–
Insurance Cos, Securities Firms & Fund Managers	613,755	–	–
Corporates	2,706,122	205,732	1,676,389
Regulatory Retail	–	–	–
Residential Mortgages	566	–	–
Higher Risk Assets	28	–	–
Other Assets	1,936,121	–	–
Securitisation Exposures	–	–	–
Equity Exposures	33,091	–	–
Defaulted Exposures	96,198	–	17,737
Total On-Balance Sheet Exposures	**8,076,566**	**205,732**	**1,694,126**
Off-Balance Sheet Exposures			
OTC Derivatives	13,380	–	586
Off-balance sheet exposures other than OTC derivatives or credit derivatives	413,707	–	249,079
Defaulted Exposures	–	–	–
Total Off-Balance Sheet Exposures	**427,087**	**–**	**249,665**
Total On and Off-Balance Sheet Exposures	**8,503,653**	**205,732**	**1,943,791**

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (continued)

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

The Group manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in lending/financing to single customer groups, borrowers/customers engaged in similar activities, or diverse groups of borrowers/customers that could be affected by similar economic or other factors. To manage this concentration risk, exposure limits are established for single borrowing/financing groups and industry segments. Analysis of any single large exposure and group of exposures is regularly conducted and the lending/financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sector-specific analysis are also incorporated within the overall credit risk management regiment. In this respect, the Group seeks to continually update lending or financing guidelines based on periodic reviews and updates of industry and sector risk factors and economic outlook. This facilitates better management of credit concentration risk.

Credit Monitoring and Annual Reviews

The Bank regularly monitors financing exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for Senior Management, GCRC, BRC and Board, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and loan/financing impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year. Specific exposures may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the borrower has defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Where relevant, Group Internal Audit conducts independent post-approval reviews on a sampling basis to ensure that the quality of credit appraisals and approval standards is in accordance with the credit standards and policies on lending/financing and investment established by the Bank's management or by laws and regulations.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing

The Bank adopts BNM's guidelines on Classification and Impairment Provisions for Loans/Financing. The principles in this guidelines are in line with those applicable under the International Financial Reporting Standards compliant framework, the Malaysian Financial Reporting Standards 139. As part of RHB Banking Group, the Bank adopts the Group's policy and guidelines on impairment allowances, where relevant.

The borrower/customer assessed under Impairment Allowances (IA) shall be classified as impaired under any one of the following situations:

1. When the principal or interest or both, of any facility(s) of the borrower/customer is past due for more than 90 days or 3 months.
2. In the case of revolving facilities (eg overdraft facilities), the borrower/customer of the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months.
3. Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the loan/financing exhibits weaknesses (refer to impairment triggers) that would render it to be classified as impaired.
4. Where repayments of the loans/financing are scheduled on intervals of 3 months or longer, the borrower/customer is classified as impaired as soon as a default occurs, unless the borrower/customer or the loan/financing does not exhibit any weakness (refer to impairment triggers) that would render it to be classified as impaired.
5. In the case of share margin financing, the borrower/customer is classified as impaired when the equity has fallen below the threshold level of the outstanding balance as determined in accordance to Rules of Bursa Securities and/or relevant regulatory body.
6. Upon occurrence of any one or more Mandatory Status Triggers (MSTs) or any two or more Ancillary Status Triggers (ASTs). These MSTs and ASTs are pre-defined trigger events approved by the Bank to facilitate impairment classification.

Note:
For R&R facilities, the borrower/customer shall be classified as impaired in accordance with paras 1 to 5 above based on the revised or restructured terms.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (continued)

Individual Assessment – Impairment Triggers

For borrowers/customers (with threshold of RM5 million and above per borrower/customer) under individual assessment, the Bank performs impairment assessment when any one of the MSTs or any two of the ASTs events occurred. Consequently, these borrowers/customers will be classified as impaired even though no impairment allowance may be required after impairment assessment.

Individual Impairment Allowances

Borrowers/customers under individual assessment and triggered either by any one of the MSTs or any two of the ASTs will be classified as impaired. Consequently, impairment assessment is to be carried out on these impaired borrowers/customers, based on reasonable and well documented estimates of the future cashflows/realisations of collateral that is expected to be recovered from the impaired borrowers/customers ie net present value of future cashflows are discounted based on original effective interest rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

Collective Impairment Allowances

Collective impairment applies to all other accounts (impaired and non-impaired) that do not fall within the threshold of individual assessment. The impairment assessment for accounts under collective assessment are as follows:

1. Segmentation is applied to group of loans/financing, both impaired and non-impaired, based on similar credit risk characteristics, for the purpose of assessing impairment and computing historical default rates and loss rates.
2. Probability of default (PD) model is established with standard loss identification period (by months) and Point of No Return (by months in arrears). PD model adopted could either be migration analysis model or flow rate model. The approaches to migration analysis model could be either by way of outstanding balances or number of accounts.
3. Loss Given Default (LGD) model establishes loss rate at the point in time when the loss event occurred ie, based on actual incurred loss model.

Re-classification and Recovery of Impaired Borrowers/Customers

An impaired borrower/customer may be re-classified as a non-impaired status under the following situations:

1. When the loan/financing repayment of the impaired borrower/customer has improved with the principal or interest/profit or both, of its facilities with the Bank being past due by 90 days or 3 months or less.
2. In the case of revolving facilities (eg overdraft facilities), the facility shall be re-classified as non-impaired where the overdue outstanding amount in excess of the approved limit has improved to 90 days or 3 months
3. Where repayments of the loans are scheduled on intervals of 3 months or longer, the loan/financing is re-classified as non-impaired as soon as the overdue scheduled repayments are settled.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (continued)

Write-Off of Impaired Loans/Financing

All loans/financing that satisfy any one of the following criteria, may be recommended for write-off:

1. Deemed irrecoverable, worthless and with slim prospect of recovery.
2. Waiver/discount already given under approved composite settlement schemes.
3. Abandoned project with no sign of revival. The definition of abandoned project must be in compliance with the definition stated under valuation for abandoned projects.
4. For retail and scored loans/financing, the write-off may be expedited for those with ageing of 12 months and above, provided legal action has reached at least writ of summon filed.
5. In the case of credit card and unsecured personal financing, aging is 6 months and above and the write-off is automatic.

Partial write-offs of impaired loans/financing is permitted for the shortfall portion in outstanding balance over the security value which is uncollectible and worthless; and the Bank is in the final stage of realising the security/collateral; or in the case of approved composite settlement arrangement, the waiver portion. Further shortfall if any, arising from the disposal of all securities and upon receipt of the sale proceeds, shall be written-off immediately.

This policy of impairment loans/financing write-off is intended to provide a timely and consistent methodology for loans/financing to be written-off and to reflect the true value of assets in the Bank's books.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (continued)

The following tables show the Bank's impaired and past due loans/financing and allowances by industry sector as at 31 December 2017 compared with 31 December 2016:

Table 13a: Impaired and Past Due Loans and Allowances for Impairment by Industry Sector as at 31 December 2017

RHB Investment Bank Group Industry Sector	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	–	–	–	–
Mining & Quarrying	7,609	–	1,681	–
Manufacturing	2,191	–	2,191	–
Electricity, Gas & Water Supply	–	–	–	–
Construction	–	–	–	–
Wholesale, Retail Trade, Restaurants & Hotels	34,979	–	34,979	–
Transport, Storage & Communication	–	–	–	–
Finance, Insurance, Real Estate & Business	26,241	–	26,241	–
Education, Health & Others	–	–	–	–
Household	22,657	–	21,813	1
Others	–	–	–	–
Total	**93,677**	**–**	**86,905**	**1**

Table 13b: Impaired and Past Due Loans and Allowances for Impairment by Industry Sector as at 31 December 2016

RHB Investment Bank Group Industry Sector	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	–	–	–	136
Mining & Quarrying	–	–	–	–
Manufacturing	–	–	–	–
Electricity, Gas & Water Supply	–	–	–	–
Construction	–	–	–	94
Wholesale, Retail Trade, Restaurants & Hotels	–	–	–	–
Transport, Storage & Communication	–	–	–	–
Finance, Insurance, Real Estate & Business	55,803	–	9,966	–
Education, Health & Others	–	–	–	–
Household	73,363	–	44,921	–
Others	–	–	–	–
Total	**129,166**	**–**	**54,887**	**230**

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2017 compared with 31 December 2016:

Table 14: Net Charges/(Write-back) and Write-Offs for Impairment by Industry Sector

RHB Investment Bank Group	Twelve Months Period Ended 2017		Twelve Months Period Ended 2016	
Industry Sector	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-offs RM'000	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-offs RM'000
Agriculture	–	–	–	–
Mining & Quarrying	1,710	–	–	–
Manufacturing	2,262	–	–	–
Electricity, Gas & Water Supply	–	–	–	–
Construction	–	–	(2,223)	–
Wholesale, Retail Trade, Restaurants & Hotels	31,954	–	–	–
Transport, Storage & Communication	–	–	–	–
Finance, Insurance, Real Estate & Business	(188)	–	7,401	(4,923)
Education, Health & Others	–	–	–	–
Household	13,211	(347)	42,726	(329)
Others	–	–	–	–
Total	**48,949**	**(347)**	**47,904**	**(5,252)**

The following tables show the Bank's impaired and past due loans & allowances by geographical distribution as at 31 December 2017 compared with 31 December 2016:

Table 15a: Impaired and Past Due Loans and Allowances for Impairment by Geographical Distribution as at 31 December 2017

RHB Investment Bank Group Geographical Distribution	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Malaysia	454	–	5	1
Singapore	14,994	–	8,671	–
Hong Kong	69,799	–	69,799	–
Thailand	8,430	–	8,430	–
Total	**93,677**	**–**	**86,905**	**1**

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2017 compared with 31 December 2016: (continued)

Table 15b: Impaired and Past Due Loans and Allowances for Impairment by Geographical Distribution as at 31 December 2016

RHB Investment Bank Group Geographical Distribution	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Malaysia	55,803	–	9,966	230
Singapore	356	–	356	–
Hong Kong	73,007	–	44,565	–
Thailand	–	–	–	–
Total	**129,166**	**–**	**54,887**	**230**

The following tables show the reconciliation of changes to loan/financing impairment allowances as at 31 December 2017 compared with 31 December 2016:

Table 16: Reconciliation of Changes to Loan Impairment Allowances

RHB Investment Bank Group	2017 RM'000	2016 RM'000
Individual Impairment Allowance		
Balance as at the beginning of financial year	**54,887**	12,301
Net allowance made	**48,949**	47,904
Amount written off	**(347)**	(5,252)
Business transferred to holding company	**(9,966)**	–
Exchange differences	**(6,618)**	(66)
Balance as at the end of financial year	**86,905**	**54,887**

RHB Investment Bank Group	2017 RM'000	2016 RM'000
Collective Impairment Allowance		
Balance as at the beginning of financial year	**230**	2,250
Net allowance written back	**(229)**	(2,020)
Balance as at the end of financial year	**1**	**230**

7.0 SECURITISATION EXPOSURES

In the course of its business, the Bank has undertaken securitisations of its own originated assets, as well as its clients on asset securitisation exercises as part of its debt capital markets services for external clients. The Bank securitises its own assets primarily for capital management purposes.

The Bank undertakes the following roles in the securitisation activities (either singularly or in combination):

- Originator and servicer of securitised assets;
- Asset-backed securities marketing, syndication and trading;
- Structuring of the securitisation transaction;
- Provider of liquidity facilities to self-originated and third-party transactions; and
- Investor of third-party securitisations (where the Bank is not originator or sponsor).

Summary of Accounting Policies for Securitisation Activities

The accounting policies governing initial recognition, valuation and recognition of gains and losses governing financial assets are detailed in Note A4 (Summary of Significant Accounting Policies/Financial Assets) and A17 (Summary of Significant Accounting policies/Impairment of Financial Assets) of the Statutory Financial Statements.

ECAIs Used For Securitisation Process

In general, the Bank engages external credit assessment institutions such as RAM and MARC to assign credit ratings for securitisations of its own originated assets.

The table below shows the Securitisation exposures in the Banking Book as at 31 December 2017 compared with 31 December 2016:

Table 17: Disclosure on Securitisation Exposure in the Banking Book

RHB Investment Bank Group	Total Exposures Securitised		Impaired	
Underlying Assets	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Traditional Securitisation (Banking Book Exposure)				
Originated by the Bank				
Collateralised Loan Obligation (Corporate Loans)	–	–	–	57,321
Total	**–**	**–**	**–**	**57,321**

Capital Treatment for Securitisation Exposures

The Bank applies the Standardised Approach to calculate the credit risk capital requirements in accordance with BNM's Guideline.

The Bank do not have any net exposure after CRM for securitisation in its Banking Book during the financial years 2017 and 2016. The Bank also do not have any securitisation exposure in its Trading Book.

8.0 MARKET RISK

Market risk is the risk of loss arising from adverse movements in market indicators, such as interest/profit rates, credit spreads, equity prices, currency exchange rates and commodity prices.

The Bank transacts financial instruments such as debt papers and financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from the underlying instruments that can be a reference to interest rates, exchange rates, debt paper, or equity and indices. These include futures, forwards, swaps, and options transactions.

The Bank has an established Group Trading Book Policy Statement as guidance for market risk management. This is reviewed regularly and/or upon change in significant event that has a material impact on policy compliance or regulatory changes.

The Group Asset and Liability Committee (Group ALCO) and GCRC perform a critical role in the management of market risk and supports the BRC in the overall market risk management. Both committees meet regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Group's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Group Market Risk Management within Group Risk Management is the working level that forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk (VaR), sensitivity analysis and stress testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers ie cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the specific business units within the allocated limits. All trading positions are monitored independently on a daily basis and in accordance to the established escalation procedures and the key actions to be undertaken.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Group's Hedging Policy that prescribes the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

Hedging instruments used to mitigate these risks include derivatives such as options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Bank's treasury functions with the approval of Group ALCO.

8.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Investment Bank Group and RHB Investment Bank as at 31 December 2017 and 31 December 2016 are shown in the tables below:

Table 18a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2017

RHB Investment Bank Group Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	57,480	57,269	357	29
Equity Position Risk	717,773	132,802	1,309,630	104,770
Foreign Currency Risk	469,235	94,143	469,235	37,539
Options Risk	173,840	132,813	270,139	21,611
Total			2,049,361	163,949

RHB Investment Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	57,480	57,269	357	29
Equity Position Risk	148,674	132,190	67,446	5,395
Foreign Currency Risk	346,940	293,163	346,940	27,755
Options Risk	120,000	132,190	195,799	15,664
Total			610,542	48,843

Note:

1. As at year 2017, RHB Investment Bank Group and RHB Investment Bank did not have any exposures under Commodity or Inventory Risk.
2. For the Equity Position risk, the position is computed based on net long and net short position.

8.0 MARKET RISK (CONTINUED)

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Investment Bank Group and RHB Investment Bank as at 31 December 2017 and 31 December 2016 are shown in the tables below: (continued)

Table 18b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2016

RHB Investment Bank Group Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	447,062	465,025	2,945	236
Equity Position Risk	373,008	37,955	814,146	65,131
Foreign Currency Risk	630,586	69,369	630,587	50,447
Options Risk	31,998	36,727	37,832	3,027
Total			**1,485,510**	**118,841**

RHB Investment Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	447,062	465,025	2,945	236
Equity Position Risk	37,490	33,298	14,823	1,186
Foreign Currency Risk	620,666	8,760	620,666	49,653
Options Risk	30,463	33,298	37,798	3,024
Total			**676,232**	**54,099**

Note:

1. As at year 2016, RHB Investment Bank Group and RHB Investment Bank did not have any exposures under Commodity or Inventory Risk.
2. For the Equity Position risk, the position is computed based on net long and net short position.

9.0 EQUITY EXPOSURES IN THE BANKING BOOK

Equity risk is the risk of decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself. The Bank holds positions as a result of debt equity conversions and for socio-economic and non socio-economic purposes, which are deemed as non-trading instruments.

Holding of publicly traded equity investments comprise quoted shares which are traded actively in the stock exchange. All publicly traded equity exposures are stated at fair value. Privately held equities are unquoted investments and stated at cost-adjusted for impairment loss, if any.

For debt equity conversions, the Bank has established a Policy on Debt & Equity Instruments that governs the management of such exposures to ensure that these exposures are effectively managed and accounted for in the Bank's books.

For regulatory capital purpose, the Bank adopts the Standardised Approach to calculate the risk-weighted exposures.

The risk-weighted assets of equity investments of the Bank as at 31 December 2017 and 31 December 2016 are shown in the tables below:

Table 19: Equity Exposures in the Banking Book

RHB Investment Bank Group	Gross Credit Exposures		Risk-Weighted Assets	
Equity Type	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Publicly traded				
Holdings of equity investments	**2,364**	1,951	**2,382**	1,955
Privately held				
For socio economic purposes	**30,280**	28,631	**30,280**	42,946
For non socio economic purpose	**2,798**	2,509	**4,177**	3,764
Total	**35,442**	**33,091**	**36,839**	**48,665**

Note:

For year 2017 and 2016, the Bank did not make any material gains or losses from the sale or liquidation of the equity exposures.

10. LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Group is unable 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 Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into long-term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risk.

Through the Group's Liquidity Risk Policy, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objective that underpins the Group's Liquidity Risk Policy includes maintaining financial market confidence at all times, protecting key stakeholders' interests and meeting regulatory liquidity requirements.

The Group ALCO supports the BRC by performing the critical role in the management of liquidity risk, and is responsible for establishing strategies that assist in controlling and reducing any potential exposure to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risk and the Bank's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO meetings which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets interest rates for liabilities products as well as reference rates for financing products and services. Group ALCO is supported by Group Asset and Liability Management (Group ALM) at the working level. Group ALM monitors liquidity risk limits/Management Action Triggers (MATs) and reports to Group ALCO the liquidity risk profile on monthly basis.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

The Bank has adopted the BNM's liquidity standards on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar days under liquidity stress condition. The Bank continues to report NSFR under the Basel III observation reporting to BNM.

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event. The Group's Liquidity Incident Management Procedure also covers the entire Group's operations including foreign branch operations.

11.0 INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book refers to the risk of the Group's earnings and economic value of equity due to the adverse movements in interest rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Interest rate risk in the banking book comprises:

- Re-pricing risk (mismatch risk) – Arises from timing differences in the maturity (for fixed-rate) and re-pricing (for floating-rate) of bank assets, liabilities, and off-balance sheet positions. While such re-pricing mismatches are fundamental to the business of banking, they can expose a bank's income and underlying economic value to unanticipated fluctuations as interest rates vary;
- Basis risk – Arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies;
- Yield curve risk – Arises when unanticipated shifts of the yield curve have adverse effects on the Group's income or underlying economic value; and
- Embedded optionality risk – Arises primarily from options that are embedded in many banking book positions (eg some fixed rate mortgage products give borrowers the option to prepay the loan early without penalty, call deposit, where customers have the option of withdrawing the deposit funds at any time).

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis.

The Group ALCO supports BRC in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the interest rate risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest income and economic value of equity, as well as to ensure that interest rate risk exposures in the banking book are maintained within defined risk tolerances.

In addition, the Group ALM Policy is established to provide the governance of interest rate risk in the banking book. Interest rate sensitivity triggers are applied on earnings for the respective profit centres within the Bank. The Bank regularly considers the economics and necessity of increasing or reducing its interest rate risk hedges.

In line with the Group ALM Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest rates, interest rate risk to earnings is controlled using MATs and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk in the banking book in an environment of rapid financial market changes.

11.0 INTEREST RATE RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in interest rates to net earnings and economic value as at 31 December 2017 and 31 December 2016 are shown in the following tables:

Table 20a: Interest Rate Risk in the Banking Book as at 31 December 2017

RHB Investment Bank Group	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000
MYR – Malaysian Ringgit	**(8,549)**	**8,549**	**(44,364)**	**44,364**
USD – US Dollar	**(3,648)**	**3,648**	**(97)**	**97**
Others[1]	**112**	**(112)**	**(7,579)**	**7,579**
Total	**(12,085)**	**12,085**	**(52,040)**	**52,040**

Table 20b: Interest Rate Risk in the Banking Book as at 31 December 2016

RHB Investment Bank Group	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000
MYR – Malaysian Ringgit	(15,061)	15,061	(63,102)	63,102
USD – US Dollar	(1,116)	1,116	(925)	925
Others[1]	(3,001)	3,001	(10,612)	10,612
Total	**(19,178)**	**19,178**	**(74,639)**	**74,639**

Note:

1. Inclusive of GBP, EUR, SGD, etc
2. The EaR and EVE exposures are additive and do not take into account any correlation impact in the aggregation
3. The earnings and economic values were computed based on the standardised approach adopted by BNM.

The impact to net earnings above represents financial assets and liabilities that have been prepared on the following basis:

- Interest rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point interest rate change impact.
- For assets and liabilities with non-fix maturity, eg, current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of interest rate bearing items.

Economic value is characterised by the impact of interest rates changes on the value of all net cash flows, ie, the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective. The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

12.0 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk is inherent in the Group's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business and operation level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to improve risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.
- Monitoring and Intervention – This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences as a second and third line of defence respectively. The second line of defence also undertakes recovery actions, including business continuity measures in cases of incidents causing disruption to business activities.

Operational Risk Management Function and Organisation

The Group Operational Risk Management within Group Risk Management has functional responsibility for the development of operational risk framework, policy and methodologies, and providing guidance and information to the business units on operational risk areas. Its responsibility also includes generating a broader understanding and awareness of operational risk issues at all levels in the Group. It also ensures that operational risks from new products, processes and systems are adequately managed and mitigated.

The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the Senior Management, the GCRC, BRC and the Board. These reports include various operational risk information such as risk analysis, risk mitigation action plans, risk tools outcomes, risk appetite breaches, significant operational risk events and control failures, and lessons learnt. In addition, key operational risk incidents are reported to senior management daily. Such reporting enables Senior Management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The five (5) processes are as follows:

1. Establish the context;
2. Risk identification;
3. Risk analysis;
4. Risk mitigating; and
5. Risk monitoring.

12.0 OPERATIONAL RISK (CONTINUED)

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used:

- **Risk and Control Self-Assessment (RCSA)**

  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational Risk Management.

- **Key Risk Indicators (KRI)**

  KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal; once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Key Control Testing (KCT)**

  KCT is a methodology to assist business/functional units in performing assessments periodically to determine the effectiveness of key controls by evaluating whether the control procedures/activities are adequately designed to achieve the goals of the function and control objectives; and testing whether the key controls are operating as intended in actual practice. Effective KCT can lead to early detection of control weakness and deficiencies which will assist the senior management and business/functional units to quickly focus on control weakness and take concentrated efforts where they are most needed.

- **Incident Management and Loss Data Collection (IMLDC)**

  IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

Risk Mitigation and Controls

Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Strengthening internal controls**

  Internal controls are designed to commensurate operational risk exposures faced by the Group. It is mainly categorised into five components, namely:

  a. Control environment – management oversight and risk culture, which sets the tone and serves as a foundation for all other components;

  b. Risk assessment – analyses identified risks to achieve objectives and ensure risks are well managed;

  c. Control activities – policies and procedures implemented manually and/or system-based to ensure management's directives are executed effectively and efficiently;

  d. Information and communication – relevant operational risk information are captured and communicated accordingly for decision making. Such information must be effective for utilisation, delivered timely, confidentiality is preserved, conform integrity needs, comply with relevant law/regulations, sufficient availability and reliable; and

  e. Monitoring – ongoing assessment and correcting deficiencies of internal control to assure it is operating as intended.

12.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls (continued)

- **Business Continuity Management**

  To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Planning (BCP) programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Group Business Continuity Management Department.

  The Board of Directors has an oversight function through the BRC and GMC. The Group Business Continuity Steering Committee (GBCSC) is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCSC reports to the GCRC.

- **Outsourcing**

  With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing of Operations and Services ensures that the risk arising from outsourcing activities is adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Insurance Management**

  The Bank considers risk transfer by means of insurance to mitigate operational risk. The Bank has a programme of insurance designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party insurers and will financially mitigate the economic consequences of risks.

Technology Risk

Technology Risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

The Bank recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

New Product and Services Approval Process

The Group has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Bank's legal counsel and external legal counsel to ensure that legal risk is effectively managed.

12.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls (continued)

Capital Treatment for Operational Risk

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for RHB Investment Bank Group and RHB Investment Bank as at 31 December 2017 and 31 December 2016, are shown below:

Table 21: Operational Risk-Weighted Assets and Minimum Capital Requirements

	RHB Investment Bank Group		RHB Investment Bank	
Operational Risk	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Risk-Weighted Assets	**1,689,666**	1,928,196	**905,417**	1,151,279
Minimum Capital Requirements	**135,173**	154,256	**72,433**	92,102

13.0 COUNTRY CROSS-BORDER RISK

Country cross-border risk is the risk that the Bank will be unable to obtain payment from customers or third-parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross-border assets comprise loans/financing and advances, interest bearing deposits/placements with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency.

The Bank is guided by the Group Guidance on Cross-Border Business, particularly on ethics in business practices, key success factors in managing such business, and the internal control measures which are essential to provide adequate protection to its customers as well as the Bank's interest, thus reducing the risks associated with business activities.

14.0 REPUTATIONAL RISK

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputational risk in the Group is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented a reputational risk management policy. The key elements in the management of reputational risk include:

- Practicing good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.
- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach for incident that affects the Group's reputation.
- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.
- Maintaining proper mechanisms to monitor and escalate material lapses/breaches of internal and regulatory policies/guidelines that may place the Group's reputation at risk.
- Maintaining proper channels of communication in dealing with internal and external stakeholders.

For the Bank's overseas operations, it is the responsibility of the Country Heads to promote awareness and application of the Bank's policy and procedures regarding reputational risk, in all dealings with customers, potential investors and host regulators.

15.0 FORWARD LOOKING STATEMENTS

This document could or may contain forward looking statements that are based on current expectations as well as assumptions or anticipation of future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts, and often use words such as anticipate, target, expect, estimate, intend, plan, believe, will, may, should, would, could or other words of similar expressions.

Undue reliance should not be placed on any of such statements. By their nature, forward looking statements are subject to risks and uncertainty because they relate to future events and circumstances, including, but not limited to domestic and global economic and business conditions, the effects of continued volatility in the credit markets, market-related risks such as changes in interest rates and exchange rates, changes in regulation, and future business combinations or dispositions. As a result, the Bank's actual future results may differ materially from the plans, goals, and the expectations contained in the forward looking statements.

The Bank undertakes no obligation to revise or update any forward looking statements contained in this document, regardless of whether these statements are affected as a result of new information, future events or otherwise.

Table 22: Glossary of Terms

BCC	Board Credit Committee
BCM	Business Continuity Management
BCP	Business Continuity Planning
BNM	Bank Negara Malaysia
Board	Board of Directors
BRC	Board Risk Committee
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCYb	Countercyclical Capital Buffer
CET	Common Equity Tier
CRM	Credit Risk Mitigation
DFIs	Development Financial Institutions
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EL	Expected Loss
EUR	Euro Dollar
EVE	Economic Value of Equity
Fitch	Fitch Ratings
GBCSC	Group Business Continuity Steering Committee
GBP	Pound Sterling
GCG	Group Credit Guidelines
GCPM	Group Credit Procedures Manual
GCRC	Group Capital and Risk Committee
GMC	Group Management Committee
GRM	Group Risk Management
Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management

15.0 FORWARD LOOKING STATEMENTS (CONTINUED)

Table 22: Glossary of Terms (continued)

ICAAP	Internal Capital Adequacy Assessment Process
IMLDC	Incident Management and Loss Data Collection
ISDA	International Swaps and Derivatives Association
KCT	Key Control Testing
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody's	Moody's Investors Service
MYR	Malaysian Ringgit
NIFs	Notes Issuance Facilities
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Probability of Default
R&I	Rating and Investment Information, Inc
RAM	RAM Rating Services Berhad
RCSA	Risk and Control Self-Assessment
RM'000	Malaysian Ringgit in nearest thousand
RWCAF	Risk-Weighted Capital Adequacy Framework
RWA	Risk-Weighted Assets
SA	Standardised Approach
SBUs	Strategic Business Units
SFUs	Strategic Functional Units
SGD	Singapore Dollar
S&P	Standard & Poor's
VaR	Value-at-Risk

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