ANNUAL REPORT 2011

RHB Investment Bank Berhad

Contents

Board of Directors

Standing from left to right:

- **PATRICK CHIN YOKE CHUNG**
  Independent Non-Executive Director
- **ABDUL AZIZ PERU MOHAMED**
  Independent Non-Executive Director
- **DATO' SAW CHOO BOON**
  Independent Non-Executive Director
- **AKIRA MIYAMA ^**
  Non-Independent Non-Executive Director
- **LEW FOON KEONG**
  Senior Independent Non-Executive Director

Seated from left to right:

- **DATO' MOHAMED KHADAR MERICAN**
  Independent Non-Executive Chairman
- **TAN SRI AZLAN ZAINOL**
  Non-Independent Non-Executive Director

Note: ^ Akira Miyama ceased as a Non-Independent Non-Executive Director on 25 February 2012.

Profile of The Board of Directors

DATO' MOHAMED KHADAR MERICAN
(55 years of age – Malaysian)
Independent Non-Executive Chairman

Dato' Mohamed Khadar Merican ("Dato' Mohamed Khadar") was appointed as an Independent Non-Executive Director of RHB Investment Bank on 4 December 2003 and was subsequently appointed as the Chairman of RHB Investment Bank on 30 March 2011. Dato' Mohamed Khadar serves as a Chairman of the Group Credit Committee and as a Member of the Group Nominating Committee and the Group Remuneration and Human Resource Committee.

Dato' Mohamed Khadar has had more than 30 years of experience in financial and general management. He served as an auditor and a consultant in an international accounting firm, before joining a financial services group in 1986. Dato' Mohamed Khadar has held various senior management positions in Pernas International Holdings Berhad (now known as Tradewinds Corporation Berhad) between 1988 and April 2003, including those of President and Chief Operating Officer.

Dato' Mohamed Khadar is a Member of the Institute of Chartered Accountants in England and Wales and is also a Member of the Malaysian Institute of Accountants.

Dato' Mohamed Khadar's other directorships in public companies include RHB Capital Berhad (Chairman), RHB Bank Berhad, Rashid Hussain Berhad (In Members' Voluntary Liquidation), AirAsia Berhad and Astro All Asia Networks Plc.

TAN SRI AZLAN ZAINOL
(61 years of age – Malaysian)
Non-Independent Non-Executive Director

Tan Sri Azlan Zainol ("Tan Sri Azlan") was appointed as a Non-Independent Non-Executive Director of RHB Investment Bank on 27 July 2005.

Tan Sri Azlan is also currently the Chief Executive Officer of the Employees Provident Fund Board. He has more than 29 years of experience in the financial sector, having been appointed as the Managing Director of AmBank Berhad and prior to that, as the Managing Director of AmFinance Berhad.

Tan Sri Azlan is a Fellow of the Institute of Chartered Accountants in England & Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

Tan Sri Azlan's other directorships in public companies include RHB Capital Berhad, RHB Bank Berhad (Chairman), Rashid Hussain Berhad (In Member's Voluntary Liquidation), Malaysian Resources Corporation Berhad (Chairman), Jardine Cycle & Carriage Limited (Singapore), MCL Land Limited (Singapore), ASIA Ltd (Singapore) and Commonwealth Africa Investments Limited.

LEW FOON KEONG
(54 years of age – Malaysian)
Senior Independent Non-Executive Director

Lew Foon Keong ("Mr Lew") was appointed as an Independent Non-Executive Director of RHB Investment Bank on 15 March 2004.

Mr Lew has more than 25 years of investment banking experience. He started his career in 1983 in London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) and subsequently worked for British merchant bank, Robert Fleming prior to joining Credit Commercial de France in 1989. In 1990, he returned to Asia to join Hoare Govett Asia in Singapore, where he was responsible for the regional corporate finance business. In 1997, following the sale of HG Asia to ABN AMRO Bank, Mr Lew was appointed as the Managing Director of ABN AMRO's investment banking operations in Singapore. In late 1999, Mr Lew founded Equator Capital, an investment management and advisory company primarily active in trading of US equities options and managed futures. He has also participated in a number of private equity and pre-Initial Public Offerings (IPOs) investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global IPOs, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

Mr Lew holds a BA (Hons) in Finance and Accounting from the University of East London and a MSC (MBA) in Management Science from Imperial College, University of London.

Mr Lew's other directorships in public companies include RHB Islamic Bank Berhad and Singapore Medical Group.

Profile of The Board of Directors (continued)

DATO' SAW CHOO BOON
(65 years of age – Malaysian)
Independent Non-Executive Director

Dato' Saw Choo Boon ("Dato' Saw") was appointed as an Independent Non-Executive Director of RHB Investment Bank on 1 April 2010. He also serves as a Member of the Group Nominating Committee, Group Remuneration and Human Resource Committee, Group Risk Management Committee and Group Audit Committee.

Dato' Saw holds a Bachelor of Science (Chemistry) from the University of Malaya. He joined Shell in 1970 as a Refinery Technologist in Shell Refining Company (Federation of Malaya) Berhad. He then served in various capacities in manufacturing, supply, trading and planning in Malaysia, Singapore and Netherlands. In 1996, Dato' Saw was appointed Managing Director of Shell MDS (Malaysia) Sendirian Berhad. In 1998 – 1999, he assumed the positions of Managing Director for Oil Products (Downstream) Shell Malaysia and Managing Director of Shell Refining Company (Federation of Malaya) Berhad. In 1999, with the globalisation of the Shell Oil Products business, he was appointed the Vice-President of the commercial business in the Asia-Pacific region and in 2004 he became the President of Shell Oil Product East. Since 2006, he has been managing the global marine business and special projects.

Dato' Saw was appointed the Chairman of Shell Malaysia on 1 March 2006. He was also the Vice President Business Development Asia Pacific responsible for the developing of commercial businesses in new market entries in Asia – China, India, Indonesia and Vietnam. From 1 January 2010, Dato' Saw was appointed the Senior Advisor of Shell Malaysia until his retirement on 30 June 2010.

Currently, Dato' Saw's other directorships in public companies are RHB Capital Berhad, Shell Refining Company (Federation of Malaya) Berhad and Digi.Com Berhad.

ABDUL AZIZ PERU MOHAMED
(63 years of age – Malaysian)
Independent Non-Executive Director

Abdul Aziz Peru Mohamed ("Encik Aziz Peru") was appointed as a Director of RHB Investment Bank on 7 February 2011. He also serves as a Member of the Group Credit Committee.

Encik Aziz Peru is currently the Chief Executive Officer/Director of as-Salihin Trustee Berhad, a trust company specialized in Islamic estate planning. He held various Senior Management positions in the banking industry with almost 30 years accomplished career track spanning management of branch network and retail banking. He spent most of his working years at Malayan Banking Berhad, where his last position was General Manager, Consumer Banking Division. He was also formerly the Senior General Manager of AmBank Berhad from 2002 to 2005. During the years in the banking industry, he was appointed as the Chairman of Rules Committee of Association of Banks of Malaysia and has held several other key positions including a Board Member of Mayban Property Trust and Mayban Trustees Bhd.

Encik Aziz Peru attended various training programs at the Harvard Business School and Pacific Bankers Rim programs in United States of America.

Encik Aziz Peru's other directorships include RHB Bank Berhad, RHB Investment Management Sdn Bhd, Rockwills Business Solutions Sdn Bhd and Wisdom Ease Solutions Sdn Bhd.

PATRICK CHIN YOKE CHUNG
(66 years of age – Malaysian)
Independent Non-Executive Director

Patrick Chin Yoke Chung ("Mr Patrick Chin") was appointed as a Director of RHB Investment Bank on 2 August 2007. He also serves as a member of the Group Credit Committee and Group Risk Management Committee.

Mr Patrick Chin was previously the Chairman of Schroders Malaysia Sdn Bhd. Prior to that, he was the Chief Representative/Country Head of Bankers Trust Company, Kuala Lumpur from 1995 to 1999. From 1994 to 1995, he was the Chief Representative of Morgan Grenfell responsible for co-ordinating the Company's activities and business interests in Malaysia. He was also an Executive Director of Morgan Grenfell Asia-Kenanga Sdn Bhd and Head of Corporate Finance in Kuala Lumpur. From 1973 to 1993, he was with Asian International Merchant Bankers Berhad as Deputy Chief Executive Officer and Head of Corporate Finance.

Mr Patrick Chin is a Fellow of The Institute of Chartered Accountants in England and Wales. He also attended the Management Development Program at Harvard Business School.

Mr Patrick Chin's other directorships in public companies include RHB Bank (L) Ltd (Chairman), Muda Holdings Berhad and Leader Universal Holdings Berhad.

Corporate Information
as at 29 February 2012

BOARD OF DIRECTORS

Dato' Mohamed Khadar Merican
Independent Non-Executive Chairman

Lew Foon Keong
Senior Independent Non-Executive Director

Tan Sri Azlan Zainol
Non-Independent Non-Executive Director

Patrick Chin Yoke Chung
Independent Non-Executive Director

Dato' Saw Choo Boon
Independent Non-Executive Director

Abdul Aziz Peru Mohamed
Independent Non-Executive Director

COMPANY SECRETARY

Azman Shah Md Yaman

BOARD COMMITTEES

Group Audit Committee#
Ong Seng Pheow - *Chairman*
Dato' Othman Jusoh
Dato' Saw Choo Boon
Haji Md Ja'far Abdul Carrim
Dato' Mohd Ali Mohd Tahir

Group Nominating Committee*
Datuk Haji Faisal Siraj - *Chairman*
Dato' Mohamed Khadar Merican
Dato' Saw Choo Boon
Dato' Teo Chiang Liang
Choong Tuck Oon
Haji Md Ja'far Abdul Carrim

Group Remuneration and Human Resource Committee*
Datuk Haji Faisal Siraj - *Chairman*
Dato' Mohamed Khadar Merican
Dato' Saw Choo Boon
Dato' Teo Chiang Liang
Choong Tuck Oon
Haji Md Ja'far Abdul Carrim

Group Risk Management Committee*
Haji Khairuddin Ahmad - *Chairman*
Patrick Chin Yoke Chung
Haji Md Ja'far Abdul Carrim
Choong Tuck Oon
Dato' Saw Choo Boon

Group Credit Committee#
Dato' Mohamed Khadar Merican - *Chairman*
Haji Khairuddin Ahmad
Abdul Aziz Peru Mohamed
Patrick Chin Yoke Chung

Group It & Transformation Strategy Committee#
Choong Tuck Oon - Chairman
Ong Seng Pheow
Dato' Mohd Ali Mohd Tahir
Kellee Kam Chee Khiong
Johari Abdul Muid

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong
Group Managing Director,
RHB Capital Berhad

Johari Abdul Muid
Managing Director,
RHB Bank Berhad

Mike Chan Cheong Yuen
Officer in Charge,
RHB Investment Bank Berhad/Director,
Corporate Banking

Kong Shu Yin
Managing Director,
RHB Insurance Berhad

Sharifatul Hanizah Said Ali
Managing Director,
RHB Investment Management Sdn Bhd

Norazzah Sulaiman
Director, Group Corporate Services

Michael Lim Kheng Boon
Director, Treasury and Transaction Services

Vince Au Yoong See Weng
Director, Retail Banking (Acting)

Amy Ooi Swee Lian
Director, Business Banking

Azaharin Abd Latiff
Director, Human Resource Management (Acting)

Patrick Ho Kwong Hoong
Head, Group Risk Management

Wong Yih Yin
Chief Internal Audit

Azman Shah Md Yaman
Company Secretary

Corporate Information
as at 29 February 2012 (continued)

MANAGEMENT
Mike Chan Cheong Yuen
Officer in Charge

MANAGEMENT OF SUBSIDIARIES

RHB Investment Management Sdn Bhd
Sharifatul Hanizah Said Ali
Managing Director/Head, Investment Management

RHB Research Institute Sdn Bhd
Lim Chee Sing
Executive Director/Head, Research Institute

REGISTERED OFFICE
Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Malaysia
Tel : (03) 9287 8888
Fax : (03) 9280 6507

COMPANY NO.
19663-P

BUSINESS ADDRESS

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RHB Centre
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50400 Kuala Lumpur
Malaysia
Tel : (03) 9287 3888
Fax : (03) 9287 0888

Melaka Branch
No.19, 21 & 23
Jalan Merdeka
Taman Melaka Raya
75000 Melaka
Tel : (06) 283 3622
Fax : (06) 284 9886

Kuching Branch
Yung Kong Building
Lot 172-176, K.T.L.D
Jalan Abell
93100 Kuching
Sarawak
Tel : (082) 250 888
Fax : (082) 250 868

RHB Research Institute Sdn Bhd
Level 11, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : (03) 9285 2233
Fax : (03) 9284 8693

RHB Investment Management Sdn Bhd
Level 7, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Hotline : 1 800 88 3656
Tel : (03) 9286 2666
Fax : (03) 9286 2407
(Branches in Penang, Sabah & Sarawak)

JOINTLY CONTROLLED ENTITY

Vietnam Securities Corporation
8th Floor
59 Quang Trung Street, Nguyen Du Ward
Hai Ba Trung District
Hanoi
Vietnam
Tel : (84) 4 944 6066, 67, 68, 69
Fax : (84) 4 944 6070

AUDITORS
PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Travers, Kuala Lumpur Sentral
50470 Kuala Lumpur, Malaysia.
Tel : (03) 2173 1188
Fax : (03) 2173 1288

* The Committee resides at RHB Capital Berhad and is shared with relevant subsidiaries of the Group.
# The Committee resides at RHB Bank Berhad and is shared with relevant subsidiaries of the Group.

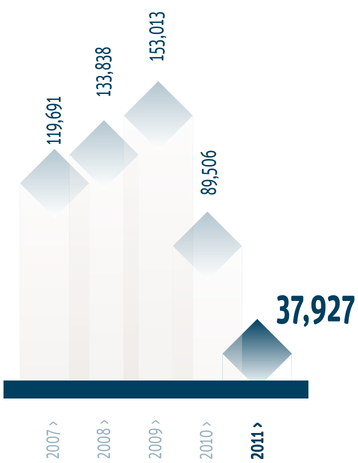
Group Financial Highlights

FIVE-YEAR FINANCIAL HIGHLIGHTS

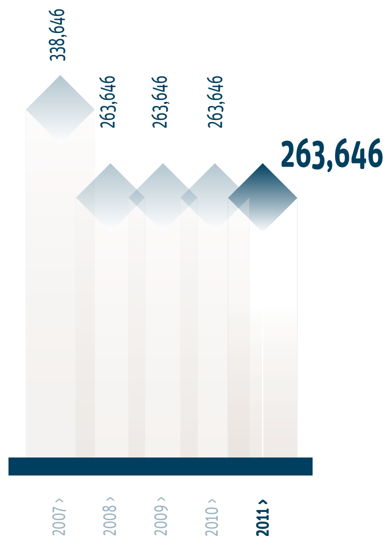
	RHB INVESTMENT BANK GROUP				
	2011	2010	2009	2008	2007
RESULTS (RM'000)					
Profit before taxation	37,927	89,506	153,013	133,838	119,691
Net profit for the financial year	23,766	67,235	113,243	97,242	83,870
Net dividends	29,265	69,998	185,870	60,507	52,910
STATEMENTS OF FINANCIAL POSITION (RM'000)					
Share capital	263,646	263,646	263,646	263,646	338,646
Shareholder's equity	612,199	651,756	742,486	718,100	696,690
Total assets	6,126,016	6,738,695	5,789,630	6,810,160	8,233,798
Loans and advances	42,928	49,891	60,158	468,244	851,544
Total deposits	4,604,205	5,132,302	4,305,318	5,425,445	6,872,435
RATIOS					
Earnings per share (sen)	9.0	25.5	43.0	34.4	24.8
Gross dividend per share (sen)	14.8	35.4	94.0	30.6	21.4
Net tangible assets per share (sen)	166.6	181.6	216.1	192.7	154.7
Return on shareholder's equity (%)	3.8	9.6	15.5	13.7	11.9

Group Financial Highlights (continued)

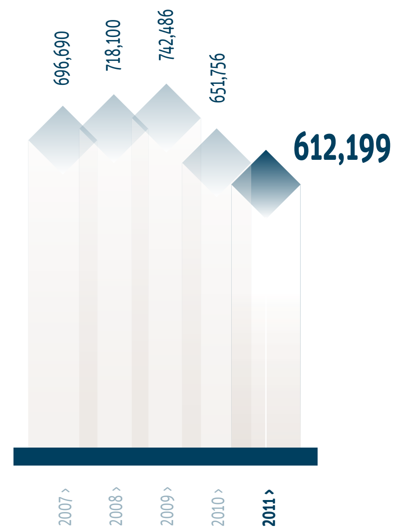
Profit Before Taxation
(RM'000)



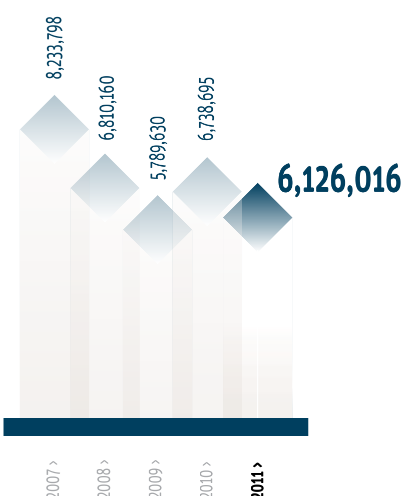
Share Capital
(RM'000)



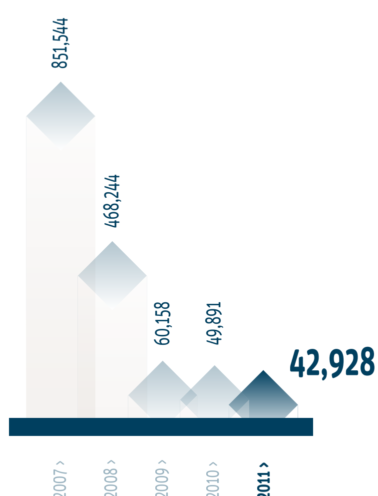
Shareholder's Equity
(RM'000)



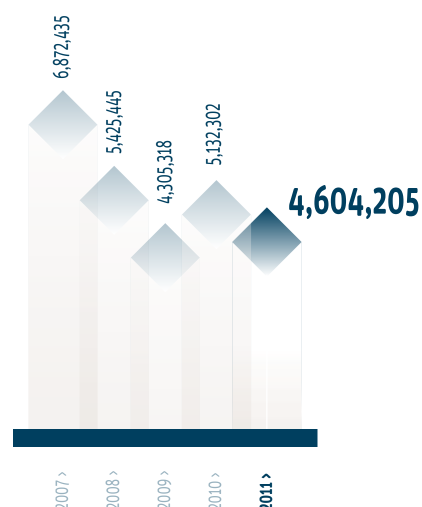
Total Assets
(RM'000)



Loans and Advances
(RM'000)



Total Deposits
(RM'000)



RHB Capital Berhad Group Structure
as at 29 February 2012

RHB Capital Berhad

Commercial Banking Group

RHB Bank Berhad

- RHB Islamic Bank Berhad
- RHB Bank (L) Ltd
  - RHB International Trust (L) Ltd
    - RHB Corporate Services Sdn Bhd
- RHB Leasing Sdn Bhd
- RHB Capital Nominees (Tempatan) Sdn Bhd
  - RHB Capital Nominees (Asing) Sdn Bhd
- RHB Capital Properties Sdn Bhd
- Utama Assets Sdn Bhd
- RHB Bank Nominees Pte Ltd *(Singapore)*
- Banfora Pte Ltd *(Singapore)*
- RHB Investment Ltd *(Singapore)*
- RHB Trade Services Limited *(Hong Kong)*
- Utama Gilang Sdn Bhd (9)
- UMBC Sdn Bhd
- RHB Delta Sdn Bhd (9)

Notes:
The subsidiary companies are wholly-owned unless otherwise stated.

- Dormant company
- Jointly Controlled Entity

(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 became a wholly-owned subsidiary of RHB Capital Berhad on 16 October 2009.
(4) The company became a wholly-owned subsidiary of RHB Capital Berhad on 2 November 2009.
(5) The company became a wholly-owned subsidiary of RHB Hartanah Sdn Bhd on 26 May 2010.
(6) The company became a wholly-owned subsidiary of RHB Hartanah Sdn Bhd on 16 July 2010.
(7) The company became a wholly-owned subsidiary of RHB Private Equity Holdings Sdn Bhd on 30 September 2010.
(8) The company became a wholly-owned subsidiary of RHB Investment Management Sdn Bhd on 14 October 2010.
(9) The company has commenced members' voluntary winding up on 16 February 2011.

Country of incorporation is in Malaysia unless otherwise indicated in italics

RHB Capital Berhad Group Structure
as at 29 February 2012 (continued)

Investment Banking Group

RHB Investment Bank Berhad

- RHB Investment Management Sdn Bhd
  - RHB Islamic Asset Management Sdn Bhd (8)
- RHB Research Institute Sdn Bhd
- RHB Merchant Nominees (Tempatan) Sdn Bhd
  - RHB Merchant Nominees (Asing) Sdn Bhd
- RHB Private Equity Holdings Sdn Bhd
  - RHB Private Equity Management Ltd
  - RHB Private Equity Fund Ltd *(Cayman Islands)* (7)
- RHB Nominees Sdn Bhd
- RHB Nominees (Tempatan) Sdn Bhd
- RHB Nominees (Asing) Sdn Bhd
- RHB Excel Sdn Bhd
- RHB Progressive Sdn Bhd
- RHB Marketing Services Sdn Bhd (9)
- RHB Unit Trust Management Berhad
- Vietnam Securities Corporation (49%)

RHB Insurance Berhad

- RHB Insurance Berhad (94.7%)

Others

- RHB Equities Sdn Bhd (1)
  - KYB Sdn Bhd
- RHB Capital *(Jersey)* Limited
  - Rashid Hussain Securities *(Philippines)*, Inc. *(Philippines)* (2)
- RHB Hartanah Sdn Bhd
  - Positive Properties Sdn Bhd (5)
  - RHB Property Management Sdn Bhd (6)
- Straits Asset Holdings Sdn Bhd
  - SSSB Services (Melaka) Sdn Bhd
  - SFSB Services (Melaka) Sdn Bhd
- RHBF Sdn Bhd
  - KYF Sdn Bhd
- RHB Venture Capital Sdn Bhd (3)
- RHB Kawal Sdn Bhd (4)

Awards and Recognition

RHB Investment Bank Berhad

Islamic Finance News Awards
- **IPO/Equity Deal of the Year**
  Bumi Armada's RM2.67 Billion
  Initial Public Offering
  Joint Managing Underwriter

Asiamoney
- **Best Country Deal**
  Bumi Armada's RM2.67 Billion
  Initial Public Offering
  Joint Managing Underwriter

The Asset Triple A Awards
- **Islamic Deal of the Year**
  Cagamas Berhad's RM1 Billion Sukuk Al-Amanah Li Al-Istithmar (Sukuk ALIm)
  Joint Lead Manager
- **Best Islamic Deal, Malaysia**
  Cagamas Berhad's RM1 Billion Sukuk Al-Amanah Li Al-Istithmar (Sukuk ALIm)
  Joint Lead Manager
- **Best Islamic Equity**
  Petronas Chemicals Group's RM14.8 Billion
  Initial Public Offering
  Joint Underwriter (Retail Offering)

Alpha Southeast Asia 2011 Awards
- **Best Deal/Most Innovative Deal of the Year in Southeast Asia**
  SapuraCrest Petroleum-Kencana Petroleum's RM11.85 Billion M&A
  Joint Sellside Financial Adviser
- **Best Equity/IPO Deal of the Year in Southeast Asia**
  Bumi Armada's USD888 Million
  Initial Public Offering
  Joint Managing Underwriter

RHB Investment Bank Berhad

The Edge Malaysia
- **Deal of the Year – Best Initial Public Offering**
  Bumi Armada's USD888 Million
  Initial Public Offering
  Joint Managing Underwriter
- **Deal of the Year – Best Corporate Finance/ Privatisation (Notable Mention)**
  Privatisation of PLUS Expressways Bhd by PLUS Malaysia Sdn Bhd (owned by UEM Group Bhd) and the Employees Provident Fund

Malaysian Rating Corporation
- **Top Lead Managers Award (Issue Value) – No 3**

Rating Agency
- **Lead Manager Award by Programme Value - 2nd Place**
- **Lead Manager Award by Number of Issues - 3rd Place**
- **Lead Manager Award Islamic by Programme Value - 2nd Place**

Bursa Malaysia Derivatives Berhad
- **Top Financial Futures Broker Award**

RHB Research Institute Sdn Bhd

The Edge Malaysia	• **The Edge Malaysia - Best Call Awards** Top Strategist – Lim Chee Sing Best Plantation Sector Call – Hoe Lee Leng
Asiamoney	• **Asiamoney Polls** Best Local Brokerage, 5th place Best Analyst – Lim Chee Sing, 5th place Macroeconomics, 1st place Strategy, 2nd place Consumer Services, 3rd place Most independent Research Brokerage, 5th place

RHB Investment Management

The Asset Benchmark Research	One of the Most Astute Investors in the Asian Currency Bonds for 2011
The Edge-Lipper Malaysia Fund Awards 2011	Best Bond Malaysian Ringgit – Islamic Fund Period ending Dec 31, 2010:3-years RHB Islamic Bond Fund
2010 Failaka Islamic Fund Award	Best Malaysian Sukuk (10-year) RHB Islamic Bond Fund

Services

i. Corporate and Investment Banking Services

Corporate and Investment Banking Services (CIBS) provides advice on corporate strategy covering corporate restructuring, initial public offerings, mergers and acquisitions, and structuring and distribution of both equity and debt instruments. Services provided also include advising and structuring of bilateral lending, project financing, loans syndication and infrastructure financing. Their dedicated relationship managers with expertise across all industries act as a liaison between clients and the relevant business units, enabling them to come up with integrated solutions for clients. The CIBS team is supported by the following product specialist teams.

CIB International

CIB International focuses on expanding RHB Investment Bank's regional investment banking business by leveraging on the Group's regional expertise. The unit acts as a liaison office between corporations and the various product owners within the investment banking group, to provide an integrated investment banking menu of services and solutions for clients, with an international flavor. CIB International together with the respective business units offer cross border transactional services covering corporate advisory, corporate restructuring, initial public offerings, mergers and acquisitions and sales and distribution of both equity and debt instruments.

Debt Capital Markets

Debt Capital Markets has undertaken many landmark transactions in Malaysia that are noted by the market for innovation and creativity. The department offers both advisory and fund raising services in the structuring and issuance of various forms of debt securities and other capital market instruments, both conventional and Islamic, for Malaysian and international issuers.

Corporate Finance

Corporate Finance delivers advisory services and transactional execution expertise to its client base across a range of products. This includes mergers and acquisitions, takeovers, stock exchange listings, public offering of equity related instruments, underwriting and valuation of securities, private placements, corporate and debt restructurings.

Equity Capital Markets

Equity Capital Markets (ECM) is a leading participant in the primary and secondary markets for equity and equity-linked products. ECM provides support in the origination and structuring of equity transactions such as initial public offerings, rights issues and private placements. ECM also manages syndication, marketing, and distribution of products through a quality network of private, corporate and institutional clients.

Equities Broking

Equities Broking offers facilities for share trading in the local stock market and in other markets such as Singapore, Thailand, Australia, UK, US as well as Hong Kong. We also provide access to the local market by electronic means for both retail and institutional clients.
In this way clients have full control of their orders as they will be able to key in their orders directly into the market. To complement these activities, we also provide share margin financing as well as custodian and nominees services.

Futures Broking

Futures Broking provides products and services offered by Bursa Malaysia Derivatives Berhad such as KLCI Futures Index, KLCI Options Index, Crude Palm Oil Futures, FKB3 contracts and FMGS bonds futures contracts. Through its dual license holders, clients may also hedge their investments in the equity market.

Private Equity

Our private equity fund invests in growth companies in a wide range of industries and sectors in the Asian region. We aim to create shareholders value in our portfolio companies by identifying and pursuing growth drivers to achieve higher financial performance. Our investment horizon is typically up to five years and our exits are through initial public offerings and/or trade sales.

Financial Advisory

Financial Advisory provides financial restructuring services to assist companies, their lenders, shareholders and other stakeholders, whose businesses are facing financial difficulties or in need of a restructuring. It offers customized financial solutions to assist in turning around the company's financial position, developing and facilitating the implementation of multiple options to re-establish the business viability and also facilitate the sale and purchase of corporate assets.

ii. Treasury

Treasury provides services to a wide range of clients with diverse needs, comprising government agencies, pension funds, mutual funds, insurance companies, corporations and inter-bank parties. These include market information dissemination, deposit-taking services, custodian services and provision of investment options.

Treasury is also involved in the proprietary trading of various financial products that include short-term money market instruments, long term securities and foreign exchange and derivatives products. It is supported by a well-established distribution network.

iii. Research

Research helps investors make informed decisions by providing comprehensive economic, equity and debt market research. The team of researchers will analyse investor implications with an outlook for the industry, economy and market conditions. Research also provides financial analysis and business prospects on a broad range of listed companies on Bursa Malaysia. Clients also benefit from research, valuations and credit opinions of companies relating to potential corporate deals for CIBS.

iv. Investment Management

Investment Management has the expertise and skills in managing a full range of investment instruments customized according to client risk profile, including conventional and Shariah compliant instruments. The investments and mandates managed include equity, fixed income, hybrid structures, structured products, cash management, investment-linked and unit trust products. Investment Management also distributes a full array of domestic and global unit trust funds, encompassing conventional and Shariah compliant funds. Other services include product manufacturing, investment services mandate, IPO mandate, portfolio restructuring and management of sinking funds.

Corporate Governance Statement

Introduction

"Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

High Level Finance Committee Report 1999

"The 'licence to operate' of a company invariably involves the responsibility to operate with genuine concern and understanding of interactions between sustainability and business, and to incorporate those considerations into the daily operations of the company."

Securities Commission Corporate Governance Blueprint 2011

OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

The Board of Directors ("Board") of RHB Investment Bank Berhad ("RHB Investment Bank " or "the Investment Bank ") recognises that good corporate governance is and has been fundamental to the success of our business. Not only has it helped establish the Investment Bank's credibility and bolster our corporate reputation, it has also enhanced our shareholder value, provided assurance to investors, strengthened customers' trust in our businesses and improved the overall RHB Banking Group's competitive positioning.

Given the Group's vision "to be a Leading Multi-National Financial Group" as well as five new customer-centric core values with the acronym PRIDE (i.e. Professional, Respectful, Integrity, Dynamic and Excellence), the Board also placed an emphasis on the corporate governance, tenets of transparency, accountability, integrity and corporate performance as the prerequisites of a responsible corporate entity.

To ensure the highest standards of integrity, business ethics and professionalism are upheld across our organisation, we have adopted best market practices to establish accountability and transparency within the Investment Bank and Group as well as upheld the integrity of the Board and Management. RHB Banking Group's corporate governance structure is principally based on the following:

(i) Revised Malaysian Code on Corporate Governance ("the Code");

(ii) Bank Negara Malaysia's ("BNM") Guidelines on Corporate Governance for Licensed Institutions ("BNM's CG Guidelines");

(iii) Bursa Malaysia Securities Berhad's ("Bursa Securities") Main Market Listing Requirements ("MMLR") and Corporate Governance Guide ("CG Code"); and

(iv) Minority Shareholders Watchdog Group ("MSWG") Corporate Governance Best Practices.

While stringent corporate governance practices and internal controls are already in place, we believe there is always room for improvement and are always exploring new avenues and measures to enhance the Investment Bank 's and Group's system of governance. In doing so, the Board not only pays attention to ethical conduct, value enrichment and the implementation of best practices, but also take significant effort to understand and manage stakeholders' expectations. Such understanding is essential to ensure that our position and reputation as a financial institution is held in good stead. Moreover, this understanding enables us to fulfil the evolving needs of our stakeholders and supports the Group's efforts to compete at the global arena.

As a testament to our strong commitment and practice of good corporate governance, RHB Banking Group was the proud recipient of the numerous awards, among others:

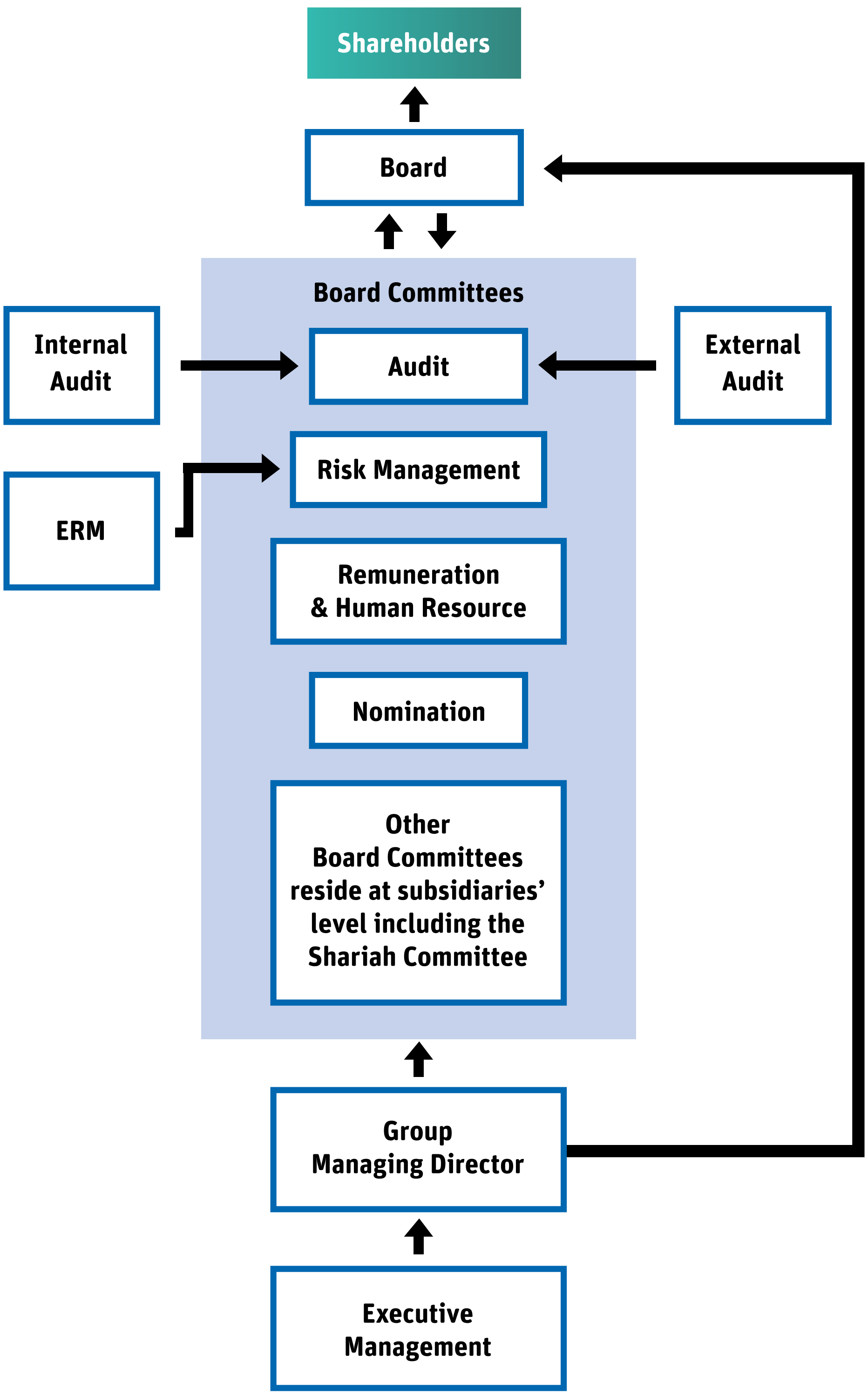
- RHB Capital Berhad - Enterprise Governance Award - Merit Malaysian Business-CIMA Enterprise Governance Awards 2011
- RHB Capital Berhad - Best Return to Shareholders - Second Runner Up Malaysian Business-CIMA Enterprise Governance Awards 2011
- RHB Capital Berhad - Best Investor Relations in Malaysia – 8th rank FinanceAsia Best Managed Companies Awards 2011 in Malaysia
- RHB Bank Berhad - RHB Now : Best Security Initiative from Asian Banking & Financial Retail Banking Awards 2011
- RHB Bank Berhad - RHB Reflex Online Cash Management : Best Cash Management Bank in Malaysia 2011 from The Asian Banker Transaction Banking Awards 2011
- RHB Bank Berhad - Easy by RHB : Asia Pacific, the Middle East, Central Asia and Africa - Best Business Model from The Asian Banker International Excellence in Retail Financial Services Awards 2011
- RHB Bank Berhad - Easy by RHB : Asia Pacific - Special Citation Award for Operational Efficiency from Financial Insights Innovation Awards 2011
- RHB Bank Berhad - Easy by RHB : Best Brands in Financial Services – Retail Banking from The BrandLaureate Awards 2010-2011 for Product Branding
- RHB Bank Berhad - Easy by RHB : Asia Pacific - Service Excellence Award from Banking & Payments Asia Trailblazer Awards 2011
- RHB Bank Berhad - Easy by RHB : Best Brand Strategy Advertising + Marketing Magazine Awards 2011
- RHB Islamic Bank Berhad - Malaysia Service to Care Award 2011 from Philip Kotler Centre for ASEAN Marketing & MarkPlus Inc.
- RHB Investment Bank - Best Country Deal From Asia Money
- RHB Investment Bank - Islamic Deal of the Year from Asset Asian Awards 2011
- RHB Investment Bank - Best Deal/Most Innovative Deal of the Year in Southeast Asia from Southeast Asia
- RHB Investment Bank - Blueprint Award- Malaysian Innovation of the Year from RAM Rating Services Berhad
- RHB Research Institute Sdn Bhd - The Edge Malaysia's Best Call Awards Top Strategist and Best Plantation Sector Call from The Edge Malaysia

The complete listing of the awards received by RHB Banking Group in 2011 and to-date is presented on Pages 012 to 013 of this Annual Report.

Corporate Governance Statement (continued)

GOVERNANCE MODEL

RHB Banking Group's Governance Model conforms to the relevant regulatory requirements as well as best market practices. The Governance Model is continuously reviewed by the Board to ensure it remains relevant and is able to meet future challenges.

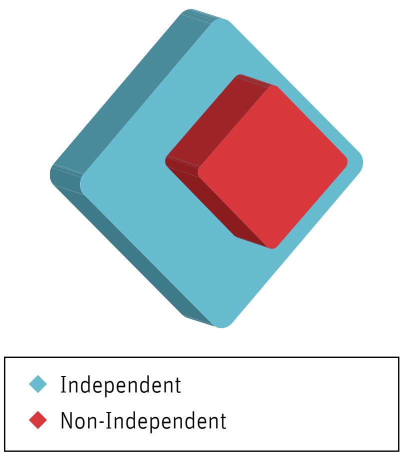


Board Of Directors

Board Composition and Balance

The Board currently has six (6) Members, with an (1) Independent Non-Executive Chairman, an (1) Senior Independent Non-Executive Director, three (3) Independent Non-Executive Directors ("NEDs") and one (1) Non-Independent Non-Executive Director. The structure and composition of the Board comply with the Code and BNM's CG Guidelines. The number of Independent Directors exceeds the requirement of one-third of the Board Members to be independent as set out in the Code and BNM's CG Guidelines. The presence of the five (5) Independent NEDs ensures there is an effective check and balance in the functioning of the Board. These Independent NEDs fulfil the criteria of independence as defined in the BNM's CG Guidelines. They are not involved in the day-to-day management of the Investment Bank, nor do they participate in any business dealings of the Investment Bank. This ascertains that they remain free of any conflict of interest and can undertake their roles and responsibilities as Independent NEDs in an effective manner.

Composition of Board



RHB Banking Group is also in the midst of identifying suitable female candidates for appointment as Directors of the Group considering that gender diversity is also one of the important attributes of a well-functioning Board and an essential measure of good governance.

Directors' Qualification and Experience

As a major financial services group, the Board recognises that its Members must have the appropriate mix of skills as well as the necessary knowledge, experience and commitment to effectively contribute towards the growth and expansion of the Investment Bank and the Group as a whole. Furthermore, being on the Board of a financial institution, Board Members are required to be responsive to the constantly changing global financial landscape. The Board regularly reviews the composition of its own Board as well as the Boards of its major subsidiaries and the Group's Board Committees to ensure that appropriate balance is maintained and that there is an adequate mix of skills and experience.

Our Directors bring on board a wealth of knowledge and experience in business development, finance, accounting/audit, engineering and general management skills that are drawn from the relevant industry that they operate in (including petrol and gas businesses) and the regulatory environment in which the Group operates. A brief profile of each member of the Board outlining their qualifications, experience and skills is presented on pages 004 to 005 of this Annual Report.

Duties and Responsibilities of the Board

The Board recognise the importance of having the 6 basic principles as indicated below to form a good governance Board:

PRINCIPLE-BASED GOVERNANCE

Leadership and Stewardship

- Ensuring strategic direction and planning
- Planning for succession
- Overseeing risk management and internal control

Empowerment and Accountability

- Delegating authority
- Allocating responsibilities
- Establishing effective accountability mechanisms

Communication and Transparency

- Determining information flows
- Communicating with all stakeholders
- Reporting to shareholders and others

Service and Fairness

- Setting an example in corporate social responsibility
- Providing ethical leadership
- Promoting environmental sustainability

Accomplishment and Measurement

- Monitoring and overseeing management
- Selecting corporate performance measures
- Evaluating the Board, individual Directors and Senior Management

Continuous Learning and Growth

- Promoting a culture of innovation and change
- Developing executives and employees
- Training Directors

The Board is responsible for governing the business and affairs of the Investment Bank and for exercising all such powers pursuant to the Articles of Association of the Investment Bank. While carrying out their duties and responsibilities, the Board is committed to ensuring that the highest corporate governance standards are adhered to. The overall principle responsibilities of Board are as follows:

- providing strategic leadership to the Investment Bank and the Group;
- reviewing, approving and monitoring the implementation of the Investment Bank and Group's strategic business plans and policies;
- ensuring the Investment Bank and Group maintains an effective system of internal controls and is able to identify and manage principal risks resulting in efficiency in operations and a stable financial environment;
- acting as a guardian of the Investment Bank's and Group's corporate values and ethical principles in parallel with the goal to enhance shareholders' value;
- monitoring as well as evaluating the performance of the Management to ensure that the performance criteria remains dynamic; and
- ensuring the formulation of a succession plan for the Investment Bank and Group for long-term business continuity.

Roles of the Chairman, Non-Executive Director and Senior Independent Non-Executive Director

Chairman

It is widely recognised that a Chairman should also be an Independent NED and that the roles of the Chairman and the MD must be clearly demarcated. The Chairman is responsible for leading the Board and ensuring it performs in an effective manner.

The Chairman, YBhg Dato' Mohamed Khadar Merican presides over Board and General Meetings of the Investment Bank. He ensures that the Board is well informed and effective; that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper decision making of the Board and the Investment Bank . Additionally, the Chairman has to ensure that General Meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965, and that shareholder has adequate opportunity to air its views and obtain answers to its queries.

In furtherance thereto, the Chairman is also responsible to:

- provide effective leadership in the determination of the Investment Bank and the Group's strategy and in the achievement of the Investment Bank and the Group's objectives;
- work with the Company Secretary to schedule Board and Committee meetings and ensure that Directors receive accurate, timely and clear information, in particular on the Investment Bank's and Group's performance and issues arising, to enable the Board to make sound decisions, conduct effective monitoring and provide sound advice in achieving the Investment Bank's and Group's objectives;
- ensure that Board Committees are properly established and composed, with appropriate terms of reference;
- ensure that all important agenda are appropriately discussed by the Board;
- ensure the independence of the Board in discharging its duties. This includes encouraging NEDs of the Board to meet regularly to deliberate on matters of concern and ensure that the Board engages independent advisors where required (subject to the proper approval process);
- ensure that the Board and individual Directors fully exercise their responsibilities and adhere to applicable laws, regulations, rules, directives, policies and guidelines;
- consider and address the developmental needs of individual Directors and the Board as a whole to maintain the necessary depth and breadth of knowledge and skills to enhance the effectiveness of the Board;
- promote effective relationship and open communication between the Board and the Senior Management in relation to corporate governance and corporate performance;
- to enhance the Investment Bank's and Group's public standing and image; and
- ensure effective relationships are maintained with all major stakeholders.

The Chairman, YBhg Dato' Mohamed Khadar Merican has over 30 years' experience in financial and general management. He is a Member of both the Institute of Chartered Accountants in England and Wales and the Malaysian Institute of Accountants. He had served as an auditor and a consultant in an international accounting firm before joining a financial services group in 1986. YBhg Dato' Mohamed Khadar Merican was appointed as the Chairman of RHB Investment Bank on 30 March 2011 and he has served the Group for almost nine (9) years.

Managing Director ("MD")

Currently, the day to day management of the Investment Bank is delegated to the Officer-In-Charge who is responsible in managing the business and operations of the Investment Bank and in ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman ensure the balance of power and authority in relation to the establishment of a fully effective Board.

The MD's integral role is to implement the policies and decisions of the Board, oversee the operations as well as coordinate the development and implementation of business and corporate strategies. In addition thereto, he is also responsible for the following tasks:

- manage the business and operations and to put in place the policies and strategies adopted by the Board;
- ensuring that the financial results are accurate and not misleading as well as ensuring that the financial management practices of the Investment Bank and the Group are carried out with the highest standards of integrity and transparency for the benefit of all stakeholders;
- ensuring that the business and affairs of the Investment Bank and the Group are carried out in an ethical manner and in full compliance with the relevant laws and regulations;
- overseeing the internal control systems and the risk management processes and ensuring these are appropriate and effective;
- ensuring succession planning and talent management programs are in place in the interest of human capital development;
- maintaining effective relationship between the Management, the Board and other stakeholders; and
- developing and maintaining strong communication programmes and dialogue with the stakeholders.

In carrying out his tasks, the MD is supported by a Management Committee ("MANCO") which comprises the MD as the Chairman and other Senior Management of the Investment Bank. The MANCO is governed by its terms of reference and has several objectives, among others, to monitor and review the Investment Bank's performance and formulate as well as discuss policies, strategies and activities of the Investment Bank and in relevant circumstances, for recommendation to the Board of the Investment Bank.

Non-Executive Directors

The roles of the NEDs are wide and varied. They provide considerable depth of knowledge collectively gained from their experience in a variety of public and private companies and other enterprises. The Independent Directors provide unbiased and independent views in ensuring that the strategies proposed by the Management are fully deliberated on and take into account the interests of minority shareholders, employees, customers and the many communities in which the Group conducts its business. The independence of the Independent Directors is constantly reviewed and benchmarked against best practices and regulatory provisions.

In discharging their responsibilities, the Independent Directors engage with the Management and with the internal and external auditors and they participate in Board Committees within the Group. This is particularly so in the case of YBhg Dato' Mohamed Khadar Merican who is the Chairman of Group Credit Committee.

Senior Independent Non-Executive Director

The Board has appointed Mr Lew Foon Keong as the Senior Independent Non-Executive Director ("SINED"), to whom concerns pertaining to the Investment Bank may be conveyed by shareholder and the public.

Mr Lew Foon Keong has been an Independent Non-Executive Director of RHB Investment Bank since 15 March 2004 and was appointed as its SINED since 30 March 2011. In late 1999, Mr Lew Foon Keong founded Equator Capital, an investment management and advisory company primarily active in trading of US equities options and managed futures. He has also participated in a number of private equity and pre-Initial Public Offerings ("IPOs") investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global IPOs, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

Senior Independent Non-Executive Director (Continued)

The SINED has the following additional responsibilities:

- to be available to shareholder if they have concerns relating to matters where contact through the normal channels of the Chairman or MD has failed to resolve issues, or for which such contact is inappropriate; and
- to maintain contact as required with the shareholder to have a balanced understanding of their issues and concerns.

All concerns relating to the Investment Bank can be channelled to the SINED's email address, charles_lew@rhb.com.my

BOARD CHARTER

The Board has developed a charter that sets out the key corporate governance principles adopted by the Board ("Charter"). In adhering to the responsibilities set out in the Charter, the Members of the Board are expected to perform their duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Investment Bank's shareholder and stakeholders.

Code Of Ethics And Business Conduct

The Board has adopted a Code of Ethics and Business Conduct for Directors ("Code of Ethics"). The Code of Ethics was formulated to enhance the standard of corporate governance and promote ethical conduct of Directors with a view to achieving the following objectives:

- to establish a uniform ethical standard for Directors emphasising conduct free from conflicts of interest; and
- to uphold the spirit of corporate responsibility and accountability in line with the governing laws, regulations and guidelines.

The Group has in place a Group Code of Ethics and Conduct that is applicable to all its employees to ensure a high standard of ethical and professional conduct is upheld by all its employees in the performance of their duties and responsibilities.

Company Secretary

The Company Secretary serves and advises the Board on matters relating to the affairs of the Board and ensures that Board meetings are properly convened and an accurate and proper record of the proceedings and minutes of the meetings are kept. The Company Secretary assists the Chairman and Directors in the conduct of meetings and their governance obligations and responsibilities as Directors of the Investment Bank. The Company Secretary also facilitates the communication of key decisions and policies between the Board, Board Committees and the Senior Management.

Apart from performing the duties and responsibilities of a named Secretary to the Board, the Company Secretary also undertakes the following roles:

- ensuring that the Board are kept well informed/updated on legal/regulatory requirements that affects the duties and responsibilities of Directors;
- ensures that the relevant companies within the Group complies with its statutory obligations under relevant laws and regulations;
- manages Board and shareholder processes group-wide;
- provides guidance to Directors and Senior Management on various corporate administration matters;
- assists in managing shareholder relations and resolving their enquiries;
- manages relationship with external share registrar; and
- acts as custodian of statutory records of the Group.

Board Meetings And Access To Information

Board Meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so that the Directors are able to plan ahead and accommodate the next year's Board Meetings into their respective meeting schedules.

The Board meets on a monthly basis to discuss business strategy, financial performance, potential strategic acquisition and alliances, matters pertaining to compliance and governance as well as reports on matters deliberated by Board Committees and their recommendations thereto. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives. Special meetings are held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the Board Committees and main Management Committees through minutes of these Committees. At each Meeting, the Board also receives updates from the respective Chairmen/representatives of the Group Audit Committee and Group Risk Management Committee on matters that have been deliberated at both Committees' Meetings, as well as on matters that require attention. This practice also applies for the rest of the entities of the Group.

To facilitate productive and meaningful deliberations, the proceedings of the Board Meetings are conducted in accordance with a structured agenda. The structured agenda together with comprehensive management reports are furnished to the Directors at least 7 days prior to the scheduled Board Meeting date. This is to allow the Members of the Board to digest the issues at hand, seek clarification from the Management or the Company Secretary, if required and formulate opinions on matters to be deliberated at the meetings. Confidential papers or urgent proposals are presented and tabled at the Board Meetings under other business of Agenda upon consent of the Chairman being obtained.

The RHB Banking Group is firmly committed to embedding technological innovation throughout the length and breadth of our organisation, especially those elements that strengthen productivity, bolster stakeholder relationships and protect our environment. We are proud to be one of the first organisation in Malaysia to embark on the use of iPADs and eBooks at Board/Board Committee Meetings. This initiative also forms part of the Group's ongoing Boardroom Modernisation Project. The benefits of circulating encrypted Board and Board Committee papers electronically and use of iPAD in place of paper have resulted in mobility, faster movements of the documents, cost and time savings, greater convenience, better security and positive environmental impact.

The RHB Banking Group firmly believes that technology is an integral to the Group's business growth and as such is committed to leveraging technological innovation to elevate the competitive edge of the Group in all aspects.

Directors who are unable to attend the Board Meeting physically are allowed to participate in the deliberations and discussions via telephone or video-conferencing. All deliberations at Board Meetings, including dissenting views, are duly minuted as records of proceedings. Relevant Board's decision are communicated to the Management within one working day from the Board's approval to enable Board decisions and directions to be executed on a timely basis. The draft minutes are circulated to the Directors and Management concerned for their review and comments before the final minutes are tabled for confirmation at the next Board Meeting. Management takes immediate action on all matters arising from the Board Meeting and updates the Board on the status of these matters at the next Board Meeting (where possible) or if deemed urgent via circulation of memorandum.

The Directors have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly and indirectly by the Investment Bank and Group. An interested Director is required to abstain from deliberations and decisions of the Board on the transaction.

Each Member of the Board is required to apply independent judgement to decision making in their capacity as a Director. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Investment Bank's Articles of Association.

The Board is able to seek clarification and advice as well as request for information on matters pertaining to the Investment Bank and Group from the Senior Management and the Company Secretary. Should the need arise, the Directors may also seek independent professional advice, at the Investment Bank's expense, when deemed necessary for the proper discharge of their duties.

The Group has in place the "Standard Procedures for Directors to Have Access to Independent Advice" which lays down the procedures for Directors to seek internal and/or external professional independent advice. The objectives of these guidelines among others are as follows:

- to ensure consistency throughout the RHB Banking Group on the procedures for Directors of the Group to have access to independent professional advice; and
- to enable Directors to have an enhanced perception of issues within the Group by allowing them to obtain independent opinion/advice/consultation from leading professionals in the relevant areas.

The adoption of the above guidelines is in line with the various regulatory requirements and best practices.

The Board convened thirteen meetings for the financial year ended 31 December 2011. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
YBhg Dato' Mohamed Khadar Merican[1]	13/13	100
Mr Lew Foon Keong	11/13	85
YBhg Tan Sri Azlan Zainol	12/13	92
Mr Patrick Chin Yoke Chung	13/13	100
YBhg Dato' Saw Choo Boon	13/13	100
Encik Abdul Aziz Peru Mohamed[2#]	12/12	100

Notes:
[1] Appointed as Chairman on 30 March 2011.
[2] Appointed as Director on 7 February 2011.
[#] Based on the number of Board meetings attended since his appointment to the Board.

YBhg Dato Abdullah Mat Noh, Mr Arul Kanda a/l Kandasamy and Mr Chay Wai Leong resigned from the Board of RHB Investment Bank on 1 March 2011, 10 May 2011 and 16 May 2011, respectively.

Mr Akira Miyama ceased as a Non-Independent Non-Executive Director on 25 February 2012.

Pursuant to the BNM's CG Guidelines, individual directors must attend at least 75% of the Board Meetings held in each financial year. For the year under review, all Directors complied with the attendance requirement as stipulated by BNM.

During the financial year, a Group Board Strategy Retreat was also held in the fourth quarter to deliberate specifically on strategic aspects (including the Group's long term corporate strategies and business plans) and performance targets of the Group. During the Retreat, the Board and Senior Management of the Group collectively agreed on the Mission, Vision and Core Values as well as long-term strategies.

APPOINTMENTS AND RE-ELECTION TO THE BOARD

RHB Investment Bank is governed by BNM's CG Guidelines in relation to the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM.

While the Board is responsible for the appointment of new Directors, the Group Nominating Committee is delegated with the role of reviewing and assessing the appointments/re-appointments of Directors. For the appointment of new Directors, a thorough and comprehensive evaluation of the background, skills, knowledge and experience of the nominee is undertaken by the Group Nominating Committee before a recommendation is made to the Board for approval. The Group Nominating Committee will also meet up with candidates, where possible. As for the re-appointment of existing Directors, the Group Nominating Committee also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation. The application for the appointment/re-appointment of Directors will be submitted to BNM for consideration once the same is approved by the Board.

The Group has in place an internal guideline on the Tenure of Appointment and Re-appointment of Independent Directors with the main objective of preserving the independence of Independent Directors. Generally, the tenure of appointment or re-appointment of Independent Directors within the Group is for a two-year term with a maximum service tenure of 10 years. Independent Directors over 70 years of age will not be eligible for appointment or re-appointment on the Board of any of the companies within the RHB Capital Group and shall retire at the next Annual General Meeting of the company concerned.

Article 93 of the Investment Bank's Articles of Association provides that at least one-third of the Board is subject to retirement by rotation at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are subject to re-election by shareholders at the next Annual General Meeting held following their appointment.

TRAINING & DEVELOPMENT

All newly appointed Directors are required to attend an induction programme organised by the Management of the Group, to provide the Directors with in-depth information of the industry as well as an overview of the business operations of the Group. During the induction programme, the relevant Management will brief the newly appointed Directors on the functions and areas of responsibility of their respective divisions. This enables Directors to familiarise themselves with the operations and organisational structure of the Group. It also provides them with a platform to establish effective channels of communication and interaction with Management.

Each new Director receives a comprehensive Director's induction kit to assist them in building a detailed understanding of the Group's operations, the longer term direction and the statutory obligations.

The Directors continuously participate in various seminars, conferences and training programmes and in-house workshops to keep themselves abreast of the relevant regulatory framework, financial sector issues as well as current and future market developments.

The Group had adopted a guideline on the Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group, the objectives of which are as follows:

- to ensure consistency throughout the RHB Banking Group in developing an in-house orientation and continuing education programme for its Directors to familiarise themselves with the industry and the Investment Bank/Group; and
- to provide Directors with a better understanding of the nature of business, corporate strategy, risks of the business, financial overview, risk management strategy, legal requirements, duties, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate.

The NEDs of the Investment Bank and the Group also attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme ("BHPP"). 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 would engender organisational excellence.

The Company Secretary facilitates the organisation of internal training programmes and Directors' attendance of external programmes, and keeps a complete record of the training received and attended by the Directors.

Corporate Governance Statement (continued)

Conferences, seminars and training programmes attended by each Director of the Investment Bank in 2011 encompassed various topics, including the following:

Directors	Training Programmes
YBhg Dato' Mohamed Khadar Merican	Directors Duties and Governance Conference 2010
	Leadership Best Practices
	Performance Pays the Report on Non-Executive Directors Remuneration
	FIDE July/October 2010
	Seminar On Coping with Asia's Large Capital Inflows in A Multi-Speed Global Economy
	Implementation of IRB and Management of Risk Going Forward
	Internal Capital Adequacy Assessment Process
	Strategic IT Workshop for Board of Directors and Top Management
	FIDE: Board Risk Management Committee: Managing Risk in Banks
	Anti Money Laundering/Counter Financing of Terrorism Training for Directors
	Walkthrough for Board Members Online/Mobile, Reflex and Cards
YBhg Tan Sri Azlan Zainol	Islamic Banking and Finance Fundamentals
	Briefing by Messrs PricewaterhouseCoopers on Goods and Services Tax (GST)
	FIDE Core 2011
	Internal Capital Adequacy Assessment Process
	EPF Seminar on Investment
	Nomura Annual CEO Investment Forum
Mr Lew Foon Keong	Performance Pays – The Report on Non-Executive Directors Remuneration
	Strategic IT Workshop for Board of Directors and Top Management
	Anti Money Laundering/Counter Financing of Terrorism Training for Directors
Mr Patrick Chin Yoke Chung	Implementation of IRB and Management of Risk Going Forward
	FIDE: Board Risk Management Committee: Managing Risk in Banks
	Anti Money Laundering/Counter Financing of Terrorism Training for Directors
Encik Abdul Aziz Peru Mohamed	Corporate Governance Guide: Towards Boardroom Excellence (GC Guide)
	ICGN 2011 Mid-Year Conference Asian Corporate Governance –The Future Steps
	Implementation of IRB and Management of Risk Going Forward
	Internal Capital Adequacy Assessment Process
	Strategic IT Workshop for Board of Directors and Top Management
	Anti Money Laundering/Counter Financing of Terrorism Training for Directors
	Walkthrough for Board Members Online/Mobile, Reflex and Cards
	FIDE Core 2011
YBhg Dato' Saw Choo Boon	1-day In-house Orientation Programme
	Implementation of IRB and Management of Risk Going Forward
	Strategic IT Workshop for Board of Directors and Top Management
	Anti Money Laundering/Counter Financing of Terrorism Training for Directors
	Walkthrough for Board Members Online/Mobile, Reflex and Cards
	FIDE Core 2011
	Shell General Business Principles, Anti Bribery and Corruption and Anti Competition Law by Shell
	Managing Corporate Reputation in Digital Age
	Internal Capital Adequancy Assesment Process
	Malaysia's Distinctive Corporate Governance Strategy for Board

BOARD PERFORMANCE EVALUATION

The Board has since 2006 undertaken the Board Effectiveness Evaluation ("BEE") exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual Directors. The BEE is designed to maintain cohesion of the Board, and to improve the Board's effectiveness as well as draw the Board's attention to key areas that need to be addressed.

The performance indicators on which the Board's effectiveness is evaluated are as follows:

Part A: Board Effectiveness Assessment

1. Board Responsibilities
2. Board Processes
3. Board Administration Tools
4. Board Composition
5. Board Conduct
6. Board Interaction and Communication
7. Chairman Evaluation
8. Chief Executive Officer Evaluation

Part B: Board of Directors - Self/Peer Assessment

1. Board Dynamics and Participation
2. Integrity and Independence
3. Technical Competencies
4. Recognition

Part C: Board Committees Assessment

1. Committee Evaluation
    a. Structure and Processes
    b. Accountability and Responsibilities

2. Individual Committee Members' Self/Peer Assessment Questions on attributes and quality aspects relating to:
    a. Participation levels and contribution
    b. Technical competencies

The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. To ensure integrity and independence of the appraisal process, Messrs PricewaterhouseCoopers Advisory Services Sdn Bhd ("PwCAS") was engaged to collate and tabulate the results of the evaluation. The BEE also includes interviews with Directors by PwCAS for more in-depth analysis of results. PwCAS will discuss the detailed BEE results with the Chairman of the Board as well as the Chairman of the Group Nominating Committee. A summarised report will be presented to the Group Nominating Committee as well as the Board of the Investment Bank to enable the Board to identify areas for improvement. The Board will then analyse the gaps and put in place appropriate measures to ensure the overall effectiveness of the Boards within RHB Banking Group.

BOARD PROFESSIONALISM

Directorships in Other Companies

The Directors of the Investment Bank acknowledge the importance of allocating sufficient time to attend to the affairs of the Investment Bank and at the same time continuously ensure their full commitment towards the business needs of the Investment Bank, within the parameters of the governing laws and regulations.

Insider Trading

In accordance with the MMLR of Bursa Securities and the relevant provisions of the Capital Markets & Services Act 2007, Directors, key Management personnel and principal officers of RHB Banking Group are prohibited from trading in securities or any kind of property based on price sensitive information and knowledge which have not been publicly announced. Notices on the closed period for trading in RHB Capital Berhad securities are circulated to Directors, key Management personnel and principal officers of RHB Banking Group who are deemed to be privy to any price sensitive information and knowledge, in advance of whenever the closed period is applicable.

Directors' and Officers' ("D&O") Insurance

Directors and officers of RHB Banking Group are covered against liabilities arising from holding office as Directors, by virtue of the D&O insurance coverage. The insurance does not, however, provide coverage in the event that a Director or a Member of management is proven to have acted fraudulently or dishonestly. The Directors contribute towards the premium payment for this policy.

GROUP BOARD COMMITTEES

To enable the Board to devote more time for strategic and critical matters, the Board has delegated specific responsibilities to the following Board Committees, residing either at RHB Capital Berhad or at RHB Bank Berhad level:

At RHB Capital Berhad level

- **Group Nominating Committee;**
- **Group Remuneration and Human Resource Committee; and**
- **Group Risk Management Committee**

At RHB Bank Berhad level

- **Group Audit Committee**
- **Group Credit Committee**
- **Group Recovery Committee** *(dissolved with effect from 31 December 2011 and the Discretionary Powers and responsibilities of the GRC have been vested to Group Credit Committee)*
- **Group IT & Transformation Strategy Committee**

The functions and terms of references of the Group Board Committees are clearly defined and comply with the relevant governing laws, regulations and guidelines among others the Code and BNM's CG Guidelines. The members of the Group Board Committees comprise the Directors of the Investment Bank and that of the operating entities within the Group to ensure a fair representation across the entities in pursuing the interests of the entities concerned.

The relevant minutes/extract minutes of meetings of all Group Board Committees are tabled before the respective Boards for notation. On matters reserved for the Board and where Board Committees have no authority to make decisions, proposals will be submitted for Board's consideration.

Below are the Group Board Committees that reside at RHB Capital Berhad level:

Group Nominating Committee

The Group Nominating Committee solely comprises Independent NEDs.

Meetings of the Group Nominating Committee are held as and when required but the Group Nominating Committee often meets on monthly basis. The Group Nominating Committee met thirteen times during financial year 2011. The composition of the Group Nominating Committee and the attendance of the members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (Independent Non-Executive Director/Chairman)	13/13 (100%)
YBhg Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Saw Choo Boon (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Teo Chiang Liang (Independent Non-Executive Director)	11/13 (85%)
Mr Choong Tuck Oon[1#] (Independent Non-Executive Director)	1/1 (100%)
Tuan Haji Md Ja'far Abdul Carrim[1#] (Independent Non-Executive Director)	1/1 (100%)
Previous Member: Encik Johari Abdul Muid[2*] (Non-Independent Non-Executive Director)	8/12 (67%)

Notes:
[1] Appointed as a Member on 14 November 2011.
[2] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011.
[*] Based on the number of meetings attended during his tenure of appointment in 2011.

The salient terms of reference of the Group Nominating Committee are as follows:
- to provide a documented, formal and transparent procedure for the appointment of Directors, Board Committee Members, Group Shariah Committee Members, Chief Executive Officers and key Senior Management Officers, as well as the assessment of effectiveness of individual Directors, the Board as a whole and the various Committees of the Board, the Chief Executive Officers and key Senior Management Officers of the Group;
- to assist the Board in ensuring that appointments are made on merit against agreed upon criteria;
- to assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which Directors should bring to the Board and which the Board requires for it to function completely and efficiently; and
- to examine the size of the Board with a view to determining the impact the number of Members has upon its effectiveness.

Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee solely comprises Independent NEDs.

Meetings of the Group Remuneration and Human Resource Committee are held as and when required but the Group Remuneration and Human Resource Committee often meets on monthly basis. The Committee met fourteen times during financial year 2011.

The composition of the Group Remuneration and Human Resource Committee and the attendance of the members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (Independent Non-Executive Director/Chairman)	14/14 (100%)
YBhg Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	14/14 (100%)
YBhg Dato' Saw Choo Boon (Independent Non-Executive Director)	14/14 (100%)
YBhg Dato' Teo Chiang Liang (Independent Non-Executive Director)	12/14 (86%)
Mr Choong Tuck Oon[1#] (Independent Non-Executive Director)	2/2 (100%)
Tuan Haji Md Ja'far Abdul Carrim[1#] (Independent Non-Executive Director)	2/2 (100%)
Previous Member: Encik Johari Abdul Muid[2*] (Non-Independent Non-Executive Director)	9/12 (75%)

Notes:
1 Appointed as a Member on 14 November 2011.
2 Ceased as a Member on 14 November 2011.
Based on the number of meetings attended since his appointment as a Member in 2011.
* Based on the number of meetings attended during his tenure of appointment in 2011.

The salient terms of reference of the Committee are as follows:
- to provide a formal and transparent procedure for developing the remuneration policy for Directors, Board Committee Members, Chief Executive Officers, Group Shariah Committee Members and key Senior Management Officers of the Group and ensuring that their compensation is competitive and consistent with the Group's culture, objectives and strategy;
- to recommend to the Board the best policies, strategies and framework to be implemented for the RHB Capital Group in relation to staff remuneration, rewards and benefits;
- to oversee and review the scope and quality of human resource projects/programmes of the Group; and
- to oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

Group Risk Management Committee

The Group Risk Management Committee solely comprises Independent NEDs.

The Committee met thirteen times during financial year 2011.

The composition of the Committee and the attendance of the members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (Independent Non-Executive Director/Chairman)	13/13 (100%)
Mr Patrick Chin Yoke Chung (Independent Non-Executive Director)	12/13 (92%)
Tuan Haji Md Ja'far Abdul Carrim (Independent Non-Executive Director)	13/13 (100%)
Mr Choong Tuck Oon (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Saw Choo Boon[1#] (Independent Non-Executive Director)	2/2 (100%)
Previous Member: Encik Johari Abdul Muid[2*] (Non-Independent Non-Executive Director)	9/11 (82%)

Notes:
[1] Appointed as a Member on 14 November 2011.
[2] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011.
[*] Based on the number of meetings attended during his tenure of appointment in 2011.

The salient terms of reference of the Committee are as follows:
- to provide oversight and governance of risks at the Group;
- to oversee Senior Management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process of each entity in the Group is in place and functioning;
- to promote the management of the Group's risk in accordance with a risk-return performance management framework; and
- to deliberate and make recommendations to the Board of Directors of each relevant entity within the Group in respect of risk management matters of the respective entities.

Below are the Group Board Committees that reside at RHB Bank Berhad level:

Group Audit Committee

The Group Audit Committee comprises NEDs, all of whom are independent.

The Group Audit Committee meets regularly with the internal auditors. The Group Audit Committee together with the Senior Management of the respective companies in the Group meet with the external auditors in reviewing the Investment Bank's and the Group's financial reporting, the nature, scope and results of audit reviews and the effectiveness of the system of internal controls. During the financial year, a total of twenty-one Group Audit Committee meetings were held.

The Group Audit Committee also meets twice a year with the external auditors without the presence of the Management in compliance with the terms of reference.

The composition of the Group Audit Committee and the attendance of the Members thereof together with the terms of reference and activities of the Group Audit Committee during the financial year are set out in the Group Audit Committee Report at page 043 to page 048 of this Annual Report.

Group Credit Committee

The Group Credit Committee comprises NEDs, the majority of whom are independent.

The Committee met thirty seven times during financial year 2011.

The composition of the Committee and the attendance of the Members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
YBhg Dato' Mohamed Khadar Merican[1] (Independent Non-Executive Director/Chairman)	35/37 (95%)
Tuan Haji Khairuddin Ahmad (Senior Independent Non-Executive Director)	34/37 (92%)
Encik Abdul Aziz Peru Mohamed[2#] (Independent Non-Executive Director)	31/33 (94%)
Mr Patrick Chin Yoke Chung[3#] (Independent Non-Executive Director)	4/4 (100%)
Previous Members: YBhg Dato Abdullah Mat Noh[4*] (Independent Non-Executive Director)	4/4 (100%)
Encik Johari Abdul Muid[5*] (Managing Director)	26/33 (79%)

Notes:
1 Appointed as a Chairman on 1 March 2011.
2 Appointed as a Member on 1 March 2011.
3 Appointed as a Member on 14 November 2011.
4 Ceased as a Member on 1 March 2011.
5 Ceased as a Member on 14 November 2011.
Based on the number of meetings attended since his appointment in 2011.
* Based on the number of meetings attended during his tenure of appointment in 2011.

The salient terms of reference of the Committee are as follows:

- To affirm, veto or impose additional conditions on all credit, stock/futures broking and debt and equity underwriting applications for amounts above the defined thresholds of the Central Credit Committee.
- To oversee the management of impaired loans/assets as well as monitor the recovery of impaired loans/assets to enhance the Committee's oversight of the loan/asset recovery functions.
- To oversee the performance of rescheduled and restructured accounts to minimize credit loss and maximize the recovery of such accounts.
- To endorse and recommend write-offs to the respective Boards for approval.
- To ensure that credits and underwriting approved by the Central Credit Committee adhere to the Group Credit Policy, stock/futures broking credit policy and the Underwriting Policy, Guidelines and Procedures of RHB Bank Bhd, RHB Bank (L) Ltd, RHB Investment Bank Bhd and RHB Islamic Bank Bhd.
- To endorse all policy loans/financing and loans/financing required by Bank Negara Malaysia to be referred to the respective Boards for approval.

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee ("GI&TSC") comprises three Independent NEDs, the Group Managing Director and the Managing Director of RHB Bank Berhad.

The Committee met thirteen times during financial year 2011.

The composition of the Committee and the attendance of the Members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
Mr Choong Tuck Oon (Independent Non-Executive Director/Chairman)	13/13 (100%)
Mr Ong Seng Pheow (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Mohd Ali Mohd Tahir[1#] (Independent Non-Executive Director)	12/12 (100%)
Mr Kellee Kam Chee Khiong[2#] (Group Managing Director)	6/10 (60%)
Encik Johari Abdul Muid (Managing Director)	10/13 (77%)
Previous Members: YBhg Dato' Tajuddin Atan[3*] (Group Managing Director)	2/3 (67%)
Mr Renzo Christopher Viegas[4*] (Deputy Managing Director)	5/9 (56%)

Notes:

1 Appointed as a Member on 1 February 2011.
2 Appointed as a Member on 16 March 2011.
3 Ceased as a Member on 31 March 2011.
4 Appointed as a Member on 16 March 2011 and ceased as a Member on 14 November 2011.
Based on the number of meetings attended since his appointment as a member in 2011.
* Based on the number of meetings attended during his tenure of appointment in 2011.

The principal responsibility of the Committee is to provide guidance on the Group's planning and/or execution of programmes and initiatives within the realm of information technology and transformation management.

Group Recovery Committee

The Group Recovery Committee comprises NEDs, all of whom are independent.

The Committee dissolved with effect from 31 December 2011 and the Discretionary Powers and responsibilities of the Committee have been vested to Group Credit Committee since then.

The Committee met eighteen times during financial year 2011.

The composition of the Committee and the attendance of the Members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (Senior Independent Non-Executive Director/Chairman)	18/18 (100%)
YBhg Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	17/18 (95%)
YBhg Dato' Teo Chiang Liang (Independent Non-Executive Director)	15/18 (83%)
Previous Members: YBhg Dato' Mohd Ali Mohd Tahir[1*] (Independent Non-Executive Director)	12/12 (100%)
YBhg Dato Abdullah Mat Noh[2*] (Independent Non-Executive Director)	4/4 (100%)

Notes:
[1] Appointed as a Member on 1 March 2011 and ceased as a Member on 14 November 2011.
[2] Ceased as a Member on 1 March 2011.
[*] Based on the number of meetings attended during his tenure of appointment in 2011.

Group Shariah Committee

Apart from the above Group Board Committees, the Group has also established its Group Shariah Committee, which is housed at RHB Islamic Bank Berhad. The Group Shariah Committee comprises qualified local and foreign Shariah scholars who act as Shariah advisors to the Group.

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

- to advise the Group on all Shariah matters to ensure the business operations of the Group comply with Shariah Principles where applicable; and
- to advise the Group to consult the National Shariah Advisory Council ("NASC"), where relevant, on any Shariah matters which have not been resolved or endorsed by NASC.

Other Management Committees

Apart from the above Board Committees, the Group has established Management Committees to assist the Board and Management in managing the Group's businesses, activities and operations. Among the major Management Committees are:

- Group Management Committee
- Group Assets and Liabilities Committee
- Central Credit Committee
- Group Business Continuity Management Steering Committee
- Management Committees at the relevant subsidiary level
- Management Audit Committees at the relevant subsidiary level

Directors' Remuneration

In setting the remuneration of the NEDs, RHB Banking Group has established a common reference (incorporating the NEDs' Remuneration Framework) at levels which will enable the Group to effectively attract and retain Directors with the relevant experience and expertise required for the stewardship of the Group. For the NEDs, the level of remuneration reflects the level of responsibilities undertaken by the particular NED concerned within the Investment Bank and the Group. The remuneration strategy takes into consideration the remuneration level of Directors within the industry and is reviewed at least once every two years.

This reference is also aimed at applying the overall guiding principles in respect of the remuneration of NEDs in ensuring that the remuneration levels are commensurate with the responsibilities, risks and time commitment of Boards/Board Committees, based on the adopted tiering system.

The remuneration package of the NEDs of the Investment Bank comprises the following:

i) Annual Fees

The NEDs are entitled to annual Directors' fees. The annual Directors' fees are subject to shareholders' approval at the Annual General Meeting of the Investment Bank.

ii) Allowances

NEDs are also entitled to meeting attendance allowances when they attend any Board/Board Committee meetings. In addition, 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.

iii) Benefits-in-kind

Benefits accorded to the Chairmen of the Group, consisting of the provision of a Company car, driver and petrol allowance.

The Group has also established a remuneration framework for key Senior Management. The remuneration strategy dictates that they be paid in a competitive manner through an integrated pay and benefit structure which rewards corporate and individual performance in line with contributions to the organisation. The MD is not paid a Director's fee nor is he entitled to receive any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration, which includes among others salary, bonus and benefits-in-kind, is solely derived from the Investment Bank.

In order to remain competitive and consistent with the culture, objective and strategy of the Group, the remuneration framework of the NEDs are reviewed periodically to ensure that they remain competitive with the market. In 2011, the Group undertook a review of NEDs' remuneration to ensure that the remuneration is commensurate with responsibilities, risks and time commitment of NEDs. The proposed revised NEDs' remuneration pertaining to Directors' fees will be tabled at the forthcoming Annual General for shareholders' approval.

Further details on Directors' remuneration as disclosed under Note 28 of the Notes to the Financial Statements in this Annual Report.

Communication With Shareholders And Investors

Stakeholder Communications

The RHB Banking Group is committed to, and takes pride for being able to communicate effectively with our shareholders and investors to ensure that they are informed of all material business matters affecting the Group. As part of good corporate governance practices, the Group is also committed to uphold transparency and accountability with all stakeholders apart from ensuring regulatory reporting requirements are met.

The Group places strong emphasis on clear, comprehensive, timely and equitable dissemination of information on the Group's business activities, the milestones achieved, the developments that have taken place and our financial performance. Financial information is supplied continuously in annual reports, quarterly results, press releases as well as announcements to Bursa Securities.

All shareholder information is available electronically as soon as they are announced and published. For ease of reference, all relevant information on corporate and financial developments is posted on the Investor Relations section of the Group's corporate website at www.rhb.com.my.

Investor Relations

The investor relations' function is growing as it plays an important role in RHB Banking Group's corporate governance framework. With the Group's visibility escalating, the investor relations team increased its efforts to engage constantly with investors. As part of best investor relations practice, RHB Banking Group seeks to provide accurate, consistent and timely information about the Group, including its strategies and activities through a continuous and dynamic investor relations programme. The Group also maintains close rapport with analysts and fund managers, whose analysis and reports help investors make their investment decisions.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board ensures that shareholder is provided with a clear, balanced and meaningful assessment of the Investment Bank's financial performance, position and its future prospects through the Annual Audited Financial Statements and quarterly reports.

A Directors' Responsibility Statement for the Annual Audited Financial Statements of the Investment Bank and the Group is set out on page 053 of this Annual Report.

Internal Control

The Board has overall responsibility for the Investment Bank's internal control systems that include financial and operational controls, risk management, and compliance with laws and regulations as well as internal policies and procedures. The size and complexity of the Investment Bank's operations necessitate the managing of a wide and diverse spectrum of risks. The Investment Bank's system of internal control that is in place is designed to manage rather than eliminate the risk of failure to achieve the business objectives, and can only provide a reasonable and not absolute assurance against material misstatement or loss.

The Board considers that the Investment Bank's risk management framework and system of internal control maintained by the Management, and which was in place throughout the financial year and up to and as of the date of this report, is adequate to safeguard the shareholder's investment and the Group's assets.

An overview of the Investment Bank's and the Group's systems of internal control is contained in the Statement on Internal Control set out on pages 039 to 042 of this Annual Report.

Relationship with External Auditors

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group Audit Committee. The role of the Group Audit Committee in relation to the External Auditors is disclosed in the Group Audit Committee Report set out on pages 043 to 048 of this Annual Report.

Related Party Transactions

The Group has put in place a Policy on Related Party Transaction Review Process which serves as a guide for reviewing and reporting of all related party transactions. All related party transactions are reviewed by Group Legal before any submission is made to the Group Audit Committee for deliberation.

Details of these transactions are set out under Notes 35 to the Financial Statements on pages 123 to 131 of this Annual Report.

Whistle-Blowing Policy

The Group has also adopted a whistle-blowing policy in strengthening its governance practice. The policy will provide employees with accessible avenue to report on suspected fraud, corruption, dishonest practices or other similar circumstances. This policy is to encourage the reporting of such matters in good faith, with the confidentiality of the person making such reports being protected from reprisal, in the best possible manner. For the current year under review, two complaints pursuant to the Whistle Blowing Policy were received and both were investigated and pursued accordingly based on the requirement of the Policy.

The Group's internal control issues are administered by the following persons:-

(i) **Puan Fazlina Mohamed Ghazalli**
Head, Group Legal
Email: fazlina.ghazalli@rhb.com.my

(ii) **Ms Wong Yih Yin**
Head, Group Internal Audit
Email: wong_yih_yin@rhbbank.com.my

COMPLIANCE WITH THE CODE

The Board is satisfied that the Investment Bank and Group have complied with the principles and best practices outlined in the Code as at 31 December 2011.

RHB Banking Group has mapped its current corporate governance practices with Securities Commission Malaysia Corporate Governance Blueprint 2011 ("SC Blueprint") and identified relevant gaps thereto. The Board is pleased to report that the Group is generally in compliance with the SC Blueprint.

This Statement of Corporate Governance was approved by the Board of Directors on 28 February 2012.

Statement on Internal Control

INTRODUCTION

The Board of Directors ("Board") recognises how important it is to maintain a sound system of internal control across the RHB Investment Bank Berhad (the "Investment Bank") Group to ensure good corporate governance as well as to safeguard shareholders' investments and the Group's assets. The system of internal control that we have in place enables us to drive our business operations in a more efficient and effective manner, ensures sound financial reporting and control procedures, as well as compliance with the relevant laws and regulations.

Set out below is the Board's Statement on Internal Control, which has been prepared in accordance with the "Guidance for Directors of Public Listed Companies" issued by Bursa Malaysia Securities Berhad.

RESPONSIBILITY

The Board acknowledges that it has a responsibility for the Investment Bank's system of internal controls and for reviewing the adequacy and integrity thereof. Such a system covers not only financial controls but also controls relating to governance, operations, risk management and compliance with applicable laws, regulations, rules, directives, guidelines as well as internal policies, processes and procedures.

Whilst the Board further acknowledges that total elimination of risks is not possible, the system of internal controls that is in place is designed to manage risks in meeting the Investment Bank's business objectives. The system can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board has established an ongoing process for identifying, evaluating, managing and reporting the significant risks that may affect the achievement of the Investment Bank's business objectives. This covers the period throughout the financial year under review and up to the date of this report.

Management continuously assists the Board in the implementation of approved policies and procedures on risk and control for application/adherence across the Investment Bank, and ensure that such policies and procedures are being continuously reviewed in order to meet the changing financial landscape.

KEY INTERNAL CONTROL PROCESSES

The key processes that the Board has established in reviewing the adequacy and integrity of the Group's system of internal controls include the following:-

- **Risk Management Framework**

  The risk management process seeks to identify, measure, monitor and control risk. It also seeks to ensure that risk exposures are adequately managed and that the expected returns compensate the risks taken. This is all the more important given that the risks within the industry we operate in continually change and evolve. This process is regularly reviewed by the Board through the Group Risk Management Committee which ensures the proper management of risks and takes the appropriate measures to mitigate any identified weaknesses in the control environment.

  The Group Risk Management Committee provides oversight of the Group's overall risk management. In discharging its overall duties and responsibilities, the Group Risk Management Committee is supported by the Group Risk Management function which monitors and evaluates the effectiveness of the Group's risk management system and operations on an ongoing basis.

  Amongst the other committees set up in the Group to manage specific areas of risk are the Group Assets & Liabilities Management Committee, Central Credit Committee, Group Credit Committee ("GCC"), Group Recovery Committee ("GRC"), Group IT and Transformation Strategy Committee, and Group Basel Committee. The GRC was dissolved on 31 December 2011 and that the Discretionary Powers and responsibilities held by the GRC have been incorporated into the Terms of Reference of GCC.

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Risk Management Framework (continued)**

  In line with regulatory requirements and industry best practices, the Group has instilled the principle that risk management is a core responsibility of the respective business and operating units. This is enshrined in the risk management frameworks of the Group.

  To support and promote the achievement of accountability and ownership of risk management, a Risk and Control Self-Assessment framework has been implemented at all key operating entities in the Group as part of the risk management process. These entities are required to identify as well as document the controls and processes for managing the risks arising from their business activities as well as assess their effectiveness thereof.

- **Internal Audit Function**

  Group Internal Audit performs regular reviews of the Investment Bank's operational processes and system of internal controls. Group Internal Audit adopts a risk-based approach in determining the auditable units and frequency of audits. The annual audit plan is reviewed and approved by the Group Audit Committee ("Group AC").

  The results of the audits conducted by Group Internal Audit are reported to the Group AC while follow-up and review of the status of actions taken on the auditors' recommendations are carried out by the Management via the Management Audit Committee ("MAC") whose members comprise senior management. The minutes of meetings of MAC are tabled to the Group AC for notation.

  The Group AC holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the internal and external auditors as well as regulatory authorities on the state of the Investment Bank's internal control system. The minutes of meetings of the Group AC are subsequently tabled to the Board for notation.

  Further details of the activities undertaken by the Group AC are set out in the Group AC Report.

- **Group Compliance Framework**

  Compliance risk in RHB is defined as the risk of impairment to the Group's business model, reputation and financial condition from failure to meet laws and regulations, internal policies and expectations of stakeholders.

  Compliance management is the collective responsibility of the Board, senior management and each and every employee of the Group. It is expected that each individual promotes self-regulation and be accountable for his/her own activities and maintains ethical principles and behaviour in everything that he/she does.

  The Group's state of compliance with laws, regulations and internal policies and procedures are reported to Group Risk Management Committee and Board on a monthly basis. In addition, the Group has in place an incident escalation and reporting process wherein any incident affecting the reputation of the Group is escalated to the senior management and respective Boards within 24 hours of the incident occurring. This escalation process ensures adequate oversight and guidance is provided by the Board in managing reputational risk.

  Compliance in collaboration with the business and operating units, continuously assesses and recommends improvements to controls by carrying out root cause analysis on common incidences of non-compliance, negligence and fraud (all of which are reported on a daily basis).

  To mitigate compliance risk, briefings as well as various awareness and learning initiatives were conducted throughout the year to ensure continuous compliance with existing controls and to embed a compliance culture within the Group.

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Board Committees**

  Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have the authority to examine and/or consider all matters within their scope of responsibilities and make recommendations to the Board for approval, if such is required.

  The Group Board Committees residing at RHB Bank Berhad are as follows:
  - Group Credit Committee;
  - Group Recovery Committee;
  - Group Audit Committee; and
  - Group IT and Transformation Strategy Committee.

  The followings are the Group Board Committees that reside at RHB Capital Berhad:
  - Group Nominating Committee;
  - Group Remuneration and Human Resource Committee; and
  - Group Risk Management Committee.

- **Central Management Committee**

  The Central Management Committee ("CMC"), comprising key management personnel of the Group and chaired by the Managing Director of RHB Bank Berhad, manages the Group's strategic direction and provides strategic guidance to the Strategic Business Groups ("SBG") and Strategic Functional Groups ("SFG"). Being a forum where all strategic and operational matters are discussed, the CMC meets regularly and special meetings are convened to discuss urgent issues.

- **Authority Limits**

  Delegation of authority including authorisation limits at various levels of Management in the Group are documented and designed to ensure accountability and responsibility.

- **Internal Policies and Procedures**

  Policies, procedures and processes governing the Group's businesses and operations are documented and are made available to employees across the Group through the Group's myOnePortal. These policies, procedures and processes are reviewed and updated by the SBG and SFG through a structured process of review to cater to changes in laws and regulations as well as changes to the business and operational environment. Furthermore, a review of the policies, procedures and processes are also carried out to ensure that appropriate controls are in place to manage operational risks.

  There is clear procedure for investment appraisal including equity investment or divestment and capital expenditure.

- **Budgeting Process**

  A detailed 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 are discussed by the Group's senior management and the Board at an annual business planning and budgetary session.

  A reporting system on actual performance against approved budgets is in place and significant variances are followed up by the Management and reported to the Boards.

- **Performance Review**

  Regular and comprehensive information are shared by the Management for monitoring of their performance against the strategic business plan approved by the Board, covering all key financial and operational indicators as well as key strategic initiatives undertaken by the Group during the year.

  The Central Management Committee and the Board receive and review the monthly accounts and financial information reports at their monthly or regular meetings.

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Human Capital Management**

  The Group acknowledges that one of the key constituents of any internal control system is its people and that our system of internal controls is dependent on the responsibility, integrity and judgement that people apply to their work.

  Hence, the Group has in place policies and procedures that govern recruitment and appointment, performance management, talent management, succession planning, compensation and reward, learning and human capital development as well as policies and procedures that govern discipline, termination and dismissal.

  The Group places much emphasis on human capital development and talent management with the objective of ensuring that staff of all levels are adequately trained both from a technical perspective as well as equipped with management and leadership capabilities.

- **Group Code of Ethics and Conduct**

  The Group Code of Ethics and Conduct ("the Code") sets out the standards of good and ethical banking practices, and 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 and sign the Employee Declaration of Compliance Form upon joining the Group.

- **Suspicious Transaction Reporting and Whistle Blowing**

  There is an established process for reporting anyone found to be abusing or circumventing the processes and controls of the Group. Everyone is given the opportunity to report via the Suspicious Transaction Report or Whistle-Blowing mechanism knowing that it shall be dealt with confidentially and that the reporter's identity is duly protected.

- **Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT)**

  An AML/CFT Program was drawn up and put in place to meet the regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards, in accordance with the AML/CFT Program and be continuously vigilant against the Investment Bank being used as a vehicle to launder money or finance illegal activities including terrorist financing.

- **Incident Management Framework**

  To complement the Group's system of internal controls, a comprehensive incident reporting and incident management framework has been implemented to ensure proper escalation and management of incidents that have occurred. The framework also ensures the necessary steps are taken to effectively mitigate any potential risks that may arise. This enables decision makers to be kept up to date on the situation and effectively manage risks and undertake informed decision making.

Group Audit Committee Report

ACTIVITIES OF THE GROUP AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Activities Of Group Audit Committee

The Group Audit Committee ("Group AC") presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011 ("year"), a total of twenty one (21) Group AC meetings were held and details of attendance of each member at the Group AC meetings held during the year are as follows:-

Composition of the Group AC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	21/21 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	21/21 (100%)
3. Tuan Haji Md Ja'far Abdul Carrim (Member/Independent Non-Executive Director)	20/21 (95%)
4. Dato' Saw Choo Boon (Member/Independent Non-Executive Director)	19/21 (90%)
5. Dato' Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director) - Appointed as member on 14 November 2011	2/2 (100%)
6. Patrick Chin Yoke Chung (Member/Independent Non-Executive Director) - Ceased to be a member on 14 November 2011	19/19 (100%)

On 14 November 2011, Dato' Mohd Ali Mohd Tahir, an Independent Non-Executive Director, was appointed as a new member of the Group AC. Patrick Chin Yoke Chung, an Independent Non-Executive Director, ceased to be a member of the Group AC on 14 November 2011.

The main activities undertaken by the Group AC during the year are summarised as follows:-

- Reviewed the unaudited quarterly and half-year financial results and the annual audited financial statements of RHB Investment Bank Berhad and the Group prior to their approval by the Board. It also considered the accounting standards applicable in the preparation of the consolidated financial statements;
- Reviewed the related party transactions entered into by RHB Investment Bank Berhad and its subsidiaries;
- Reviewed the audit plan of the external auditors, the audit strategy and scope of work for the year, as well as the results of their annual audit;
- Met twice with the external auditors for discussion without the presence of the management;
- Reviewed the non-audit services rendered by the external auditors and the related fees;

Activities of Group Audit Committee (continued)

- Evaluated the performance of the external auditors and made recommendations to the Board for their appointment and audit fees;

- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;

- Reviewed the status of completion of the internal audit plan, the internal audit reports, audit recommendations made and management's response to these recommendations as well as actions taken to improve the system of internal controls and procedures;

- Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings to satisfy itself that all matters highlighted in these reports have been adequately and promptly addressed by management; and

- Tabled the minutes of each Group AC meeting to the Board for notation, and for further direction by the Board, where necessary.

During the year, the Group AC members have attended relevant training programmes, conferences and seminars on the following areas:-

(a) Banking and Finance
  - Implementation of Internal Ratings Based Standards and Management of Risk Going Forward
  - Internal Capital Adequacy Assessment Process (ICAAP)
  - How Customer Behaviour & Technology is changing Banking forever
  - Strategy IT Workshop for Board of Directors and Top Management
  - BNM Financial Institutions Director Education Program (FIDE): Insurance Insights
  - Walkthrough for Board Members – Online/Mobile, Reflex and Cards
  - FIDE Core 2011

(b) Board and Corporate Governance
  - International Corporate Governance Network 2011 Mid Year Conference
  - Asian Corporate Governance – The Future Steps
  - Malaysian Institute of Corporate Governance Directors Duties & Governance 2011
  - Improving Board Effectiveness: Best Practices and Challenges
  - FIDE on Risk Management Committee: Managing Risks in Financial Institutions (Insurance)
  - FIDE: Board Risk Management Committee: Managing Risk in Banks
  - FIDE: Board IT Governance & Risk Management Breaking the Technology Code
  - Workshop on The Role of Corporate Governance in Creating Effective Boards

Internal Audit Function

The Group has an in-house group internal audit function which is guided by its Group Internal Audit Charter and reports to the Group AC. Its primary role is to assist the Group AC to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the Group's risk management, internal control and governance processes.

The Group AC approves the annual internal audit plan at the beginning of each financial year. The group internal auditors adopt a risk-based approach towards the planning and conduct of audits, which is consistent with the Group's framework in designing, implementing and monitoring its internal control system.

Upon completion of the audits, the group internal auditors have closely monitored the implementation progress of their audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed by management. All audit reports on the results of work undertaken together with the recommended action plans and their implementation status were presented to the management and the Group AC.

The group internal auditors work closely with the external auditors to resolve any control issues as raised by them to ensure that significant issues are duly acted upon by the management.

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Objectives

1. To provide independent oversight over the management of the financial reporting and internal control system and ensuring checks and balances for entities within RHB Banking Group ("the Group"), namely RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

2. To review the financial condition and performance of the Group.

3. To assist the Boards ("the Boards") of the respective entities in the discharge of their responsibilities by reviewing the effectiveness, adequacy and integrity of the Group's internal control systems and management information systems, including systems for risk management, governance processes and compliance with applicable laws, regulations, rules, directives and guidelines.

4. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities.

5. To provide, by way of regular meetings, a line of communication between the respective Boards and the external auditors.

6. To provide emphasis on the internal audit function by ensuring the objectivity and independence of the internal auditors and provide a forum for discussion that is among others independent of the management.

7. To review the quality of the audits conducted by the internal and external auditors.

8. To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Duties And Responsibilities

1. The Group Audit Committee ("the Committee") is directly accountable to the Boards of the respective entities and the Boards will continue to be accountable for all matters relating to their respective entities.

2. To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.

3. To ensure independent review of risk management and capital management process relating to the Internal Capital Adequacy Assessment Process (ICAAP) for their integrity, objectivity and consistent application, is conducted.

4. To review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme and the appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits.

5. To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, the reports of internal auditors should not be subject to the clearance of the managing director/chief executive officer or any executive directors.

6. To ensure that all findings and recommendations are resolved effectively and in a timely manner.

7. To make appropriate public disclosure of the terms of reference and the activities of the Committee in the respective licensed entities' financial statements.

8. To review the respective entities' quarterly results and year-end financial statements and to recommend the same to the respective Boards for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.

9. To review regularly the adequacy of provisions made and to recommend the same to the respective Boards for approval.

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Duties And Responsibilities (continued)

10. To review any related party transaction and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.

11. To review with the external and internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.

12. To review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.

13. To review and approve the internal audit plan, audit charter and the budget for the audit plan.

14. To ensure that internal audit staff receives necessary training to perform audit work. There shall be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

15. To appraise the performance of the head of internal audit and to review the appraisals of senior staff members of the internal audit function.

16. To approve any appointment or termination of the head of internal audit and senior staff members of the internal audit function and to review any resignations of internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.

17. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.

18. To recommend to the respective Boards on the appointment and the annual reappointment of the external auditors and assessing their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.

19. To discuss and review with the external auditors any proposal from them to resign as auditors.

20. To investigate reasons for any request made by management to dismiss the external auditors, or any resignation by the external auditors. The results of the investigation shall be disclosed to the respective full Board together with the recommendations on proposed actions to be taken.

21. To review the non-audit services rendered by the external auditors together with the related fees and thereafter approving or recommending the same to the respective Boards for approval (whichever relevant), in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.

22. To review the co-ordination of audit activities between the external and internal auditors.

23. To review the effectiveness of the infrastructure for ensuring Shariah compliance.

24. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Duties And Responsibilities (continued)

25. To review the following pertaining to RHB Insurance Berhad:-

    (i) The Chairman's statement, interim financial reports and preliminary announcements;

    (ii) Corporate governance disclosures made in the Directors' Report pursuant to the requirement in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers; and

    (iii) All representation letters signed by management, and be satisfied that the information provided is complete and appropriate.

26. To ensure that RHB Insurance Berhad complies with Section 95 of the Insurance Act which requires the Company to publish its accounts within fourteen (14) days of the laying of its accounts at its annual general meeting.

27. To perform any other functions as authorised by the respective Boards.

Authority

1. The Chairman of the Committee should engage on a continuous basis with senior management, such as the managing director/chief executive officer, the chief operating officer, the chief financial officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

2. The Committee is authorised by the respective Boards to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to relevant information. It is also authorised to seek any information it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Committee.

3. The Committee shall have direct communication channels with the external and internal auditors.

4. The Committee is authorised by the respective Boards to obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend meetings, if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year and the frequency of meetings shall reflect the wider and increased responsibilities assumed. Meetings shall convene with a minimum quorum of two-thirds of the members and the majority of members present shall be independent non-executive directors.

2. The Committee should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.

3. The head of internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the managing director/chief executive officer, the chief operating officer, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.

4. At least twice a year, the Committee shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Meetings (continued)

5. The Company Secretary shall act as Secretary of the Committee and shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to Committee members within a reasonable timeframe prior to each meeting.

6. The Company Secretary shall also be responsible for keeping the minutes of meetings of the Committee, their timely circulation to Committee members and other members of the Boards, and following up on outstanding matters in relation to the meetings.

7. The Chairman of the Committee shall provide reports to the respective Boards on the deliberations of the Committee on a regular basis. In addition, the Chairman shall also present summary of all significant matters (highlighting the risks and implications) and resolutions made by the Committee at the Board meetings.

8. The minutes of each Committee meeting shall be tabled to the respective Boards. Thereafter, a copy of the minutes of the Committee meeting pertaining to RHB Investment Bank Berhad shall be submitted to Bursa Malaysia Securities Berhad within thirty (30) days from the date of the minutes having been adopted by the Board.

Membership

1. The membership of the Committee, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Group Nominating Committee.

2. The Committee shall comprise at least three (3) members and there should be a fair representative on the Committee, from each entity within the Group. All members of the Committee should be non-executive directors with majority of whom are independent.

3. The Chairman of the Committee shall be an independent non-executive director.

4. No Committee member shall be employed in an executive position in the Group, or otherwise have a relationship which in the opinion of the respective Boards will interfere with the exercise of independent judgement in carrying out the functions of the Committee. In addition, members of the Committee shall not be directly responsible for, or part of any committee involved in, the management functions within the Group.

5. No alternate director shall be appointed as a member of the Committee.

6. Disclosure of customers' information to the members of the Committee to be strictly on need to know basis and the members are to provide undertaking to preserve the confidentiality of the customers' information.

7. Collectively, the Committee shall have a wide range of necessary skills to undertake its duties and responsibilities and are expected to be familiar with the areas included in the scope of internal audit, including the area of risk management.

8. All members of the Committee shall be financially literate and at least one member shall be a member of an accounting association or body.

9. Details of the activities of Committee, the number of audit meetings held in a year, details of attendance of each member in respect of meetings, and the details of relevant training attended by each member should be documented in an informative way.

10. The term of office and performance of the Committee and each of its members must be reviewed by the respective Boards at least once every two (2) years.

11. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the respective Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

Financial Statements

Directors' Report

The directors submit herewith their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2011.

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 option 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 option contracts, investment management services including the management of unit trust funds, 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
Profit before taxation	37,927	44,913
Taxation	(14,161)	(15,629)
Net profit for the financial year	23,766	29,284

DIVIDENDS

The dividends paid by the Bank since 31 December 2010 were as follows:

	RM'000
In respect of the financial year ended 31 December 2010:	
Final dividend of 18.05% less 25% tax, paid on 19 May 2011	35,700
Special final dividend of 17.35% less 25% tax, paid on 19 May 2011	34,298
	69,998

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 14.80% less 25% tax amounting to RM29,264,706 will be proposed for shareholder's approval. These financial statements do not reflect these final dividends which will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2012 when approved by the shareholder.

RESERVES AND PROVISIONS

All material transfers to or from reserves or 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 had 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 ascertain that any current assets, other than debts, 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 so 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 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 or 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 and the Bank for the financial year in which this report is made.

DIRECTORS OF THE BANK

The directors of the Bank in office since the date of the last report are:

Dato' Mohamed Khadar Merican (Chairman)
Lew Foon Keong
Tan Sri Azlan Zainol
Patrick Chin Yoke Chung
Dato' Saw Choo Boon
Abdul Aziz Peru Mohamed
Dato Abdullah Mat Noh (Resigned on 1 March 2011)
Arul Kanda Kandasamy (Resigned on 10 May 2011)
Chay Wai Leong (Resigned on 16 May 2011)
Akira Miyama (Ceased on 25 February 2012)

Pursuant to Article 93 of the Bank's Articles of Association, Lew Foon Keong, Patrick Chin Yoke Chung and Dato' Saw Choo Boon 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, the directors in office at the end of the financial year holding securities of the Bank and its related corporations during the financial year are as follows:

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2011	**DRP#**	**Sold**	**As at 31.12.2011**
Holding Company				
RHB Capital Berhad				
Dato' Mohamed Khadar Merican				
- Direct	59,770	1,733	-	61,503

Note:
The shares were acquired pursuant to the Dividend Reinvestment Plan (DRP).

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.

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 28 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.

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Group and of the Bank, the directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Accounting Standards Board approved accounting standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

It is the responsibility of the directors to ensure that the financial reporting of the Group and of the Bank present a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2011 and of the financial results and cash flows of the Group and of the Bank for the financial year ended 31 December 2011.

The financial statements are prepared on the going concern basis and the directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Group and of 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 of 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 169 of the Companies Act, 1965 is set out in page 166 of the financial statements.

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Directors ('Board') of RHB Investment Bank Berhad ('RHB Investment Bank' or 'the Investment Bank') continuously supports the institution of relevant framework and designs in upholding the principles and best practices of corporate governance.

We set out below the abridged Corporate Governance Statement as required under Bank Negara Malaysia's ('BNM') requirements. The full version of the Corporate Governance Statement will be included in the Annual Report.

(A) BOARD OF DIRECTORS

Composition of the Board

The Board currently has six (6) members, comprising an Independent Non-Executive Chairman, an Senior Independent Non-Executive Director, one (1) Non-Independent Non-Executive Director and three (3) Independent Non-Executive Directors, details of which are as follows:

Name of Director	Designation
Dato' Mohamed Khadar Merican	Independent Non-Executive Chairman
Lew Foon Keong	Senior Independent Non-Executive Director
Tan Sri Azlan Zainol	Non-Independent Non-Executive Director
Patrick Chin Yoke Chung	Independent Non-Executive Director
Dato' Saw Choo Boon	Independent Non-Executive Director
Abdul Aziz Peru Mohamed	Independent Non-Executive Director

Dato Mohamed Khadar Merican was appointed as the Independent Non-Executive Chairman on 30 March 2011.

Dato Abdullah Mat Noh resigned as an Independent Non-Executive Chairman on 1 March 2011.

Arul Kanda Kandasamy resigned as a Non-Independent Non-Executive Director on 10 May 2011.

Chay Wai Leong resigned as Managing Director on 16 May 2011.

Akira Miyama ceased as a Non-Independent Non-Executive Director on 25 February 2012.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Duties and responsibilities of the Board

The Board is responsible for governing the business and affairs of the Investment Bank and for exercising all such powers pursuant to the Articles of Association of the Investment Bank. While carrying out their duties and responsibilities, the Board is committed to ensuring that the highest corporate governance standards are adhered to. The overall principle responsibilities of the Board are as follows:

- providing strategic leadership to the Investment Bank and the Group;
- reviewing, approving and monitoring the implementation of the Investment Bank and Group's strategic business plans and policies;
- ensuring the Investment Bank and Group maintain an effective system of internal controls and is able to identify and manage principal risks resulting in efficiency in operations and a stable financial environment;
- acting as a guardian of the Investment Bank's and Group's corporate values and ethical principles in parallel with the goal to enhance shareholders' value;
- monitoring as well as evaluating the performance of the Management to ensure that the performance criteria remains dynamic; and
- ensuring the formulation of a succession plan for the Investment Bank and Group for long-term business continuity.

The Chairman presides over Board and General Meetings of the Investment Bank. He ensures that the Board is well informed and effective; that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper decision making of the Board and the Investment Bank. Additionally, the Chairman has to ensure that General Meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965, and that shareholder has adequate opportunity to air its views and obtain answers to its queries.

Currently, the day-to-day management of the Investment Bank is delegated to the Officer-in-Charge who is responsible in managing the business and operations of the Investment Bank and in ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the Managing Director (MD) and the Chairman ensure a balance of power and authority in relation to the establishment of a fully effective Board.

The MD's integral role is to implement the policies and decisions of the Board, oversee the operations as well as coordinate the development and implementation of business and corporate strategies. In addition thereto, he is also responsible for the following tasks:

- manage the business and operations and to put in place the policies and strategies adopted by the Board;
- ensuring that the financial results are accurate and not misleading as well as ensuring that the financial management practices of the Investment Bank and the Group are carried out with the highest standards of integrity and transparency for the benefit of all stakeholders;
- ensuring that the business and affairs of the Investment Bank and the Group are carried out in an ethical manner and in full compliance with the relevant laws and regulations;
- overseeing the internal control systems and the risk management processes and ensuring these are appropriate and effective;
- ensuring succession planning and talent management programs are in place in the interest of human capital development;
- maintaining effective relationship between the Management, the Board and other stakeholders; and
- developing and maintaining strong communication programmes and dialogue with the stakeholders.

In carrying out his tasks, the MD is supported by a Management Committee ("MANCO") which comprises the MD as the Chairman and other Senior Management of the Investment Bank. The MANCO is governed by its terms of reference and has several objectives, among others, to monitor and review the Investment Bank's performance and formulate as well as discuss policies, strategies and activities of the Investment Bank and in relevant circumstances, for recommendation to the Board of the Investment Bank.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Board Meetings

The Board meets on a monthly basis to discuss business strategy, financial performance, potential strategic acquisition and alliances, matters pertaining to compliance and governance as well as reports on matters deliberated by Board Committees and their recommendations thereto. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives. Special meetings are held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the Board Committees and main Management Committees through minutes of these Committees. At each Meeting, the Board also receives updates from the respective Chairmen/representatives of the Group Audit Committee and Group Risk Management Committee on matters that have been deliberated at both Committees' Meetings, as well as on matters that require attention. This practice also applies for the rest of the entities of the Group.

To facilitate productive and meaningful deliberations, the proceedings of the Board Meetings are conducted in accordance to a structured agenda. The structured agenda together with comprehensive management reports are furnished to the Directors at least 7 days prior to the scheduled Board Meeting date. This is to allow the Members of the Board to digest the issues at hand, seek clarification from the Management or the Company Secretary, if required and formulate opinions on matters to be deliberated at the meetings. Confidential papers or urgent proposals are presented and tabled at the Board Meetings under other business of Agenda upon consent of the Chairman being obtained.

The Directors have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly and indirectly by the Investment Bank and Group. An interested Director is required to abstain from deliberations and decisions of the Board on the transaction.

Each Member of the Board is required to apply independent judgement to decision making in their capacity as a Director. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Investment Bank's Articles of Association.

The Board is able to seek clarifications and advice as well as request for information on matters pertaining to the Investment Bank and Group from the Senior Management and the Company Secretary. Should the need arise, the Directors may also seek independent professional advice, at the Investment Bank's expense, when deemed necessary for the proper discharge of their duties.

The Group has in place the "Standard Procedures for Directors to Have Access to Independent Advice" which lays down the procedures for Directors to seek internal and/or external professional independent advice. The objectives of these guidelines among others are as follows:

- to ensure consistency throughout the RHB Banking Group on the procedures for Directors of the Group to have access to independent professional advice; and
- to enable Directors to have an enhanced perception of issues within the Group by allowing them to obtain independent opinion/advice/consultation from leading professionals in the relevant areas.

The adoption of the above guidelines is in line with the various regulatory requirements and best practices.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The Board convened thirteen (13) meetings for the financial year ended 31 December 2011. The attendance of each Director in office at the end of the financial year at the aforesaid Board Meetings are set out below:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohamed Khadar Merican	13/13	100
Lew Foon Keong	11/13	85
Tan Sri Azlan Zainol	12/13	92
Patrick Chin Yoke Chung	13/13	100
Dato' Saw Choo Boon	13/13	100
Abdul Aziz Peru Mohamed (1)*	12/12	100
Previous Directors:		
Dato Abdullah Mat Noh (2) ^	2/2	100
Arul Kanda Kandasamy (3) ^	4/4	100
Chay Wai Leong (MD) (4) ^	2/2	100
Akira Miyama (5) ^	10/13	77

Notes:
(1) Appointed on 7 February 2011
(2) Resigned on 1 March 2011
(3) Resigned on 10 May 2011
(4) Resigned on 16 May 2011
(5) Ceased on 25 February 2012
* Based on the number of meetings attended since his appointment in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

Pursuant to the BNM Guidelines on Corporate Governance For Licensed Institutions, individual directors must attend at least 75% of the board meetings held in each financial year. For the year under review, all directors complied with the attendance requirement as stipulated by BNM.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Audit Committee

The Group Audit Committee ('Group AC') comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of twenty one (21) meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	21/21	100
Dato' Othman Jusoh	21/21	100
Haji Md Ja'far Abdul Carrim	20/21	95
Dato' Saw Choo Boon	19/21	90
Dato' Mohd Ali Bin Mohd Tahir (1)*	2/2	100
Previous Member:		
Patrick Chin Yoke Chung (2)^	19/19	100

Notes:
(1) Appointed as a Member on 14 November 2011
(2) Ceased as a Member on 14 November 2011
* Based on the number of meetings attended since his appointment in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

The Group AC meets regularly to provide independent oversight over the management of the financial reporting and internal control system and ensure checks and balances for the relevant entities within RHB Banking Group. The Management, Head of Central Finance, group internal auditors as well as the external auditors are invited to these meetings as and when necessary.

To ensure the independence and objectivity of the external auditors, the Group AC meets with the external auditors without the presence of the Management at least twice a year.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Nominating Committee

The Group Nominating Committee ('Group NC') presently comprises six (6) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of thirteen (13) meetings were held and the details of attendance of each member at the Group NC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	13/13	100
Dato' Mohamed Khadar Merican	13/13	100
Dato' Saw Choo Boon	13/13	100
Dato' Teo Chiang Liang	11/13	85
Choong Tuck Oon (1) *	1/1	100
Haji Md Ja'far Abdul Carrim (1) *	1/1	100
Previous Member:		
Johari Abdul Muid (2)^	8/12	67

Notes:
(1) Appointed as a Member on 14 December 2011
(2) Ceased as a Member on 14 December 2011
* Based on the number of meetings attended since his appointment in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

Apart from identifying and selecting candidates for new appointments, the Group NC is also responsible for assessing the effectiveness of individual Directors, Board as a whole and the various committees of the Board, Group Shariah Committee members, chief executive officers and key senior management officers of the relevant companies in the Group. The Group NC reviews annually the required mix of skills, experience and other qualities including core competencies which directors should bring to the Board and which the Board requires for it to function efficiently and effectively.

As a tool in assisting the Group NC in its yearly assessment on the effectiveness of an individual director within the Group, the Investment Bank and its major operating subsidiaries have adopted the Board Effectiveness Evaluation methodology for its Board, Board Committees and the individual directors, in line with the Corporate Governance Standards.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Nominating Committee (Continued)

The Company Secretary complements the functions of the Group NC by ensuring all regulatory requirements are strictly adhered to and all relevant records and returns are updated regularly.

Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee ('Group RHRC') presently comprises six (6) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of fourteen (14) meetings were held and the details of attendance of each member at the Group RHRC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	14/14	100
Dato' Mohamed Khadar Merican	14/14	100
Dato' Saw Choo Boon	14/14	100
Dato' Teo Chiang Liang	12/14	86
Choong Tuck Oon (1)*	2/2	100
Haji Md Ja'far Abdul Carrim (1)*	2/2	100
Previous Member:		
Johari Abdul Muid (2)^	9/12	75

Notes:
(1) Appointed as a Member on 14 December 2011
(2) Ceased as a Member on 14 December 2011
* Based on the number of meetings attended since his appointment in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

The Group RHRC assists the Board in ensuring that the directors and senior management of the Investment Bank and the relevant subsidiaries are fairly rewarded for their individual contributions to the Group's overall performance and that the levels of the remuneration are sufficient to attract and retain the best directors and senior management to manage the Group effectively and efficiently.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Risk Management Committee

The Group Risk Management Committee ('Group RMC') presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of thirteen (13) meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman)	13/13	100
Patrick Chin Yoke Chung	12/13	92
Haji Md Ja'far Abdul Carrim	13/13	100
Choong Tuck Oon	13/13	100
Dato' Saw Choo Boon (1)*	2/2	100
Previous Member:		
Johari Abdul Muid (2)^	9/11	82

Notes:
(1) Appointed as a Member on 14 November 2011
(2) Ceased as a Member on 14 November 2011
* Based on the number of meetings attended since his appointment in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

The Group RMC provides in-depth governance of risks for each of the key operating subsidiaries as formerly discharged by the individual RMCs i.e. RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Credit Committee

The Group Credit Committee ('GCC') comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of thirty seven (37) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohamed Khadar Merican (Chairman) (1)	35/37	95
Haji Khairuddin Ahmad	34/37	92
Abdul Aziz Peru Mohamed (2)*	31/33	94
Patrick Chin Yoke Chung (3)*	4/4	100
Previous Member :		
Dato Abdullah Mat Noh (4)^	4/4	100
Johari Abdul Muid (5)^	26/33	79

Notes:
(1) Appointed as Chairman on 1 March 2011
(2) Appointed as a Member on 1 March 2011
(3) Appointed as a Member on 14 November 2011
(4) Ceased as a Member on 1 March 2011
(5) Ceased as a Member on 14 November 2011
* Based on the number of meetings attended since his appointment in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

The GCC's main functions are affirming, imposing additional covenants or vetoing credits of RHB Banking Group which were duly approved by the Central Credit Committee as well as overseeing the management of impaired loans/assets and monitor the recovery of impaired loans/assets to enhance the Committee's oversight of the loan/asset recovery functions.

Group Recovery Committee

The Group Recovery Committee ('GRC') was dissolved on 31 December 2011. The Discretionary Powers and responsibilities of the GRC is now vested to GCC.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee ('GI&TSC') comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, the Group Managing Director and the Managing Director of RHB Bank Berhad. During the financial year ended 31 December 2011, a total of thirteen (13) meetings were held and the details of attendance of each member at the GI&TSC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Choong Tuck Oon (Chairman)	13/13	100
Ong Seng Pheow	13/13	100
Dato' Mohd Ali Mohd Tahir [(1)*]	12/12	100
Johari Abdul Muid	10/13	77
Kellee Kam Chee Khiong [(2)*]	6/10	60
Previous Member:		
Dato' Tajuddin Atan [(3)^]	2/3	67
Renzo Christopher Viegas [(4)^]	5/9	56

Notes:
(1) Appointed as a Member on 1 February 2011
(2) Appointed as a Member on 16 March 2011
(3) Ceased as a Member on 31 March 2011
(4) Appointed as a Member on 16 March 2011 and ceased as a Member on 14 November 2011
* Based on the number of meetings attended since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

The principal responsibility of the GI&TSC is to provide guidance on the Group's planning and/or execution of programmes and initiatives within the realm of information technology and transformation management.

(B) RISK MANAGEMENT FRAMEWORK

The RHB Banking Group ('the Group') has put in place a Group Risk Management Framework which governs the management of various types of risks in the banking group. The Framework operates on two interlocking layers. Firstly, it provides a holistic overview of the risk and control environment with the risk management going towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and balances in the organisation, as well as deficiencies in risk management culture. Secondly, it sets out the strategic progression of risk management towards becoming a value creation enterprise. This is effected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

The Framework enshrines five fundamental principles that drive the philosophy of risk management. They are:
(i) Risk governance from the Board of Directors;
(ii) Clear understanding of risk management ownership;
(iii) Institutionalisation of a risk focused organisation;
(iv) Alignment of risk management to business strategies; and
(v) Optimisation of risk adjusted economic and financial returns

The Board of Directors ensures that an effective risk management strategy is in place and uniformly understood across the Investment Bank. The structured framework supports the Board's oversight responsibilities. Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(B) RISK MANAGEMENT FRAMEWORK

The business and functional units have a clear segregation of duties with sufficient check and balance to ensure that business processes are functioning effectively. There is appropriate accountability delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

In addition, the Group's Asset and Liabilities Committee ('ALCO') performs a critical role in the management of assets and liabilities. The ALCO meets regularly and is the forum where strategic and tactical decisions are made. Global and domestic economic data, information and events are synthesized at the ALCO which enables the Banking Group to determine its actions and reactions in the capital markets.

For effective control of operations, defined management action triggers and risk limits are established and actively monitored. Breaches of limits are not allowed. Should exposures or transactions set off pre-established triggers, management will deliberate and determine on course of actions required (whether remedial or otherwise) on a timely basis. Triggers and limits are determined based on the Investment Bank's risk appetite and is advised by appropriate risk measures and attendant stress testing exercises.

The financial risk management objectives and policies of the Bank are set out in Note 40 to the financial statements.

(C) GROUP INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

The Group has an in-house group internal audit function which is guided by its Group Audit Charter and reports to the Group Audit Committee of RHB Bank Berhad ('RHB Bank'). Its primary role is to assist the Group Audit Committee in the discharge of their duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Group's risk management, internal control and governance processes.

The Group Internal Auditors perform regular reviews of the Investment Bank's operational processes and system of internal controls. Auditable units of priority and frequency of review are determined by adopting a risk-based approach, and the annual internal audit plan is reviewed and approved by the Group Audit Committee. Results of the audits conducted by the Group Internal Auditors are reported to the Group Audit Committee while follow-up and review of the status of actions taken on the auditors' recommendations are carried out by the Management via the Management Audit Committee which comprises senior management. The minutes of the Management Audit Committee meetings are tabled to the Group Audit Committee for notation.

The Group Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the internal and external auditors as well as regulatory authorities on the state of the Investment Bank's internal control system. The minutes of the Group Audit Committee meetings are subsequently tabled to the Board for notation.

In addition to audit assignments, the Group Internal Audit is invited to participate on a consultative basis in the development of new products and systems, and information technology related initiatives as well as in the review of operational manuals and guidelines.

(D) MANAGEMENT REPORTS

Annual business plans and financial budgets are prepared by the Investment Bank's strategic business group and operating subsidiaries and are reviewed and approved by the Board. The performance of business group and operating subsidiaries are assessed and monitored against the approved budget and any significant variances are explained to the Board.

The Board also receives and reviews monthly financial accounts, financial information reports and monthly progress reports from management on a regular basis. In addition, matters such as key business strategies and business plans, major capital expenditure, material contracts, new operational guidelines and new policies and guidelines are approved by the Board prior to it being implemented. Furthermore, minutes of meeting of various Board Committees of the Investment Bank and changes on regulatory requirements, are also tabled for the Board's notation.

Directors' Report (continued)

IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors regard RHB Capital Berhad, a listed company incorporated in Malaysia, as the holding company.

BUSINESS REVIEW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

RHB Investment Bank continued with its strategy to secure big-ticket mandates across all capital market products in 2011. We played key roles in most of the major deals in Malaysia last year in syndicated loans, mergers & acquisitions ('M&A') and both debt and equity capital markets. RHB Investment Bank ended the year with Top 2 league table positions in Syndicated Loans and Equities Broking and Top 3 in M&A based on market share.

In Equities Broking, RHB Investment Bank was ranked the No. 2 stockbroker in Malaysia with an 8% market share in 2011. We retained our leading market position in Direct Market Access ('DMA') and is the first in Malaysia to offer integrated Multi-Market Trading ('MMT') on the Singapore and US stock exchanges last year. MMT on the Hong Kong and Indonesia stock exchanges are targeted for launch in 1Q 2012. RHB Investment Bank will continue with its expansion strategy to have presence in key regions in Malaysia from 2012.

Following the successful completion of the biggest M&A exercise in 2010, that of the RM23 billion privatisation of PLUS Expressways Berhad, RHB Investment Bank was involved in another major M&A exercise in 2011. RHB Investment Bank was Principal Adviser to SapuraCrest Petroleum Berhad in the acquisition by Integral Key Sdn Bhd and subsequent merger with Kencana Petroleum Berhad. The transaction which was valued at RM11.85 billion created Malaysia's biggest listed oilfield service provider and the world's fifth largest. The deal had also won Alpha Southeast Asia's 'Best Deal' and 'Most Innovative Deal of the Year in Southeast Asia'.

In equity fund raising, RHB Investment Bank was involved in another landmark transaction as Joint Principal Adviser and Joint Bookrunner in the RM2.67 billion initial public offering ("IPO") of Bumi Armada Berhad. This deal was the largest IPO in Malaysia and second in Southeast Asia last year. To date, this transaction has won several regional awards, including Alpha Southeast Asia's 'Best Equity/ IPO Deal of the Year in Southeast Asia' and The Edge Malaysia's 'Best Initial Public Offering' award.

RHB Investment Bank was also involved in the country's key debt programmes launched in 2011. We were Principal Adviser and Lead Arranger in the RM15 billion Sukuk Musyarakah Programme by Sarawak Energy Berhad and Joint Lead Arranger in the RM10 billion Islamic MTN Programme by Aman Sukuk Berhad.

In syndicated loans, RHB Investment Bank participated in four out of the Top 5 syndicated loan deals in Malaysia in 2011. We were Mandated Lead Arrangers in the syndicated loans for PLUS Malaysia Sdn Bhd (RM13.6 billion), Astro Malaysia Holdings Sdn Bhd (RM3.01 billion), Pembinaan BLT Sdn Bhd (RM2.465 billion) and Jana Pendidikan Malaysia Sdn Bhd (RM1.54 billion).

The market continues to value the research views given by our subsidiary RHB Research Institute Sdn Bhd ('RHB Research'). In 2011, RHB Research was ranked No. 1 in the Asiamoney Poll in Macroeconomics while in The Edge Malaysia's Best Call Awards, RHB Research won Top Strategist (Lim Chee Sing) and Best Call for Plantations Sector (Hoe Lee Leng).

BUSINESS STRATEGY AND PROSPECTS 2012

The global economic environment remains fragile with the Eurozone's sovereign debt crisis remaining unresolved, The Malaysian economy is likely to experience lower growth in 2012 estimated at 3.7% GDP growth as compared with an estimate of 4.9% in 2011.

We expect the Malaysian banking sector to remain resilient with the progressive rollout of the projects under the Economic Transformation Programme ('ETP') and the 10th Malaysia Plan as well as further possible monetary policy easing.

The Group remains committed to building its core businesses, and regaining its leadership position in targeted markets and product segments.

Despite the expected slowdown in the economic environment, we are confident that capital market activities will continue to be active, driven by the Government's Economic Transformation Programme ('ETP').

POST-BALANCE SHEET EVENT

On 29 September 2011, RHB Investment Bank on behalf of RHB Capital Berhad ('RHB Capital'), announced that RHB Capital has submitted an application to BNM for approval to commence negotiations with OSK Investment Bank Berhad, OSK Holdings Berhad ('OSKH') and the major shareholders of OSKH for a possible merger of businesses ('Proposed Merger Negotiations').

As announced on 14 October 2011 by RHB Investment Bank on behalf of RHB Capital, BNM has, vide its letter dated 13 October 2011 stated that it has no objection in principle for RHB Capital to commence the Proposed Merger Negotiations for three (3) months from the date of BNM's letter.

On 11 January 2012, RHB Investment Bank on behalf of RHB Capital, announced that RHB Capital has submitted an application to BNM on 11 January 2012 for approval of BNM and the Minister Of Finance (through BNM) for the proposed merger of the businesses of the RHB Banking Group and the OSK Investment Bank Group.

RATINGS BY RATING AGENCY

On November 2011, RAM Rating Services Berhad ('RAM') has reaffirmed the Bank's long term financial institution rating of AA_2 and the short term financial institution rating of P1.

(i) Long-term financial institution rating

AA A financial institution rated 'AA' has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.

For long-term financial institution ratings, RAM applies subscripts 1, 2 or 3 in each rating category from 'AA' to 'C'. The subscript 1 indicates that the issue ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the issue ranks at the lower end of its generic rating category.

(ii) Short-term financial institution rating

P1 A financial institution rated 'P1' has a strong capacity to meet its short-term financial obligations. This is the highest short-term financial institution rating assigned by RAM Ratings.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

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

DATO' MOHAMED KHADAR MERICAN
CHAIRMAN

DATO' SAW CHOO BOON
DIRECTOR

Kuala Lumpur
28 February 2012

Statements of Financial Position
as at 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
ASSETS					
Cash and short term funds	2	2,080,685	1,907,199	2,013,729	1,841,694
Deposits and placements with banks and other financial institutions	3	250,227	250,275	250,227	250,275
Financial assets held-for-trading	4	116,884	350,330	116,884	350,330
Financial investments available-for-sale	5	2,412,247	3,272,231	2,395,884	3,257,686
Financial investments held-to-maturity	6	608,354	184,918	608,354	184,918
Loans and advances	7	42,928	49,891	42,928	49,891
Clients' and brokers' balances	8	232,676	421,127	232,676	421,127
Other assets	9	30,108	29,099	19,349	17,277
Derivative assets	10	18,759	19,094	18,759	19,094
Tax recoverable		11,062	8,542	10,049	8,516
Deferred tax assets	11	1,919	776	-	-
Statutory deposit with Bank Negara Malaysia	12	114,250	33,250	114,250	33,250
Investments in subsidiaries	13	-	-	84,970	84,970
Investment in a joint venture	14	19,020	25,044	21,463	27,399
Property, plant and equipment	15	14,053	14,075	12,167	12,334
Goodwill	16	172,844	172,844	159,280	159,280
TOTAL ASSETS		6,126,016	6,738,695	6,100,969	6,718,041
LIABILITIES AND EQUITY					
Deposits from customers	17	2,468,315	2,646,421	2,468,315	2,646,421
Deposits and placements of banks and other financial institutions	18	2,135,890	2,485,881	2,135,890	2,485,881
Clients' and brokers' balances	19	562,393	610,360	562,393	610,360
Other liabilities	20	77,480	73,722	54,586	60,052
Derivative liabilities	10	19,040	20,144	19,040	20,144
Taxation		2,046	2,033	-	-
Deferred tax liabilities	11	2,584	2,251	2,297	2,251
Subordinated obligations	21	246,069	246,127	246,069	246,127
TOTAL LIABILITIES		5,513,817	6,086,939	5,488,590	6,071,236
Share capital	22	263,646	263,646	263,646	263,646
Reserves	23	348,553	388,110	348,733	383,159
TOTAL EQUITY		612,199	651,756	612,379	646,805
TOTAL LIABILITIES AND EQUITY		6,126,016	6,738,695	6,100,969	6,718,041
COMMITMENTS AND CONTINGENCIES	36	2,223,953	2,289,842	2,223,953	2,289,842

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

Income Statements
For The Financial Year Ended 31 December 2011

		Group		Bank	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest income	24	186,853	209,039	185,882	208,289
Interest expense	25	(159,722)	(154,325)	(159,722)	(154,325)
Net interest income		27,131	54,714	26,160	53,964
Other operating income	26	212,802	234,793	193,807	202,943
		239,933	289,507	219,967	256,907
Other operating expenses	27	(165,007)	(158,758)	(137,628)	(134,910)
Operating profit before allowances		74,926	130,749	82,339	121,997
Allowance (made)/write-back of allowance for impairment on loans, advances and other losses	29	(1,586)	332	(1,586)	332
Impairment losses on other assets	30	(35,840)	(42,367)	(35,840)	(41,885)
		37,500	88,714	44,913	80,444
Share of results of a joint venture	14	427	792	-	-
Profit before taxation		37,927	89,506	44,913	80,444
Taxation	31	(14,161)	(22,271)	(15,629)	(20,831)
Net profit for the financial year		23,766	67,235	29,284	59,613
Earnings per share (sen)					
- Basic	32	9.0	25.5	11.1	22.6

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 2011

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Net profit for the financial year		23,766	67,235	29,284	59,613
Other comprehensive income/(loss)		(440)	(2,477)	-	-
Financial investments available-for-sale ('AFS')					
- Unrealised net gain on revaluation		32,548	68,821	31,434	68,821
- Net transfer to income statements on disposal or impairment		(23,050)	(40,304)	(23,050)	(40,304)
Income tax relating to components of other comprehensive income/(loss)	33	(2,383)	(7,129)	(2,096)	(7,129)
Other comprehensive income for the financial year, net of tax		6,675	18,911	6,288	21,388
Total comprehensive income for the financial year		30,411	86,146	35,572	81,001

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 2011

	Note	Attributable to equity holders of the Bank					
		Share capital RM'000	Statutory reserve RM'000	AFS reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000
Group							
Balance as at 1 January 2011		263,646	278,549	10,698	(4,954)	103,817	651,756
Net profit for the financial year		-	-	-	-	23,766	23,766
Currency translation differences		-	-	-	(440)	-	(440)
Financial investments available-for-sale ('AFS')							
- Unrealised net gain on revaluation		-	-	32,548	-	-	32,548
- Net transfer to income statements on disposal or impairment		-	-	(23,050)	-	-	(23,050)
Income tax relating to components of other comprehensive income/(loss)	33	-	-	(2,383)	-	-	(2,383)
Total other comprehensive income/(loss) for the financial year		-	-	7,115	(440)	-	6,675
Total comprehensive income/(loss) for the financial year		-	-	7,115	(440)	23,766	30,441
Ordinary dividends	34	-	-	-	-	(69,998)	(69,998)
Balance as at 31 December 2011		263,646	278,549	17,813	(5,394)	57,585	612,199
Balance as at 1 January 2010		263,646	278,549	(10,690)	(2,477)	222,452	751,480
Net profit for the financial year		-	-	-	-	67,235	67,235
Currency translation differences		-	-	-	(2,477)	-	(2,477)
Financial investments available-for-sale ('AFS')							
- Unrealised net gain on revaluation		-	-	68,821	-	-	68,821
- Net transfer to income statements on disposal or impairment		-	-	(40,304)	-	-	(40,304)
Income tax relating to components of other comprehensive income/(loss)	33	-	-	(7,129)	-	-	(7,129)
Total other comprehensive income/(loss) for the financial year		-	-	21,388	(2,477)	-	18,911
Total comprehensive income/(loss) for the financial year				21,388	(2,477)	67,235	86,146
Ordinary dividends	34	-	-	-	-	(185,870)	(185,870)
Balance as at 31 December 2010		263,646	278,549	10,698	(4,954)	103,817	651,756

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 2011 (continued)

	Note	Non- distributable Share capital RM'000	Non- distributable Statutory reserve RM'000	Non- distributable AFS reserve RM'000	Distributable Retained profits RM'000	Total RM'000
Bank						
Balance as at 1 January 2011		263,646	278,549	10,698	93,912	646,805
Net profit for the financial year		-	-	-	29,284	29,284
Financial investments AFS						
- Unrealised net gain on revaluation		-	-	31,434	-	31,434
- Net transfer to income statements on disposal or impairment		-	-	(23,050)	-	(23,050)
Income tax relating to components of other comprehensive income/(loss)	33	-	-	(2,096)	-	(2,096)
Total comprehensive income for the financial year		-	-	6,288	29,284	35,572
Ordinary dividends	34	-	-	-	(69,998)	(69,998)
Balance as at 31 December 2011		263,646	278,549	16,986	53,198	612,379
Balance as at 1 January 2010		263,646	278,549	(10,690)	220,169	751,674
Net profit for the financial year		-	-	-	59,613	59,613
Financial investments AFS						
- Unrealised net gain on revaluation		-	-	68,821	-	68,821
- Net transfer to income statements on disposal or impairment		-	-	(40,304)	-	(40,304)
Income tax relating to components of other comprehensive income/(loss)	33	-	-	(7,129)	-	(7,129)
Total comprehensive income for the financial year		-	-	21,388	59,613	81,001
Ordinary dividends	34	-	-	-	(185,870)	(185,870)
Balance as at 31 December 2010		263,646	278,549	10,698	93,912	646,805

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 2011

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	37,927	89,506	44,913	80,444
Adjustments for:				
Allowance write-back for impairment on loans and advances	(219)	(365)	(219)	(365)
Allowance made for impairment on other losses	1,928	46	1,928	46
Property, plant and equipment				
- depreciation	4,171	5,569	3,662	4,984
- gain on transfer/disposal	(174)	(76)	(81)	(3)
Impairment losses on other assets	35,840	42,367	35,840	41,885
Bad debts written off	1	45	1	45
Interest income from:				
- Financial investments held-to-maturity	(14,477)	(6,086)	(14,477)	(6,086)
- Financial investments available-for-sale	(107,171)	(124,012)	(107,168)	(124,010)
Gain from early redemption/sales of:				
- Financial investments held-to-maturity	(3,692)	(2,600)	(3,692)	(2,600)
- Financial investments available-for-sale	(23,050)	(40,304)	(23,050)	(40,304)
Gross dividend income	(180)	(254)	(180)	(226)
Gross dividend income from a subsidiary	-	-	(6,609)	
Share of results of a joint venture	(427)	(792)	-	-
Unrealised (gain)/loss on revaluation of:				
- Financial assets held-for-trading	6,010	643	6,010	717
- Derivatives	(769)	(7,843)	(769)	(7,843)
Operating loss before working capital changes	(64,282)	(44,156)	(63,891)	(53,316)
(Increase)/decrease in operating assets:				
Deposits and placements with banks and other financial institutions	48	109,845	48	109,845
Financial assets held-for-trading	227,436	326,879	227,436	324,446
Loans and advances	7,181	10,587	7,181	10,587
Clients' and brokers' balances	186,736	(171,013)	186,736	(171,013)
Other assets	4,367	53,050	(8,650)	57,877
Derivative assets	335	6,776	335	6,776
Statutory deposit with Bank Negara Malaysia	(81,000)	(5,959)	(81,000)	(5,959)
Increase/(decrease) in operating liabilities:				
Deposits from customers	(178,106)	(573,327)	(178,106)	(573,327)
Deposits and placements of banks and other financial institutions	(349,991)	1,400,311	(349,991)	1,400,311
Clients' and brokers' balances	(47,967)	208,503	(47,967)	208,503
Other liabilities	3,700	16,560	(5,524)	10,857
Derivative liabilities	(1,104)	(14,620)	(1,104)	(14,620)
Cash (used in)/generated from operations	(292,647)	1,323,436	(314,497)	1,310,967
Taxation paid	(19,882)	(32,590)	(17,603)	(31,589)
Taxation recovered	21	318	-	-
Net cash (used in)/generated from operating activities	(312,508)	1,291,164	(332,100)	1,279,378

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 2011 (continued)

	Note	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of financial investments held-to-maturity (net)		(426,473)	8,533	(426,473)	8,533
Sale/(purchase) of financial investments available-for-sale (net)		869,357	(768,690)	870,060	(754,883)
Interest received from financial investments held-to-maturity		12,126	6,143	12,069	6,143
Interest received from financial investments available-for-sale		104,262	111,560	116,711	111,558
Property, plant and equipment:					
- purchase		(4,149)	(6,883)	(3,495)	(6,463)
- proceeds from transfer/disposal		174	78	81	5
Dividend income received		180	254	180	226
Dividend income from a subsidiary		-	-	5,000	-
Increase in investments in a subsidiary		-	-	-	(26,700)
Net cash generated from/(used in) investing activities		555,477	(649,005)	574,133	(661,581)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to shareholder		(69,998)	(185,870)	(69,998)	(185,870)
Net cash used in financing activities		(69,998)	(185,870)	(69,998)	(185,870)
Net increase in cash and short-term funds		172,971	456,289	172,035	431,927
Cash and cash equivalents at beginning of the financial year		1,907,199	1,449,186	1,841,694	1,409,767
Effect of currency translation		515	1,724	-	-
Cash and cash equivalents at end of the financial year		2,080,685	1,907,199	2,013,729	1,841,694
ANALYSIS OF CASH AND CASH EQUIVALENTS:					
Clients trust account		396,223	243,710	379,578	243,710
Cash and short-term funds with banks and other financial institutions		1,684,462	1,663,489	1,634,151	1,597,984
Cash and short-term funds	2	2,080,685	1,907,199	2,013,729	1,841,694

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 2011

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 policies have been consistently applied to all the 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 Financial Reporting Standards ('FRS'), the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for Entities Other Than Private Entities, together with directives and guidelines issued by Bank Negara Malaysia ('BNM') and comply with the provisions of the Companies Act, 1965.

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

The preparation of financial statements in conformity with Financial Reporting Standards 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 judgement are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity 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 and are effective

The relevant new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and the Bank's financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time adoption of Financial Reporting Standards"
- Revised FRS 3 "Business Combinations"
- Revised FRS 127 "Consolidated and Separate Financial Statements"
- Amendments to FRS 7 "Financial Instruments: Disclosures – improving disclosures about financial instruments"
- Amendments to FRS 1 "First-time adoption of Financial Reporting Standards"
- Amendment to FRS 132 "Financial Instruments: Presentation - Classification of rights issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- IC Interpretation 17 "Distributions of Non-cash Assets to Owners"
- Amendments to IC Interpretation 9 – "Reassessment of Embedded Derivatives"
- Improvements to FRSs (2010)

The adoption of the above standards, amendments to published standards and interpretations to existing standards does not give rise to any material financial impact to the Group and the Bank.

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

On 19 November 2011, the MASB formally announced that Malaysian reporting entities would be required to comply with the new International Financial Reporting Standards ('IFRS') - compliant framework, Malaysian Financial Reporting Standards ('MFRS') for financial years commencing on or after 1 January 2012.

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)

For reporting periods commencing 1 January 2012, the Group and the Bank will be adopting the new International Financial Reporting Standards ("IFRS") compliant framework, MFRS. The Group and the Bank are required to prepare an opening balance sheet and restate comparative information restrospectively as if the requirements of MFRSs have always been applied from the Group and the Bank's transition date of 1 January 2011. MFRS 1 "First-time Adoption of Malaysian Financial Reporting Standards" provides certain mandatory exceptions and optional exemptions for first-time adoption of MFRS.

In the planning stage, the Group and the Bank have completed their review of the MFRS requirements. Critical conversion issues were identified and methodologies were designed to resolve these issues. 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 Group's or the Bank's interim results for the financial period ending 31 March 2012. The Group and the Bank have not finalised the financial impact of the adoption of MFRS.

(i) Financial year beginning on/after 1 January 2012

MFRS 139 – "Financial instruments: recognition and measurement" (effective from 1 January 2012) Bank Negara Malaysia has removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and provisioning to comply with the MFRS 139 requirements. Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not identified yet. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) simplifies the definition of a related party. It clarifies its intended meaning and eliminates inconsistencies from the definition.

The revised MFRS 124 removes the exemptions to disclose transaction between government related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
(i) the name of the government and the nature of their relationship,
(ii) the nature and amount of each individually significant transactions, and
(iii) the extent of any collectively significant transactions, qualitatively or quantitatively need to be disclosed.

Amendment to MFRS 112 – "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn.

IC Interpretation 19 – "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss.

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) Financial year beginning on/after 1 January 2012 (continued)

Amendment to MFRS 1 "First time adoption on fixed dates and hyperinflation" (effective from 1 January 2012) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to MFRSs', thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.

Amendment to MFRS 7 "Financial instruments: Disclosures on transfers of financial assets" (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

(ii) Financial year beginning on/after 1 January 2013

MFRS 9 "Financial instruments - classification and measurement of financial assets and financial liabilities" (effective from 1 January 2013) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ("FVTPL"). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

MFRS 10 "Consolidated financial statements" (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127 "Consolidated and separate financial statements" and IC Interpretation 112 "Consolidation – special purpose entities".

MFRS 11 "Joint arrangements" (effective from 1 January 2013) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

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) Financial year beginning on/after 1 January 2013 (continued)

MFRS 12 "Disclosures of interests in other entities" (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128 "Investments in associates". It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.

The revised MFRS 127 "Separate financial statements" effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.

The revised MFRS 128 "Investments in associates and joint ventures" (effective from 1 January 2013) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of MFRS 11.

Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are those corporations or other entities in which the Bank has the power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the acquisition method of accounting except for certain business combinations which were accounted for using the merger method as follows:

- subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 'Accounting for Acquisitions and Mergers', the generally accepted accounting principles prevailing at that time;

- business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in MASB 21 'Business Combinations';

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Basis of consolidation (continued)

(a) Subsidiaries (continued)

- internal group reorganisations, as defined in MASB 21, consolidated on/after 1 April 2001 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer.

- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by MASB 21, FRS 3 and FRS 3 (revised) to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards

Under the acquisition method of accounting, 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.

The consideration transferred for 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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.

The excess 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 recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the gain is recognised in profit or loss. Refer to accounting policy Note 4 on goodwill.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Group or Company. 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.

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 attribution to non-controlling interests 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.

Summary of Significant Accounting Policies And Critical Accounting Estimates And Assumptions
For The Financial Year Ended 31 December 2011 (continued)

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Basis of consolidation (continued)

(a) Subsidiaries (continued)

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

Change in accounting policy

The Group has changed its accounting policy on business combinations and accounting for non-controlling interest when it adopted the revised FRS 3 "Business combinations" and FRS 127 "Consolidated and separate financial statements".

Previously, contingent consideration in a business combination was recognised when it is probable that payment will be made. Acquisition-related costs were included as part of the cost of business combination. Any non-controlling interest in the acquiree was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group was accounted for as a revaluation.

The Group has applied the new policies prospectively to transactions occurring on or after 1 January 2011. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary which is recognised in profit or loss attributable to the parent.

(b) Jointly controlled entity

Jointly controlled entity are those corporations or other entities over which there is contractually agreed sharing of control by the Group with one or more parties where the strategic financial and operating decisions relating to the entities requiring unanimous consent of the parties sharing control.

Investments in the jointly controlled entity 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 the post-acquisition results of the joint ventures in profit or loss, and its share of post-acquisition changes 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.

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

(c) Changes in ownership interests

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value is the fair value on initial recognition as a financial asset in accordance with FRS 139. 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.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3 Investments in subsidiaries and joint ventures

In the Bank's separate financial statements, investments in subsidiaries and joint ventures are stated at cost less accumulated impairment losses. At the end of each reporting period, the Group 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 Note 19 on impairment of non-financial assets.

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

4 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of the net fair value of the identifiable net assets at the date of acquisition.

Goodwill is stated at cost less accumulated impairment loss and is tested at least annually for impairment. Impairment loss on goodwill 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 Note 19 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.

5 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, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were required. Management determines the classification at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges. Refer to accounting policy Note 6 on derivative financial instruments and hedge accounting.

(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.

Clients' and brokers' balances arising from share and stock-broking business are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). The allowance for bad and doubtful debts is made in conformity with the minimum requirements of allowance for bad and doubtful debts specified in Rule 1104.1 of Schedule 7 (Chapter 11) of the Rules of Bursa Malaysia Securities Berhad ('Bursa Securities').

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5 Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables (continued)

Other receivables are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). An estimate is made for allowance for bad and doubtful debts based on the review of all outstanding amounts at the end of the financial year. Bad debts are written off during the financial year in which they are identified.

(iii) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has 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 held-to-maturity, the whole category would be tainted and reclassified as available for sale.

(iv) Financial investments available-for-sale

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

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date, the date that an asset is delivered to or by the Group and the Bank.

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 profit or loss.

(c) Subsequent measurement – gain and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial investments held-to-maturity 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 profit or loss in the period in which the changes arise. Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 17) and foreign exchange gains and losses on monetary assets.

The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on financial investments available-for-sale are recognised separately in profit or loss. Interest on financial investments available-for-sale calculated using the effective interest method is recognised in profit or loss. Dividend income on available-for-sale equity instruments is recognised in profit or loss when the Group's and the Bank's right to receive payments is established.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5 Financial assets (continued)

(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 has transferred substantially all risks and rewards of ownership.

When financial investments available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement 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.

(f) Determination on fair value

The fair value of financial instruments traded in active markets are based on quoted market prices at the end of the reporting date. The quoted market prices used for financial assets held by the Group and the Bank are the current bid prices. If the market for a financial assets is not active, the Group and the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, net book value, option pricing models refined to reflect the issuer's specific circumstances.

6 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.

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. 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). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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 objective 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 the profit or loss, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6 Derivative financial instruments and hedge accounting (continued)

(a) Fair value hedge (continued)

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 profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(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 equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

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

When a hedging instrument expires or is sold, 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 statement. 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 profit or loss.

(c) 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 profit or loss.

7 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 profit or loss during the financial period in which they are incurred.

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:

Office equipment and furniture	20%
Renovations	10% to 20%
Computer equipment and software	20% 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 render disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in non-interest income in profit or loss.

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 Note 19 on impairment of non-financial assets.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8 Financial liabilities

The Group's and the Bank's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and financial liabilities at amortised cost. All financial liabilities are derecognised when extinguished.

(a) Financial liabilities 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 and are subsequently re-measured at their fair values. Changes in fair values of financial liabilities at fair value through profit or loss are recognised in profit and loss in the period in which the changes arise.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading 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 held for trading unless they are designated as hedges. Refer to accounting policy Note 6 on derivative financial instruments and hedge accounting

(b) Other liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are re-measured 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, clients' and brokers' balances, subordinated obligations and other financial liabilities.

9 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 the profit or loss on a straight-line basis over the period of the lease.

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on 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.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10 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.

11 Borrowings

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 profit or loss over the period of the borrowings using the effective interest method.

12 Financial guarantee contract

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 liability is subsequently recognised at the higher of the amount determined in accordance with FRS 137 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

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.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13 Contingent liabilities and contingent assets

The Group and the Bank do not recognise a contingent liability 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.

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 discloses their existence where inflows of economic benefits are probable, but not virtually certain.

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 deducted against share premium account.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, net of any related income tax benefit 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.

The statement of cash flows show the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. The cash flows from operating activities are determined by using the indirect method. Consolidated net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated.

The cash flows from investing and financing activities are determined by using the direct method. The Group's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

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 loan and receivables is recognised using the original effective interest rate.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 Revenue recognition (continued)

(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 contracts are executed. Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on accruals basis.

(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 accruals basis. Sales value of trust units is recognised on the approval of a unit holder's application. The value from the cancellation of trust units is recognised upon approval of the trustee.

(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 pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

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) has 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;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, 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;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- 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.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity 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 profit or loss.

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.

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

Individually impairment allowance

The Group and the Bank determine 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.

Collective impairment allowance

For the purposes of a collective evaluation of impairment under FRS 139, loans and advances are grouped on the basis of similar credit risk characteristics, taking into account the historical loss experience of such loans.

In accordance with the transitional provisions under the Amendments to FRS 139, the financial services sector is granted a transitional period for the purpose of complying with the collective assessment of impairment required under FRS 139. Consequently, BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions for a transitional period.

This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010, whereby banking institutions are required to maintain collective allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowances under the transitional provisions in the guidelines.

The Group and the Bank have adopted the transitional provisions under the Amendments to FRS 139 and the collective assessment impairment allowance of the Group and the Bank have been determined based on the transitional arrangement issued by BNM.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17 Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

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 available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity securities classified as available-for-sale, 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 available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

18 Employee benefits

(a) Short term employee benefits

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 pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Group's and the Bank's contribution to defined contribution plans are charged to the profit or loss 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.

19 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 flow/ 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 profit or loss. Impairment losses on goodwill are not reversed. In respect of other non-financial assets, any subsequent increase in recoverable amount is recognised in the profit or loss.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, 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 operates and include all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries and joint ventures distribution and arising from distributions of retained earnings 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.

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 investments in subsidiaries 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 the income statement, 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 profit or loss within non-interest income.

For translation differences on financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets, refer to Note 5(c).

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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement 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 the 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 currency 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 profit or loss 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 its Central 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.

(a) 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 an assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made in the 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 differ from the impairment made.

(b) Impairment of investment in a joint venture

Investment in a joint venture is stated at cost less accumulated impairment losses. Where there is an indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount. An impairment charge of RM5,936,000 was recognised for the carrying value of the investment in the joint venture. Refer to Note 14 for further details.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011

1 GENERAL INFORMATION

RHB Investment Bank Berhad is a public limited company, 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 option 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 option contracts, investment management services including the management of unit trust funds, 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 at Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

2 CASH AND SHORT TERM FUNDS

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	123,205	104,076	91,666	78,771
Money at call and deposit placements maturing within one month	1,957,480	1,803,123	1,922,063	1,762,923
	2,080,685	1,907,199	2,013,729	1,841,694

Included in the cash and short term funds are monies held in trust for clients and remisiers:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	80,838	30,832	64,193	30,832
Money at call and deposit placements maturing within one month	315,385	212,878	315,385	212,878
	396,223	243,710	379,578	243,710

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2011 RM'000	2010 RM'000
Licensed banks	150,192	200,235
Licensed investment banks	-	50,040
Licensed islamic bank	100,035	-
	250,227	250,275

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

4 FINANCIAL ASSETS HELD-FOR-TRADING

	Group and Bank	
	2011 RM'000	2010 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issue	-	35,555
Malaysian government securities	21,119	-
BNM monetary notes	-	192,952
Negotiable instruments of deposits	-	51,502
Unquoted securities:		
In Malaysia		
Private debt securities	95,765	70,321
	116,884	350,330

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At fair value				
Money market instruments:				
Malaysian government investment issue	942,089	774,379	942,089	774,379
Malaysian government securities	692,753	1,321,458	692,753	1,321,458
Khazanah bonds	12,638	11,984	12,638	11,984
Quoted securities:				
In Malaysia				
Shares	744	23	85	23
Loan stocks	1,255	1,282	1,255	1,282
Unquoted securities:				
In Malaysia				
Shares	21,801	18,816	21,801	18,816
Private debt securities	704,601	1,109,082	704,601	1,109,082
Loan stocks	20,662	20,662	20,662	20,662
Redeemable convertible preference shares	15,130	13,980	-	-
Outside Malaysia				
Loan stocks	574	565	-	-
	2,412,247	3,272,231	2,395,884	3,257,686

As at 31 December 2011, the carrying value of financial investments available-for-sale which was transferred from financial assets held-for-trading and financial investments held-to-maturity in the previous financial year, for the Group and the Bank are RM357,555,000 (2010: RM426,250,000) and RM19,601,000 (2010: RM16,616,000) respectively.

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group and Bank 2011 RM'000	Group and Bank 2010 RM'000
At amortised cost		
Money market instruments:		
Malaysian government securities	45,864	45,298
Malaysian government investment issue	312,857	-
Cagamas bonds	51,171	-
Banker's acceptances	101,809	-
Unquoted securities:		
In Malaysia		
Bonds	23	23
Prasarana bonds	40,690	99,872
Private debt securities	156,481	133,485
	708,895	278,678
Accumulated impairment losses	(100,541)	(93,760)
	608,354	184,918

7 LOANS AND ADVANCES

	Group and Bank 2011 RM'000	Group and Bank 2010 RM'000
(i) By type		
At amortised cost		
Share margin financing	42,403	48,967
Staff loans	1,763	2,566
Gross loans and advances	44,166	51,533
Allowance for bad and doubtful debts		
- individual impairment allowance	(584)	(882)
- collective impairment allowance	(654)	(760)
Net loans and advances	42,928	49,891
(ii) By type of customer		
Domestic business enterprises		
- others	1,490	2,783
- individuals	42,505	47,476
- foreign entities	171	1,274
	44,166	51,533

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank 2011 RM'000	Group and Bank 2010 RM'000
(iii) By interest rate sensitivity		
Fixed rate		
- Other fixed rate loans	44,166	51,533
(iv) By purpose		
Purchase of securities	42,403	48,967
Purchase of transport vehicles	76	285
Purchase of landed property:		
- residential	1,687	2,281
	44,166	51,533
(v) By remaining contractual maturities		
Maturing within one year	42,411	49,085
One year to three years	82	186
Three years to five years	91	105
Over five years	1,582	2,157
	44,166	51,533
(vi) Impaired loans and advances		
(a) Movements in impaired loans and advances		
Balance as at the beginning of the financial year	918	1,183
Classified as impaired during the financial year	8	10
Amount recovered	(122)	(275)
Amount written off	(185)	-
Balance as at the end of the financial year	619	918
(b) By purpose		
- Purchase of securities	619	918

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2011 RM'000	2010 RM'000
(c) Movements in allowance for impaired loans and advances		
Individual impairment allowance		
Balance as at the beginning of the financial year	882	1,091
Allowance made during the financial year	9	12
Amount recovered	(122)	(221)
Amount written off	(185)	-
Balance as at the end of the financial year	584	882
Collective impairment allowance		
Balance as at the beginning of the financial year	760	916
Net allowance written back	(106)	(156)
Balance as at the end of the financial year	654	760

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

8 CLIENTS' AND BROKERS' BALANCES

Clients' and brokers' balances represent amount receivable from outstanding purchase contracts in respect of the Group's and the Bank's stock-broking business entered on behalf of clients, amount due from brokers and contra losses.

	Group and Bank	
	2011 RM'000	2010 RM'000
Performing accounts	230,400	419,575
Impaired accounts - Bad	11,410	9,193
- Doubtful	415	194
	242,225	428,962
Less: Impairment allowances for bad and doubtful debts		
- individual impairment allowance	(9,309)	(7,478)
- collective impairment allowance	(240)	(357)
	232,676	421,127

Movements in the impairment allowance for bad and doubtful debts are as follows:

	Group and Bank	
	2011 RM'000	2010 RM'000
Individual impairment allowance		
Balance as at the beginning of the financial year	7,478	8,061
Allowance written back during the financial year	1,888	(583)
Amount recovered	(57)	-
Balance as at the end of the financial year	9,309	7,478
Collective impairment allowance		
Balance as at the beginning of the financial year	357	221
Allowance made during the financial year	(117)	136
Balance as at the end of the financial year	240	357

9 OTHER ASSETS

		Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Amounts due from holding company	(i)	1,876	-	1,876	-
Amounts due from subsidiaries	(i)	-	-	1,510	794
Amounts due from related companies	(i)	1,592	2,198	792	786
Other debtors, deposits and prepayments	(ii)	26,640	26,901	15,171	15,697
		30,108	29,099	19,349	17,277

(i) Amounts due from holding company, subsidiaries and related companies are unsecured, interest free and receivable within the normal credit period.

(ii) Other debtors, deposits and prepayments of the Group and the Bank are stated net of allowance for impairment of RM1,533,000 (2010: RM1,566,000).

10 DERIVATIVES 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 also transacted in these instruments 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 statement of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the date of statement of financial position are analysed below.

	Group and Bank	
	2011 RM'000	2010 RM'000
Derivative assets	18,759	19,094
Derivative liabilities	(19,040)	(20,144)
	(281)	(1,050)

2011	Contract or Underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
Interest rate related contracts:			
- swaps	2,020,000	18,759	19,040
	2,020,000	18,759	19,040
2010			
Interest rate related contracts:			
- futures	140,000	-	793
- swaps	1,870,000	19,094	19,351
	2,010,000	19,094	20,144

11 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 statement of financial position:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Deferred tax assets	1,919	776	-	-
Deferred tax liabilities	(2,584)	(2,251)	(2,297)	(2,251)
	(665)	(1,475)	(2,297)	(2,251)
Deferred tax assets				
-Settled within 12 months	1,950	909	-	-
-Settled more than 12 months	(31)	(133)	-	-
	1,919	776	-	-
Deferred tax liabilities				
-Settled within 12 months	(1,263)	(787)	(975)	(787)
-Settled more than 12 months	(1,321)	(1,464)	(1,322)	(1,464)
	(2,584)	(2,251)	(2,297)	(2,251)

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

	Note	Property, plant and equipment RM'000	Collective impairment allowance RM'000	Other liabilities RM'000	AFS reserve RM'000	Total RM'000
Group						
2011						
Balance as at the beginning of the year		(2,345)	279	4,157	(3,566)	(1,475)
Transfer from/(to) income statement	31	654	(279)	2,818	-	3,193
Transferred to AFS reserve	33	-	-	-	(2,383)	(2,383)
Balance as at the end of the financial year		(1,691)	-	6,975	(5,949)	(665)

11 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Note	Property, plant and equipment RM'000	Collective impairment allowance RM'000	Other liabilities RM'000	AFS reserve RM'000	Total RM'000
Group						
2010						
Balance as at the beginning of the year		(1,635)	284	764	3,563	2,976
Transfer (to)/from income statement	31	(710)	(5)	3,393	-	2,678
Transferred to AFS reserve	33	-	-	-	(7,129)	(7,129)
Balance as at the end of the financial year		(2,345)	279	4,157	(3,566)	(1,475)
Bank						
2011						
Balance as at the beginning of the financial year		(2,179)	279	3,215	(3,566)	(2,251)
Transfer from/(to) income statement	31	527	(279)	1,802	-	2,050
Transferred to AFS reserve	33	-	-	-	(2,096)	(2,096)
Balance as at the end of the financial year		(1,652)	-	5,017	(5,662)	(2,297)
Bank						
2010						
Balance as at the beginning of the financial year		(1,443)	284	64	3,563	2,468
Transfer (to)/from income statement	31	(736)	(5)	3,151	-	2,410
Transferred to AFS reserve	33	-	-	-	(7,129)	(7,129)
Balance as at the end of the financial year		(2,179)	279	3,215	(3,566)	(2,251)

12 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2010, the amount of which is determined as a set percentage of total eligible liabilities.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

13 INVESTMENTS IN SUBSIDIARIES

	Bank 2011 RM'000	Bank 2010 RM'000
Unquoted shares at cost	169,343	169,343
Less: Allowance for impairment loss	(84,373)	(84,373)
	84,970	84,970

The subsidiaries of the Bank are as follows:

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest 2011 %	Effective equity interest 2010 %	Principal activities
RHB Investment Management Sdn Bhd	Malaysia	RM10,000,000	100	100	Asset management services and management of unit trust funds
RHB Islamic Asset Management Sdn Bhd	Malaysia	RM4,000,000	100	100	Islamic asset management services
RHB Research Institute Sdn Bhd	Malaysia	RM500,000	100	100	Research services
RHB Private Equity Holdings Sdn Bhd	Malaysia	RM25,000,002	100	100	Investment holding
RHB Private Equity Management Ltd	Labuan, Malaysia	USD1	100	100	Investment advisor, investment consultant and other ancillary services only for private funds
RHB Private Equity Fund Ltd	Cayman Island	USD10,001	100	100	Investment company
RHB Nominees Sdn Bhd	Malaysia	RM25,000	100	100	Nominee and custodian services
RHB Nominees (Asing) Sdn Bhd	Malaysia	RM25,000	100	100	Nominee and custodian services for foreign beneficial shareholders
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	RM25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	RM10,000	100	100	Nominee services for Malaysian beneficial shareholders

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest 2011 %	2010 %	Principal activities
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	RM10,000	100	100	Nominee services for foreign beneficial shareholders
RHB Marketing Services Sdn Bhd [1]	Malaysia	RM100,000	100	100	Dormant
RHB Unit Trust Management Berhad	Malaysia	RM5,000,000	100	100	Dormant
RHB Progressive Sdn Bhd	Malaysia	RM13,500,000	100	100	Dormant
RHB Excel Sdn Bhd	Malaysia	RM200,000,000	100	100	Dormant

Notes:

[1] The Company has commenced members' voluntary winding up on 16 February 2011.

All subsidiaries are audited by PricewaterhouseCoopers, Malaysia.

14 INVESTMENT IN A JOINT VENTURE

	2011 RM'000	2010 RM'000
Group		
Share of net assets of a joint venture	24,956	25,044
Less: Allowance for impairment loss	(5,936)	-
	19,020	25,044
Bank		
Unquoted shares, at cost	27,399	27,399
Less: Allowance for impairment loss	(5,936)	-
	21,463	27,399

The details of goodwill included within the Group's carrying amount of investment in a joint venture are as follows:

	2011 RM'000	2010 RM'000
Share of net assets of a joint venture	11,266	12,564
Exchange differences	(514)	(1,724)
Share of net assets after exchange difference	10,752	10,840
Goodwill arising from acquisition	14,204	14,204
Net assets	24,956	25,044
Impairment loss	(5,936)	-
	19,020	25,044

The Group's share of income and expenses, assets and liabilities of the joint controlled entity are as follows:

	2011 RM'000	2010 RM'000
Income	1,529	1,593
Expenses	(970)	(765)
Tax expense	(132)	(36)
Net profit for the financial year	427	792
Non-current assets	14,377	14,423
Current assets	10,704	10,749
Current liabilities	(125)	(128)
Net assets	24,956	25,044

There are no capital commitments or contingent liabilities relating to the Group's interest in joint controlled entity as at 31 December 2011.

14 INVESTMENT IN A JOINT VENTURE (CONTINUED)

The details of investment in a joint venture are as follows:

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest 2011	Effective equity interest 2010	Principal activities
		VND'000	%	%	
Vietnam Securities Corporation	Vietnam	135,000,000	49	49	Stock-broking and corporate finance advisory

The recoverable amount of the investment in the joint venture is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets/forecast approved by the directors covering a 3 year period. Cash flows beyond the 3rd year period are assumed to grow at 4% (2010:6%) to infinity.

The cash flow projections are derived based on a number of key factors including the past performance, management's expectation on the performance of the business given the business strategies to be implemented and management future expectations on the market and industry's development. The pre-tax discount rate used is 17.6% (2010:16.6%) and reflect specific risks relating to the market.

An impairment charge of RM5,936,000 was recognised for the carrying value of the investment in the joint venture. Management believes that any reasonable possible change to the assumptions applied, especially the cash flow projections and the discount rate, may likely cause the value in use to be lower than the carrying amount.

If the cash flow projections had been 10% lower than management's estimates at 31 December 2011, the Group and the Bank would have recognized an additional impairment loss of approximate RM1,901,000.

If the pre-tax discount rate used for the value-in-use calculation had been 1% higher than management's estimates, the Group and the Bank would have recognized an additional impairment loss of approximate RM1,420,000.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

15 PROPERTY, PLANT AND EQUIPMENT

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Group					
2011					
Cost					
Balance as at the beginning of the financial year	31,855	25,599	59,792	3,304	120,550
Additions	163	1,709	2,277	-	4,149
Disposal	-	-	-	(953)	(953)
Written off	(7)	-	(766)	-	(773)
Balance as at the end of the financial year	32,011	27,308	61,303	2,351	122,973
Accumulated depreciation					
Balance as at the beginning of the financial year	30,583	21,301	48,805	2,861	103,550
Charge for the financial year	437	329	3,261	144	4,171
Disposal	-	-	-	(953)	(953)
Written off	(7)	-	(766)	-	(773)
Balance as at the end of the financial year	31,013	21,630	51,300	2,052	105,995
Accumulated Impairment loss					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	998	5,678	7,078	299	14,053

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Group					
2010					
Cost					
Balance as at the beginning of the financial year	31,892	24,749	54,777	3,217	114,635
Additions	112	1,127	5,253	391	6,883
Disposal	(2)	-	-	(304)	(306)
Written off	(147)	(277)	(238)	-	(662)
Balance as at the end of the financial year	31,855	25,599	59,792	3,304	120,550
Accumulated depreciation					
Balance as at the beginning of the financial year	30,117	21,331	44,511	2,988	98,947
Charge for the financial year	613	247	4,532	177	5,569
Disposal	-	-	-	(304)	(304)
Written off	(147)	(277)	(238)	-	(662)
Balance as at the end of the financial year	30,583	21,301	48,805	2,861	103,550
Accumulated Impairment loss					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,272	4,298	8,062	443	14,075

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Bank					
2011					
Cost					
Balance as at the beginning of the financial year	29,202	20,944	53,417	2,812	106,375
Additions	155	1,617	1,723	-	3,495
Disposal	-	-	-	(595)	(595)
Written off	(7)	-	(703)	-	(710)
Balance as at the end of the financial year	29,350	22,561	54,437	2,217	108,565
Accumulated depreciation					
Balance as at the beginning of the financial year	28,056	17,311	43,380	2,369	91,116
Charge for the financial year	385	238	2,895	144	3,662
Disposal	-	-	-	(595)	(595)
Written off	(7)	-	(703)	-	(710)
Balance as at the end of the financial year	28,434	17,549	45,572	1,918	93,473
Accumulated Impairment loss					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	916	5,012	5,940	299	12,167

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Bank					
2010					
Cost					
Balance as at the beginning of the financial year	29,174	20,374	48,460	2,429	100,437
Additions	106	847	5,119	391	6,463
Disposal	(2)	-	-	(8)	(10)
Written off	(76)	(277)	(162)	-	(515)
Balance as at the end of the financial year	29,202	20,944	53,417	2,812	106,375
Accumulated depreciation					
Balance as at the beginning of the financial year	27,581	17,403	39,446	2,225	86,655
Charge for the financial year	551	185	4,096	152	4,984
Disposal	-	-	-	(8)	(8)
Written off	(76)	(277)	(162)	-	(515)
Balance as at the end of the financial year	28,056	17,311	43,380	2,369	91,116
Accumulated Impairment loss					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,146	3,633	7,112	443	12,334

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Accumulated depreciation and impairment loss				
Balance as at the beginning of the financial year	106,475	101,872	94,041	89,580
Balance as at the end of the financial year	108,920	106,475	96,398	94,041

16 GOODWILL

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Balance as at the beginning and the end of the financial year	172,844	172,844	159,280	159,280

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
CGUs				
Corporate investment banking	67,229	67,229	53,665	53,665
Treasury	105,615	105,615	105,615	105,615
	172,844	172,844	159,280	159,280

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/forecasts approved by Directors covering a four-year period (2010: four-year period). Cash flows beyond the four-year period are assumed to grow at 3.0% p.a. (2010: 3.0% p.a.) to perpetuity.

The cash flow projection is derived on a number of key factors including the past performance and the management's expectations of the market developments. The discount rate used in determining the recoverable amount of all CGUs within the business segment is 9.35% (2010: 7.04%). The discount rate used is pre-tax and is computed based on industry information to reflect the risks of the CGUs.

Impairment was not required for goodwill arising from all the business segments. Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount of all the business segments to be lower than its carrying amount.

17 DEPOSITS FROM CUSTOMERS

	Group and Bank 2011 RM'000	2010 RM'000
(i) By type of deposits:		
Fixed deposits	1,149,421	1,474,471
Short term deposits	1,318,894	1,171,950
	2,468,315	2,646,421
(ii) The maturity structure of total deposits are as follows:		
Due within six months	2,468,315	2,646,421
(iii) The deposits are sourced from the following customers:		
Federal Government and statutory bodies	219,327	219,750
Business enterprises	2,248,988	2,426,671
	2,468,315	2,646,421

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank 2011 RM'000	2010 RM'000
Licensed banks	100,320	80,012
Other financial institutions	2,035,570	2,405,869
	2,135,890	2,485,881

19 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM367,401,000 (2010: RM262,007,000).

20 OTHER LIABILITIES

		Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Amount due to holding company	(i)	380	498	363	485
Amount due to subsidiaries	(i)	-	-	2,002	855
Amount due to related companies	(i)	15,190	13,306	13,788	11,924
Amount payable for creation of units due to funds		13,685	2,069	-	-
Amount payable for redemption units		548	3,056	-	-
Remisiers' trust deposits		9,198	8,490	9,198	8,490
Accrued personnel costs		15,692	17,103	11,133	12,168
Other accruals and payables		22,787	29,200	18,102	26,130
		77,480	73,722	54,586	60,052

(i) Amounts due to holding company, subsidiaries and related companies are unsecured, interest free and repayable within the normal credit period.

21 SUBORDINATED OBLIGATIONS

	Group and Bank	
	2011 RM'000	2010 RM'000
5.3% RM200 million Tier II Subordinated Notes 2007/2017	200,581	200,639
5.5% RM45 million Tier II Subordinated Notes 2008/2018	45,488	45,488
	246,069	246,127

(a) 5.3% RM200 million Tier II Subordinated Notes 2007/2017

In 2007, the Bank proposed issuance of up to RM245 million nominal value of Subordinated Notes ('Sub Notes') under a Subordinated Note Programme ('the Sub Notes Programme'). The Sub Notes have a tenure of 15 years from the date of first issue. During the tenure of the Sub Notes Programme, the Bank may issue Sub Notes with maturities ranging from 10 to 15 years and callable after a minimum period of 5 years from date of issue.

On 10 December 2007, the Bank successfully issued Sub Notes for an aggregate nominal value of RM200 million at par and qualify as Tier II Capital of the Bank for the purpose of BNM's capital adequacy requirements.

The Sub Notes constitute direct unsecured obligations of the Bank, subordinated in right and priority of payment, to the extent and in the manner provided in the terms of the Sub Notes, to all deposit liabilities and other liabilities of the Bank except all other present and future unsecured and subordinated obligations of the Bank which by their terms rank pari-passu in right of priority of payment with or subordinate to the Sub Notes. The Sub Notes will in the event of the winding-up or liquidation of the Bank, be subordinated in right of payments to the claims of the depositors and all other creditors of the Bank other than claimants in respect of the Bank's unsecured and subordinated obligations which by their terms rank pari-passu in right of and priority of payment with or subordinated to the Sub Notes.

21 SUBORDINATED OBLIGATIONS (CONTINUED)

(a) 5.3% RM200 million Tier II Subordinated Notes 2007/2017 (continued)

The Sub Notes proceeds raised shall be utilised for the Bank's general working capital.

The coupon for Sub Notes are accrued at the rate of 5.30% p.a. and commencing from the beginning of the sixth year from the issue date, the coupon rate shall be stepped up annually at 0.5% p.a. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

(b) 5.5% RM45 million Tier II Subordinated Notes 2008/ 2018

On 21 April 2008, the Bank issued the remaining RM45.0 million nominal value of the Sub Notes at par and qualify as Tier II Capital of the Bank for the purpose of Bank Negara Malaysia's capital adequacy requirements.

The Sub Notes proceeds raised shall be utilised for the Bank's general working capital.

The coupon for Sub Notes are accrued at the rate of 5.50% p.a. and commencing from the beginning of the sixth year from the issue date, the coupon rate shall be stepped up annually at 0.5% p.a. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

(c) Ratings by agency

RAM has assigned a long-term rating of AA_3 to the Bank's up to RM245 million Subordinated Notes.

Long-Term Ratings (Issue)

AA High safety for timely payment of interest and principal.

For long-term ratings, RAM applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the issue ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the issue ranks at the lower end of its generic rating category.

22 SHARE CAPITAL

	Bank	
	2011 RM'000	**2010 RM'000**
Ordinary shares of RM1.00 each:		
Authorised:		
Balance as at the beginning/end of the financial year	1,000,000	1,000,000
Issued and fully paid:		
Balance as at the beginning/end of the financial year	263,646	263,646

23 RESERVES

		Group		Bank	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Retained profits	(i)	57,585	103,817	53,198	93,912
Statutory reserve	(ii)	278,549	278,549	278,549	278,549
AFS reserve	(iii)	17,813	10,698	16,986	10,698
Translation reserve	(iv)	(5,394)	(4,954)	-	-
		348,553	388,110	348,733	383,159

(i) A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profits is a final tax, and dividends distributed to shareholders will be exempted from tax. Companies with Section 108 tax credit balance are given an option to elect to move to a single tier system immediately or allowed to use the Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013.

The Bank has elected to use its Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013. The Section 108 balance of the Bank as at 31 December 2007 will be frozen and can only be adjusted downwards for any tax discharged, remitted or refunded during the 6 years period.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its entire retained profits as at 31 December 2011.

(ii) The statutory reserve represents non-distributable profits held by the Bank in compliance with Section 36 of the Banking and Financial Institutions Act, 1989. This fund is not distributable as cash dividends.

(iii) Available-for-sale revaluation reserve arises from changes in the fair value of financial investments classified as available-for-sale. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities.

(iv) The translation reserve comprises all foreign exchange differences from the translation of the financial statements of foreign subsidiaries and joint venture.

24 INTEREST INCOME

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loans and advances	3,983	5,057	3,983	5,057
Money at call and deposit placements with banks and other financial institutions	46,173	52,861	45,205	52,118
Financial assets held-for-trading	10,666	11,701	10,666	11,701
Financial investments available-for-sale	107,171	124,012	107,168	124,010
Financial investments held-to-maturity	14,477	6,086	14,477	6,086
Others	4,383	9,322	4,383	9,317
	186,853	209,039	185,882	208,289

25 INTEREST EXPENSE

	Group and Bank	
	2011 RM'000	2010 RM'000
Deposits and placements of banks and other financial institutions	72,536	53,824
Deposits from customers	74,111	82,279
Subordinated obligations	13,075	13,075
Others	-	5,147
	159,722	154,325

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

26 OTHER OPERATING INCOME

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Fee income:				
Arrangement fees	10,124	5,433	10,124	5,433
Brokerage	87,796	83,353	87,796	83,353
Corporate advisory fees	15,170	17,454	15,170	17,454
Fees on loans and advances	2,532	2,891	2,532	2,891
Fund management fees	22,000	26,081	-	-
Underwriting fees	4,435	14,449	4,435	14,449
Unit trust fee income	3,196	1,190	-	-
Other fee income	26,973	27,870	26,774	25,484
	172,226	178,721	146,831	149,064
Net gain arising from financial assets held-for trading				
- net gain on revaluation	10,914	7,268	10,914	6,228
- gross dividend income	-	28	-	-
	10,914	7,296	10,914	6,228
Net gain on revaluation of derivatives	56	810	56	810
Net gain arising from financial investments available-for-sale				
- net gain on disposal	23,050	40,304	23,050	40,304
- gross dividend income	180	181	180	181
	23,230	40,485	23,230	40,485
Net gain arising from financial investments held-to-maturity				
- net gain on redemption	3,692	2,600	3,692	2,600
- gross dividend income	-	45	-	45
	3,692	2,645	3,692	2,645
Other income:				
Foreign exchange gain				
- Realised	1,811	3,115	1,818	3,022
- Unrealised	39	255	-	-
Gross Dividend from a subsidiary	-	-	6,609	-
Gain on transfer or disposal of property, plant and equipment	174	76	81	3
Others	660	1,390	576	686
	2,684	4,836	9,084	3,711
Total other operating income	212,802	234,793	193,807	202,943

27 OTHER OPERATING EXPENSES

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Personnel costs				
Salaries, allowances and bonus	77,097	79,891	57,651	61,237
Defined contribution plans	12,275	11,904	9,176	9,054
Other staff costs	10,552	8,188	9,320	7,290
	99,924	99,983	76,147	77,581
Establishment costs				
Property, plant and equipment				
- depreciation	4,171	5,569	3,662	4,984
Rental of premises	7,340	8,050	6,203	6,551
Information technology expenses	6,055	6,262	5,937	5,927
Others	9,123	7,677	8,891	7,128
	26,689	27,558	24,693	24,590
Marketing expenses				
Sales commission	2,779	443	-	-
Advertising and publicity	8,556	6,217	8,233	5,897
Others	6,911	5,737	5,406	4,712
	18,246	12,397	13,639	10,609
Administration and general expenses				
Auditors' remuneration				
- statutory audit fees	273	261	170	175
- non-audit fee	27	101	13	42
Communication expenses	7,105	6,588	6,259	5,800
Legal and professional fees	613	1,308	449	697
Others	12,130	10,562	16,258	15,416
	20,148	18,820	23,149	22,130
Total other operating expenses	165,007	158,758	137,628	134,910

Included in the personnel costs of the Group and the Bank are the former Managing Director's remuneration (excluding estimated monetary value of benefits-in-kind) totalling RM2,900,000 (2010:RM3,511,000) as disclosed in Note 28.

Included in the administration and general expenses of the Group and the Bank are the non-executive directors' remuneration (excluding estimated monetary value of benefits-in-kind) totalling RM1,364,000 (2010:RM1,195,000) and RM996,000 (2010:RM928,000) respectively, as disclosed in Note 28.

28 DIRECTORS' REMUNERATION

The Directors of the Bank in office during the financial year are as follows:

Dato' Mohamed Khadar Merican (Chairman)	
Lew Foon Keong	
Tan Sri Azlan Zainol	
Akira Miyama	
Patrick Chin Yoke Chung	
Dato' Saw Choo Boon	
Abdul Aziz Peru Mohamed	(Appointed on 7 Febuary 2011)
Dato Abdullah Mat Noh	(Resigned on 1 March 2011)
Arul Kanda Kandasamy	(Resigned on 10 May 2011)
Chay Wai Leong (Managing Director)	(Resigned on 16 May 2011)

The aggregate remuneration of the Directors and former Managing Director ('MD') of the Group and the Bank is as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Former Managing Director				
- Salary and other remuneration	900	1,531	900	1,531
- Bonus	2,000	1,980	2,000	1,980
- Benefits-in-kind (based on an estimated money value)	13	32	13	32
	2,913	3,543	2,913	3,543
Non-Executive Directors				
- Fees	861	646	611	506
- Allowances	483	504	385	396
- Others	20	45	-	26
	4,277	4,738	3,909	4,471

28 DIRECTORS' REMUNERATION (CONTINUED)

The details remuneration of the Directors and former Managing Director ('MD') of the Group and the Bank are as follows:

Group and Bank 2011	Salary and other remuneration RM'000	Bonus RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Total RM'000
Managing Director				
Chay Wai Leong	900	2,000	13	2,913

Group 2011	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
Non-executive Directors				
Dato' Mohamed Khadar Merican (Chairman)	165	163	-	328
Lew Foon Keong	80	16	-	96
Tan Sri Azlan Zainol	80	18	-	98
Akira Miyama	80	15	-	95
Patrick Chin Yoke Chung	237	120	20	377
Dato' Saw Choo Boon	80	84	-	164
Abdul Aziz Peru Mohamed	95	51	-	146
Dato Abdullah Mat Noh	16	10	-	26
Arul Kanda Kandasamy	28	6	-	34
	861	483	20	1,364

Bank 2011	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
Non-executive Directors				
Dato' Mohamed Khadar Merican (Chairman)	95	134	-	229
Lew Foon Keong	80	16	-	96
Tan Sri Azlan Zainol	80	18	-	98
Akira Miyama	80	15	-	95
Patrick Chin Yoke Chung	80	57	-	137
Dato' Saw Choo Boon	80	84	-	164
Abdul Aziz Peru Mohamed	72	45	-	117
Dato Abdullah Mat Noh	16	10	-	26
Arul Kanda Kandasamy	28	6	-	34
	611	385	-	996

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

28 DIRECTORS' REMUNERATION (CONTINUED)

Group and Bank 2010	Salary and other remuneration RM'000	Bonus RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Total RM'000
Managing Director				
Chay Wai Leong	1,531	1,980	32	3,543

Group 2010	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
Non-executive Directors				
Dato Abdullah Mat Noh (Chairman)	80	51	26	157
Tan Sri Azlan Zainol	60	35	-	95
Arul Kanda Kandasamy	60	18	-	78
Dato' Mohamed Khadar Merican	140	144	19	303
Akira Miyama	60	18	-	78
Lew Foon Keong	60	18	-	78
Patrick Chin Yoke Chung	120	132	-	252
Dato' Saw Choo Boon	45	50	-	95
Datuk Tan Kim Leong	21	38	-	59
	646	504	45	1,195

Bank 2010	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
Non-executive Directors				
Dato Abdullah Mat Noh (Chairman)	80	51	26	157
Tan Sri Azlan Zainol	60	35	-	95
Arul Kanda Kandasamy	60	18	-	78
Dato' Mohamed Khadar Merican	60	112	-	172
Akira Miyama	60	18	-	78
Lew Foon Keong	60	18	-	78
Patrick Chin Yoke Chung	60	56	-	116
Dato' Saw Choo Boon	45	50	-	95
Datuk Tan Kim Leong	21	38	-	59
	506	396	26	928

29 ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND OTHER LOSSES

	Group and Bank	
	2011 RM'000	2010 RM'000
Allowance made/(written back) for impaired loans and advances:		
Individual impairment allowance	(113)	(209)
Collective impairment allowance	(106)	(156)
Allowance for losses on clients' and brokers' balances:		
Individual impairment allowance	1,831	(583)
Collective impairment allowance	(117)	136
Bad debts recovered	(125)	(58)
Bad debts written off	2	45
Allowance for impairment - other debtors	214	493
	1,586	(332)

30 IMPAIRMENT LOSSES ON OTHER ASSETS

		Group		Bank	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Charge for the financial year					
- Financial investments available-for-sale		23,175	26,977	23,175	26,495
- Financial investments held-to-maturity		6,729	15,390	6,729	15,390
- Investment in a joint venture	14	5,936	-	5,936	-
		35,840	42,367	35,840	41,885

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

31 TAXATION

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Income tax based on profit for the financial year				
- Malaysian income tax	14,763	25,606	15,212	23,917
Deferred tax (Note 11)	(3,193)	(2,678)	(2,050)	(2,410)
Under/(Over) provision in respect of prior years	2,591	(657)	2,467	(676)
Tax expense	14,161	22,271	15,629	20,831

The numeric reconciliation between the applicable statutory income tax and the effective tax rate of the Group and the Bank is as follows:

	Group		Bank	
	2011 %	2010 %	2011 %	2010 %
Tax at Malaysian Statutory applicable tax rate	25.0	25.0	25.0	25.0
Tax effects in respect of:				
Effect of different tax rate in other countries	0.7	-	-	-
Non allowable expenses	8.5	1.3	8.3	1.4
Income not subject to tax	(0.8)	(0.4)	(0.3)	(0.1)
Other temporary differences not recognised in prior years	(3.8)	(0.3)	(3.7)	0.4
Under/(Over) provision in respect of prior years	5.7	(0.7)	5.5	(0.8)
Effective tax rate	35.3	24.9	34.8	25.9

32 BASIC EARNINGS PER SHARE

The basic earnings per share has been calculated by dividing the net profit for the financial year of the Group and the Bank of RM23,766,000 (2010: RM67,235,000) and RM29,284,000 (2010: RM59,613,000) by the weighted average number of ordinary shares in issue during the financial year of 263,646,000 (2010: 263,646,000).

33 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	2011 Before tax amount RM'000	2011 Tax expense benefit RM'000	2011 Net-of-tax amount RM'000	2010 Before tax amount RM'000	2010 Tax expense benefit RM'000	2010 Net-of-tax amount RM'000
Financial instrument AFS						
- Fair value gains on revaluation, net of transfer to income statement	9,498	(2,383)	7,115	28,517	(7,129)	21,388

Bank	2011 Before tax amount RM'000	2011 Tax expense benefit RM'000	2011 Net-of-tax amount RM'000	2010 Before tax amount RM'000	2010 Tax expense benefit RM'000	2010 Net-of-tax amount RM'000
Financial instrument AFS						
- Fair value gains on revaluation, net of transfer to income statement	8,384	(2,096)	6,288	28,517	(7,129)	21,388

34 ORDINARY DIVIDENDS

Dividends declared or proposed are as follows:

	Group and Bank			
	2011		2010	
	Gross dividend per share sen	Amount of dividends, net of tax RM'000	Gross dividend per share sen	Amount of dividends, net of tax RM'000
Ordinary shares:				
Proposed final dividend – 2011/2010	14.80	29,265	18.05	35,700
Proposed special final dividend – 2010	-	-	17.35	34,298
	14.80	29,265	35.40	69,998

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 14.80% less 25% tax amounting to RM29,264,706 will be proposed for shareholder's approval. These financial statements do not reflect these final dividends which will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2012 when approved by the shareholder.

Dividends recognised as distribution to ordinary equity holders of the Bank are as follows:

	Group and Bank			
	2011		2010	
	Gross dividend per share sen	Amount of dividends, net of tax RM'000	Gross dividend per share sen	Amount of dividends, net of tax RM'000
Ordinary shares :				
Final dividend – 2010/2009	18.05	35,700	55.60	109,940
Special final dividend – 2010/2009	17.35	34,298	38.40	75,930
	35.40	69,998	94.00	185,870

35 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationship

The related parties of, and their relationships with the Bank, are as follows:

Related parties	Relationship
RHB Capital Berhad	Holding company
Subsidiaries of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries of the Bank as disclosed in Note 13	Subsidiaries
Key management personnel	The key management personnel of the Group and the Bank consist of: - All directors of the Bank, its key subsidiaries and RHB Capital Berhad - RHB Capital Berhad Central Management Committee members
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (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 the related party disclosures mentioned in Notes 9 and 20, set out below are other significant related party transactions and balances.

With effect from 3 December 2010, EPF ceased to be the immediate and ultimate holding body of the Bank. All transactions with EPF and its subsidiaries subsequent to 3 December 2010 are not deemed as related parties transactions on balances. All transactions with EPF and its subsidiaries in the previous financial year have been classified as related parties transactions and balances with the former immediate and ultimate holding body.

Transactions or balances with newly acquired subsidiaries during the financial year are reported as related party transactions or balances from the date the Bank are deemed to have control over the subsidiaries.

Other related parties of the Group and the Bank for the previous financial year comprise of transactions and balances with EPF's subsidiaries.

Other related parties of the Bank comprise of transactions and balances with the RHB Capital's subsidiaries.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Group			
2011			
Income			
Interest on deposits	-	-	7,213
Fee income	2,965	-	3,323
Brokerage fees	-	1	-
Fund management fees	-	-	1,873
Revaluation of interest rate swap	-	-	971
	2,965	1	13,380
Expenditure			
Insurance premium	-	-	939
Interest expense on deposits and placements	-	-	489
Rental of premises	-	-	7,116
Personnel expenses	-	-	458
Establishment expenses	-	-	188
Marketing expenses	-	-	1,157
Administration and general expenses	-	-	83
	-	-	10,430

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Group			
2011			
Amount due from			
Cash and short term funds	-	-	114,812
Deposits and placements with banks and other financial institution	-	-	100,035
Derivative financial assets	-	-	4,879
Other assets	1,876	-	1,592
	1,876	-	221,318
Amount due to			
Clients' and brokers' balances	-	3	-
Derivative financial liabilities	-	-	3,035
Other liabilities	380	-	15,190
	380	3	18,225

	Former ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Group				
2010				
Income				
Interest on deposits	-	-	-	8,894
Fee income	-	880	-	1,587
Brokerage fees	13,270	-	4	-
Fund management fees	3,669	-	-	1,736
Other income	-	685	-	-
Revaluation of interest rate swap	-	-	-	2,460
	16,939	1,565	4	14,677

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Former ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Group				
2010				
Expenditure				
Insurance premium	-	-	-	252
Interest expense on deposits and placements	-	-	-	481
Interest expense on subordinated obligations	-	-	-	152
Rental of premises	-	-	-	7,554
Personnel expenses	-	-	-	513
Establishment expenses	-	-	-	303
Marketing expenses	-	-	-	198
Administration and general expenses	-	-	-	104
	-	-	-	9,557

	Former ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Group				
2010				
Cash and short term funds	-	-	-	134,800
Deposits and placements with banks and other financial institution	-	-	-	100,000
Derivative financial assets	-	-	-	4,089
Other assets	-	-	-	2,198
	-	-	-	241,087
Amount due to				
Clients' and brokers' balances	-	-	2	-
Derivative financial liabilities	-	-	-	2,500
Other liabilities	-	498	-	13,306
	-	498	2	15,806

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related parties RM'000
Bank				
2011				
Income				
Interest on deposits	-	-	-	6,292
Fee income	2,965	1,220	-	2,163
Brokerage fee	-	-	1	-
Revaluation of interest rate swap	-	-	-	971
	2,965	1,220	1	9,426
Expenditure				
Insurance premium	-	-	-	788
Interest expense on deposits and placements	-	-	-	489
Rental of premises	-	-	-	6,017
Personnel expenses	-	-	-	406
Establishment expenses	-	-	-	188
Administration and general expenses	-	10,186	-	83
	-	10,186	-	7,971

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related parties RM'000
Bank				
2011				
Amount due from				
Cash and short term funds	-	-	-	64,501
Deposits and placements with banks and other financial institution	-	-	-	100,035
Derivative financial assets	-	-	-	4,879
Other assets	1,876	1,510	-	792
	1,876	1,510	-	170,207
Amount due to				
Clients' and brokers' balances	-	-	3	-
Derivative financial liabilities	-	-	-	3,035
Other liabilities	363	2,002	-	13,788
	363	2,002	3	16,823

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Former ultimate holding body RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related parties RM'000
Bank					
2010					
Income					
Interest on deposits	-	-	-	-	8,151
Fee income	-	880	195	-	60
Brokerage fee	13,270	-	-	4	-
Revaluation of interest rate swap	-	-	-	-	2,460
	13,270	880	195	4	10,671
Expenditure					
Insurance premium	-	-	-	-	252
Interest expense on deposits and placements	-	-	-	-	481
Rental of premises	-	-	-	-	6,226
Interest expense on subordinated obligations	-	-	-	-	152
Personnel expenses	-	-	-	-	446
Establishment expenses	-	-	-	-	281
Administration and general expenses	-	-	9,602	-	103
	-	-	9,602	-	7,941

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances (continued)

	Former ultimate holding body RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related parties RM'000
Bank					
2010					
Amount due from					
Cash and short term funds	-	-	-	-	70,008
Deposits and placements with banks and other financial institution	-	-	-	-	100,000
Derivative financial assets	-	-	-	-	4,089
Other assets	-	-	794	-	786
	-	-	794	-	174,883
Amount due to					
Clients' and brokers' balances	-	-	-	3	-
Derivative financial liabilities	-	-	-	-	2,500
Other liabilities	-	485	855	-	11,924
	-	485	855	3	14,424

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Short-term employee benefits				
- Fees	861	646	611	506
- Salary and other remuneration	6,683	6,770	3,285	3,907
- Benefits-in-kind	38	120	13	58
	7,582	7,536	3,909	4,471

The above remuneration includes directors' remuneration as disclosed in Note 28.

(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	
	2011	2010
Outstanding exposure with connected parties (RM'000)	-	25,458
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposure	-	1.60%
Percentage of outstanding credit exposures to 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.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

36 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 its customers. No material losses are anticipated as a result of these transactions.

	Group and Bank	
	2011 Principal amount RM'000	2010 Principal amount RM'000
Direct credit substitutes	1,000	-
Transaction related contingent items	1,093	-
Other asset sold with recourse	-	4,718
Obligations under an on-going underwriting agreements	121,000	177,762
Interest rate related contracts:		
- less than one year	150,000	290,000
- one to less than five years	1,785,000	1,605,000
- five years and above	85,000	115,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	157
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	80,860	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness	-	97,205
	2,223,953	2,289,842

36 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Off balance sheet and counterparty risks of the Bank as at 31 December 2011:

Bank 2011	**Principal amount RM'000**	**Credit equivalent amount^ RM'000**	**Risk weighted amount RM'000**
Direct credit substitutes	1,000	1,000	1,000
Transaction related contingent items	1,093	547	163
Obligations under an on-going underwriting agreements	121,000	60,500	21,250
Interest rate related contracts:			
- less than one year	150,000	235	47
- one to less than five years	1,785,000	49,548	9,910
- five years and above	85,000	6,161	1,232
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	80,860	16,172	15,653
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness*	-	-	-
Total	2,223,953	134,163	49,255

^ The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

* As a temporary measure to support lending activities of the banking industry:

(a) all banking institutions (Basel I and Basel II) are allowed to apply a 0% credit conversion factor ('CCF'), instead of 50% on the undrawn portion of credit facilities with an original maturity of more than one year, conditional upon the institution undertaking a credit review of the facility at least annually and having the right to withdraw the facility following an unsatisfactory assessment; and

(b) Basel II banking institutions can also apply a 0% CCF (instead of 20%) on the undrawn portions of credit facilities with an original maturity of less than a year.

These measures are applicable until 31 December 2011.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

36 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Off balance sheet and counterparty risks of the Bank as at 31 December 2010:

Bank 2010	**Principal amount RM'000**	**Credit equivalent amount^ RM'000**	**Risk weighted amount RM'000**
Obligations under an on-going underwriting agreements	177,762	88,881	29,800
Assets sold with recourse	4,718	4,718	-
Interest rate related contracts:			
- less than one year	290,000	1,663	333
- one to less than five years	1,605,000	51,434	10,287
- five years and above	115,000	8,630	1,726
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	157	79	28
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness*	97,205	-	-
Total	2,289,842	155,405	42,174

^ The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

* As a temporary measure to support lending activities of the banking industry:

(a) all banking institutions (Basel I and Basel II) are allowed to apply a 0% credit conversion factor ('CCF'), instead of 50% on the undrawn portion of credit facilities with an original maturity of more than one year, conditional upon the institution undertaking a credit review of the facility at least annually and having the right to withdraw the facility following an unsatisfactory assessment; and

(b) Basel II banking institutions can also apply a 0% CCF (instead of 20%) on the undrawn portions of credit facilities with an original maturity of less than a year.

These measures are applicable until 31 December 2011.

37 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Future minimum lease payments:				
Not later than one year	7,205	8,919	6,145	7,747
Over one year to five years	556	1,852	556	1,723
More than five years	-	6	-	6
	7,761	10,777	6,701	9,476

38 CAPITAL COMMITMENTS

	Group and Bank	
	2011 RM'000	2010 RM'000
Capital expenditure for property, plant and equipment:		
- authorised and not contracted for	1,441	142

Notes To The Financial Statements

For The Financial Year Ended 31 December 2011 (continued)

39 CAPITAL ADEQUACY

The capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II).

The capital adequacy ratios of the Group and Bank are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier I Capital				
Paid-up share capital	263,646	263,646	263,646	263,646
Other reserve (exclude AFS Reserve)	278,549	278,549	278,549	278,549
Retained profits	57,585	103,817	53,198	93,912
	599,780	646,012	595,393	636,107
Less : Deferred tax assets/ liabilities	(5,284)	(2,091)	(3,365)	(1,315)
Goodwill	(172,844)	(172,844)	(159,280)	(159,280)
Total Tier I Capital	421,652	471,077	432,748	475,512
Tier II Capital				
Subordinated obligations	210,826	235,538	216,374	237,756
Collective impairment allowance	893	1,117	893	1,117
Total Tier II capital	211,719	236,655	217,267	238,873
Less: Investments in subsidiaries	-	-	(84,970)	(84,970)
Investments in a joint venture	(19,020)	(25,044)	(21,463)	(27,399)
Securitisation exposures subject to deductions	(7,781)	(1,086)	(7,781)	(1,086)
Other deductions *	(440)	(344)	(440)	(336)
Eligible Tier II Capital	184,478	210,181	102,613	125,082
Total capital base	606,130	681,258	535,361	600,594
Capital ratios				
Before deducting proposed dividends:				
Core capital ratio	32.69%	30.20%	36.43%	32.47%
Risk-weighted capital adequacy ratio	46.99%	43.68%	45.07%	41.02%
After deducting proposed dividends:				
Core capital ratio	30.42%	25.71%	33.97%	27.69%
Risk-weighted capital adequacy ratio	43.59%	39.19%	41.37%	33.85%

* Pursuant to the Basel II Market Risk para 5.19 & 5.20 – Valuation Adjustments/Reserves, the RWCR computation shall account for the ageing, liquidity and holding back adjustments/reserves on its trading portfolio.

39 CAPITAL ADEQUACY (CONTINUED)

	Group Risk Weighted Asset RM'000	Bank Risk Weighted Asset RM'000
The breakdown of risk-weighted assets by various categories of risk-weights are as follows:		
2011		
(i) Credit risk	709,331	658,111
(ii) Market risk	126,884	126,884
(iii) Operational risk	453,579	402,937
Total risk-weighted assets	1,289,794	1,187,932

	Group Risk Weighted Asset RM'000	Bank Risk Weighted Asset RM'000
The breakdown of risk-weighted assets by various categories of risk-weights are as follows:		
2010		
(i) Credit risk	928,519	887,428
(ii) Market risk	161,901	161,901
(iii) Operational risk	469,394	414,976
Total risk-weighted assets	1,559,814	1,464,305

40 FINANCIAL RISK MANAGEMENT

A Financial risk management objectives and policies

Overview and Organisation

Risk is inherent in banking business and sound risk management is the cornerstone of prudent and banking.

In compliance with best practices under the Malaysian Code of Corporate Governance, the Board of Directors ('Board' or 'BOD') through the Group Risk Management Committee ('GRMC') and the Group Risk Management function ('GRM function') is responsible for identifying principal risks and ensuring that there is an ongoing process to continuously manage the Bank's risks actively.

The GRMC provides oversight and management of all risks. The GRM function is independent and reports directly to this Committee. The GRM function assists the GRMC and Board in formulating risk related policies, advises the Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

The GRMC comprises non-executive directors with at least five (5) members. Members of the GRMC are directors who are exclusively non-executive in all of their directorships within the RHB Banking Group.

Overriding Objectives of the GRMC:

(i) To provide oversight and governance of risks of the Bank, and the overall RHB Banking Group ('Group');

(ii) To oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning;

(iii) To deliberate and make recommendations to the BODs of each relevant entity within the Group in respect of risk management matters of the respective entities.

The primary responsibility for managing risks, however, rests with business managers. They are best equipped to ensure that risk management and control are 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. Additionally, the management of risks associated with financial instruments is carried out in the organisation. The Board has set up policies and procedures to manage the risks that may arise in connection with the use of financial instruments.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Major Areas of Risk

As a banking institution's key activities covering corporate banking and advisory services, treasury products and services, and securities and futures related businesses, 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 potential loss resulting from adverse movements in the level of market prices, interest rate and foreign currency exchange.

(ii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

(iii) Credit risk - the risk of potential loss due to changes in the quality of counter-parties and the market price for credit risk (collateral).

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems or external events as well as the risk of breaches of applicable laws and regulatory requirements.

Investment Banking

Market risk

Within the Investment Bank, market risk arising from the Group's trading activities may result from either client-related business or proprietary positions.

The GRM function plays an independent role in the monitoring and assessing of risk exposures arising from these, and reports independently to the GRMC. Risk measurement techniques and stress testing regimes are applied to the Bank's portfolio on a regular basis.

A framework of risk policies, measurement methodologies and limits, as approved by the Board, controls financial market activities as well as identifies potential risk areas to mitigate any adverse effects from market volatility.

As no single risk statistic can reflect all aspects of market risk, a variety of techniques, both statistical and non-statistical are used to measure and control the market risks it assumes in its various activities. The value-at-risk ('VAR') statistical method is used to measure the amount of potential loss from adverse market movement in an ordinary market environment. Back-testing of VAR against actual financial results, based on daily market risk-related revenue is conducted periodically.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Investment Banking (continued)

Market risk (continued)

While VAR measures the Bank's potential losses in normal market movements, extreme market movements are simulated under stress testing scenarios. Stress testing examines the impact that abnormally large swings in market factors, and years of prolonged inactivity, might have on portfolios. The Bank performs stress tests on its portfolios using multiple scenarios that are continually reviewed and updated to reflect changes in economic events.

In addition, non-statistical risk measures such as net open position, sensitivity analysis and simulation models are also used to measure and provide additional information on market risk exposures and the direction in which the risk factors are moving.

Currency risk

Approved position limits are applied for each currency and there is also an overall total limit. Trading loss limits are imposed on each trading desk and on each individual dealer. The levels of these exposures (including off-balance sheet items), by currency and overall total for both intra-day and overnight positions, are monitored daily for compliance with the approved limits. These limits are reviewed regularly and are in line with strategies set by the GRMC.

Interest rate risk

The Asset and Liability Committee ('ALCO') monitors the balance sheet position and assesses it for profit and loss impacts arising from sensitivity to interest rate movements. The ALCO also sets and reviews limits on the level of mismatch of interest rate re-pricing that may be undertaken. Likewise, fixed rate assets, especially long term assets, are subject to various limit parameters.

Credit risk

The Bank abides by the Board's approved credit policy which supports the development of a strong credit culture with the objectives of maintaining a diversified portfolio. Market best practices are incorporated into this policy.

The Bank ensures that measures and processes are in place before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated by an independent credit evaluation and management function. The Central Credit Committee and the Group Credit Committee sanction credits beyond established prudential threshold. The adherence to the discretionary powers sanctioned by the Board is monitored by the Central Compliance function.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Investment Banking (continued)

Credit risk (continued)

A risk rating system is used to categorize the risk of individual credits. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

Counter-party, industry and product exposure limits/directions are set and risk reward relationships 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.

The Bank is moving towards the advanced Basel II approaches by implementing key program components which include:

(i) enhancing the economic returns of the Bank using established credit risk framework and methodologies,
(ii) implementing and using empirical credit grading models for business loans, and
(iii) designing and implementing modelling of expected and unexpected losses.

In addition, an economic capital management framework incorporating advanced risk based pricing and funds transfer pricing has been developed, which also facilitates the Bank in meeting the Pillar II requirements of the Basel II Accord Internal Ratings Based Approach.

In stock-broking activities, credit risk is mitigated through the establishment of appropriate approving authority structure 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 issuer, through timely management reporting procedures.

Liquidity risk

The ALCO plays a fundamental role in the asset/liability management of the Bank, and establishes strategies that assist in controlling and reducing any potential exposures to liquidity risk.

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 at unexpected levels of demand. Defined liquidity management ratios are maintained and monitored.

The Bank's liquidity framework is constantly reviewed to ensure constant compliance with BNM's Liquidity Framework.

The Bank has established a Group Liquidity Policy Statement. In addition, plans to manage any potential adverse liquidity incidences have also been put in place; and can be implemented on a timely basis so that appropriate actions can be taken to remedy any unexpected market developments.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Investment Banking (continued)

Operational risk

The GRM function is responsible for the development of bank-wide operational risk policies, frameworks and methodologies, and providing inputs 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.

The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management, loss event analysis, assessment and monitoring of the quality of the internal control environment, risk scenario analysis and measurement, comprehensive reporting of operational risks and internal control quality, and tracking of risk mitigation and control improvement actions. This system facilitates the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework.

The Bank has a Business Continuity Planning ('BCP') programme for its major critical business operations and activities. The BCP programme is subject to regular testing to ensure efficacy, reliability and functionality.

The Bank continually refines and strengthens existing policies, procedures and internal controls measures; and continually conduct internal reviews, compliance monitoring, and audits to prevent and minimize unexpected losses.

Capital Management Policy

Capital

Capital risk is defined as the risk that the Bank has insufficient capital to provide a sufficient resources to absorb a predetermined levels of losses or that the capital structure is inefficient.

Risk Appetite

Capital risk appetite is set by the Board and reported through various metrics that enable the Bank to manage capital constraint and shareholder expectations. The ALCO regularly reviews actual performance against risk appetite.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Investment Banking (continued)

Capital Management Policy (continued)

Exposure

A capital exposure arises where the Bank has insufficient regulatory capital resources to support its strategic objectives and plans, and to meet external shareholders' requirements and expectations. The Bank's capital management policy is focused on optimising value for its shareholders.

Capital Management and Basel II

The infrastructure implementation that has been completed has yielded benefits to the Bank to:

- enhance our economic capital management;
- refine risk based pricing methods for our products and services; and
- improve asset quality across the businesses of the Bank. RHB Investment Bank continues to develop capabilities for improvements in the use and adoption of the advanced approaches of the Basel II capital accord. RHB Investment Bank has adopted the Standardised Approach ('SA') for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk which are in accordance with Bank Negara Malaysia's revised Risk Weighted Capital Adequacy Framework.

Stock-broking

Market risk

Market risk relates to the risk of an adverse fluctuation in equity prices.

Market risk arising from trading activities can result from either client-related business or proprietary positions. Market risk is managed as follows:-

- Assignment of appropriate trading limits.

- Daily monitoring of large exposure risk to single equity to manage the concentration risk.

- Requirement of collateral or upfront payment for purchase of volatile stocks with "designated" status and "PN17" condition stocks under trading restriction prior to the execution of the transaction. Exposures to such counters are being monitored closely.

- In compliance with the Business Rules of Bursa Securities, clients must settle all positions on the 3rd market day following the transaction date (i.e. T+3). Hence, the market risk is contained within 4 market days following the transaction date.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Stock-broking (continued)

Credit risk

Credit and counterparty risk refer to the potential losses attributable to an unexpected default or deterioration in client's creditworthiness.

In trading activities, credit risk arises from the possibility that the counterparty is not able or willing to fulfil its obligation on a transaction on or before settlement date.

The Credit Control Division in the Bank ensures that credit risk is mitigated by:-

- Structured and systematic credit checking and processing based on approved policies, procedures and guidelines.
- Proper trading limit structure for dealer's representatives and clients are in place in line with the credit policies.
- Daily review and monitoring of exposure and adequacy of collateral.
- Requirement of upfront payment for purchase positions prior to the execution of any exposure which is beyond acceptable risk tolerance level.
- Internal policy on suspension of clients from trading once their accounts are overdue. Clients' losses are reviewed regularly and recovery action initiated when appropriate.

Basel II Implementation

In 2004, BNM announced a two-phased approach for implementing the standards recommended by the Bank of International Settlements set out in "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II) in Malaysia. In the first phase, banking institutions are required to adopt the Standardised Approach for credit risk by the end of 2008. In the second phase, qualified banking institutions are allowed to migrate directly to the Internal Ratings-Based approach (IRB) beginning from 2011.

The RHB Banking Group places great importance to Basel II and views it as a group-wide initiative in meeting international best practices for credit, market and operational risk management practices. A dedicated Basel II Steering Committee ('B2SC') was set up since October 2004 to oversee the implementation of Basel II initiatives throughout the Group and to ensure that it is on track in meeting regulatory requirements as outlined in the Risk-Weighted Capital Adequacy Framework ('RWCAF') for banking institutions issued by BNM.

For purpose of complying with regulatory requirements, the approaches adopted by the Bank are as follows:

	Credit Risk	Market Risk	Operational Risk
Approach	Standardised Approach	Standardised Approach	Basic Indicator Approach

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category:

Group 2011	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
Assets as per statement of financial position					
Cash and short-term funds	2,080,685	-	-	-	2,080,685
Deposits and placements with banks and other financial institutions	250,227	-	-	-	250,227
Financial assets held-for-trading	-	116,884	-	-	116,884
Financial investments available-for-sale	-	-	2,412,247	-	2,412,247
Financial investments held-to-maturity	-	-	-	608,354	608,354
Loans and advances	42,928	-	-	-	42,928
Clients' and brokers' balances	232,676	-	-	-	232,676
Other financial assets	27,566	-	-	-	27,566
Derivatives assets	-	18,759	-	-	18,759
Total	2,634,082	135,643	2,412,247	608,354	5,790,326

Group 2011	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
Liabilities as per statement of financial position			
Deposits from customers	-	2,468,315	2,468,315
Deposits and placements of banks and other financial institutions	-	2,135,890	2,135,890
Clients' and brokers' balances	-	562,393	562,393
Other financial liabilities	-	77,480	77,480
Derivative liabilities	19,040	-	19,040
Subordinated obligations	-	246,069	246,069
Total	19,040	5,490,147	5,509,187

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued):

Group 2010	**Loans and receivables RM'000**	**Assets at fair value through the profit and loss RM'000**	**Available-for-sale RM'000**	**Held-to-maturity RM'000**	**Total RM'000**
Assets as per statement of financial position					
Cash and short-term funds	1,907,199	-	-	-	1,907,199
Deposits and placements with banks and other financial institutions	250,275	-	-	-	250,275
Financial assets held-for-trading	-	350,330	-	-	350,330
Financial investments available-for-sale	-	-	3,272,231	-	3,272,231
Financial investments held-to-maturity	-	-	-	184,918	184,918
Loans and advances	49,891	-	-	-	49,891
Clients' and brokers' balances	421,127	-	-	-	421,127
Other financial assets	26,866	-	-	-	26,866
Derivatives assets	-	19,094	-	-	19,094
Total	2,655,358	369,424	3,272,231	184,918	6,481,931

Group 2010	**Liabilities at fair value through the profit and loss RM'000**	**Other financial liabilities RM'000**	**Total RM'000**
Liabilities as per statement of financial position			
Deposits from customers	-	2,646,421	2,646,421
Deposits and placements of banks and other financial institutions	-	2,485,881	2,485,881
Clients' and brokers' balances	-	610,360	610,360
Other financial liabilities	-	73,722	73,722
Derivative liabilities	20,144	-	20,144
Subordinated obligations	-	246,127	246,127
Total	20,144	6,062,511	6,082,655

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued):

Bank 2011	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
Assets as per statement of financial position					
Cash and short-term funds	2,013,729	-	-	-	2,013,729
Deposits and placements with banks and other financial institutions	250,227	-	-	-	250,227
Financial assets held-for-trading	-	116,884	-	-	116,884
Financial investments available-for-sale	-	-	2,395,884	-	2,395,884
Financial investments held-to-maturity	-	-	-	608,354	608,354
Loans and advances	42,928	-	-	-	42,928
Clients' and brokers' balances	232,676	-	-	-	232,676
Other financial assets	17,094	-	-	-	17,094
Derivatives assets	-	18,759	-	-	18,759
Total	2,556,654	135,643	2,395,884	608,354	5,696,535

Bank 2011	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
Liabilities as per statement of financial position			
Deposits from customers	-	2,468,315	2,468,315
Deposits and placements of banks and other financial institutions	-	2,135,890	2,135,890
Clients' and brokers' balances	-	562,393	562,393
Other financial liabilities	-	54,586	54,586
Derivative liabilities	19,040	-	19,040
Subordinated obligations	-	246,069	246,069
Total	19,040	5,467,253	5,486,293

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued):

Bank 2010	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
Assets as per statement of financial position					
Cash and short-term funds	1,841,694	-	-	-	1,841,694
Deposits and placements with banks and other financial institutions	250,275	-	-	-	250,275
Financial assets held-for-trading	-	350,330	-	-	350,330
Financial investments available-for-sale	-	-	3,257,686	-	3,257,686
Financial investments held-to-maturity	-	-	-	184,918	184,918
Loans and advances	49,891	-	-	-	49,891
Clients' and brokers' balances	421,127	-	-	-	421,127
Other financial assets	15,076	-	-	-	15,076
Derivatives assets	-	19,094	-	-	19,094
Total	2,578,063	369,424	3,257,686	184,918	6,390,091

Bank 2010	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
Liabilities as per statement of financial position			
Deposits from customers	-	2,646,421	2,646,421
Deposits and placements of banks and other financial institutions	-	2,485,881	2,485,881
Clients' and brokers' balances	-	610,360	610,360
Other financial liabilities	-	60,052	60,052
Derivative liabilities	20,144	-	20,144
Subordinated obligations	-	246,127	246,127
Total	20,144	6,048,841	6,068,985

40 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 as at 31 December 2011.

The scenarios used are simplified whereby it is assumed 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. In reality, the Bank proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

(i) Interest rate sensitivity analysis

The following table shows the sensitivity of the Group's and the Bank's profit after tax and its equity to an immediate up and down +/-100 basis point ('bps') (2010: +/-50 bps) parallel shift in the interest rate.

	Group and Bank	
2011	**Impact on profit after tax RM'000**	**Impact on equity RM'000**
+100 bps	(24,313)	(88,494)
-100 bps	24,548	95,207
2010*		
+50 bps	(11,227)	(54,120)
-50 bps	11,242	55,936

*In 2010, 50 bps was reported.

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 earnings 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 50 bps interest rate change impact. For assets and liabilities with non fix maturity e.g. current and savings accounts, 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 available-for-sale portfolio arising from the shift in the interest rate.

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

Group and Bank	**2011 Impact on profit after tax RM'000**	**2010 Impact on profit after tax RM'000**
+5%	1,036	771
-5%	(1,036)	(771)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

	<------ Non-trading book						------>		
Group 2011	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
Cash and short term funds	1,956,352	-	-	-	-	-	124,333	-	2,080,685
Deposits and placements with banks and other financial institutions	-	250,000	-	-	-	-	227	-	250,227
Financial assets held-for-trading	-	-	-	-	-	-	-	116,884	116,884
Financial investments AFS	70,611	2,004	119,239	35,230	258,802	1,892,872	33,489	-	2,412,247
Financial investments held-to-maturity	40,412	61,397	-	3,505	77,721	517,985	(92,666)	-	608,354
Loans and advances	41,819	-	2	6	83	1,672	(654)	-	42,928
Clients' and brokers' balances	78,346	-	-	-	-	-	154,330	-	232,676
Other assets	-	-	-	-	-	102	30,006	-	30,108
Derivative assets	-	-	-	-	-	-	-	18,759	18,759
Tax recoverable	-	-	-	-	-	-	11,062	-	11,062
Deferred tax assets	-	-	-	-	-	-	1,919	-	1,919
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	114,250	-	114,250
Investment in a joint venture	-	-	-	-	-	-	19,020	-	19,020
Property, plant and equipment	-	-	-	-	-	-	14,053	-	14,053
Goodwill	-	-	-	-	-	-	172,844	-	172,844
Total assets	2,187,540	313,401	119,241	38,741	336,606	2,412,631	582,213	135,643	6,126,016

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Group 2011	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
Deposits from customers	2,209,634	255,633	-	-	-	-	3,048	-	2,468,315
Deposits and placements of banks and other financial institutions	1,665,131	373,085	37,373	53,500	-	-	6,801	-	2,135,890
Clients' and brokers' balances	-	-	-	-	-	-	562,393	-	562,393
Other liabilities	-	-	-	-	-	-	77,480	-	77,480
Derivative liabilities	-	-	-	-	-	-	-	19,040	19,040
Subordinated obligations	-	-	-	200,000	45,000	-	1,069	-	246,069
Taxation	-	-	-	-	-	-	2,046	-	2,046
Deferred tax liabilities	-	-	-	-	-	-	2,584	-	2,584
Total liabilities	3,874,765	628,718	37,373	253,500	45,000	-	655,421	19,040	5,513,817
Total equity	-	-	-	-	-	-	612,199	-	612,199
Total liabilities and equity	3,874,765	628,718	37,373	253,500	45,000	-	1,267,620	19,040	6,126,016
On-balance sheet interest sensitivity gap	(1,687,225)	(315,317)	81,868	(214,759)	291,606	2,412,630			
Off-balance sheet interest sensitivity gap	-	-	(50,000)	(70,000)	165,000	(45,000)			
Total interest-sensitivity gap	(1,687,225)	(315,317)	31,868	(284,759)	456,606	2,367,630			

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	<----- Non-trading book						----->		
Group 2010	**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**
Cash and short term funds	1,801,578	-	-	-	-	-	105,621	-	1,907,199
Deposits and placements with banks and other financial institutions	-	250,000	-	120	-	-	155	-	250,275
Financial assets held-for-trading	-	-	-	-	-	-	-	350,330	350,330
Financial investments AFS	-	5,011	55,286	38,025	612,766	2,493,518	67,625	-	3,272,231
Financial investments held-to-maturity	-	-	-	102,981	28,303	145,503	(91,869)	-	184,918
Loans and advances	48,973	-	17	96	186	2,261	(1,642)	-	49,891
Clients' and brokers' balances	70,241	-	-	-	-	-	350,886	-	421,127
Other assets	-	-	-	31	67	324	28,677	-	29,099
Derivative assets	-	-	-	-	-	-	-	19,094	19,094
Tax recoverable	-	-	-	-	-	-	8,542	-	8,542
Deferred tax assets	-	-	-	-	-	-	776	-	776
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	33,250	-	33,250
Investment in a joint venture	-	-	-	-	-	-	25,044	-	25,044
Property, plant and equipment	-	-	-	-	-	-	14,075	-	14,075
Goodwill	-	-	-	-	-	-	172,844	-	172,844
Total assets	1,920,792	255,011	55,303	141,253	641,322	2,641,606	713,984	369,424	6,738,695

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Group 2010	<------ 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
Deposits from customers	1,794,051	821,107	27,650	-	-	-	3,613	-	2,646,421
Deposits and placements of banks and other financial institutions	1,496,746	828,406	141,993	11,908	-	-	6,828	-	2,485,881
Clients' and brokers' balances	-	-	-	-	-	-	610,360	-	610,360
Other liabilities	-	-	-	-	-	-	73,722	-	73,722
Derivative liabilities	-	-	-	-	-	-	-	20,144	20,144
Subordinated obligations	-	-	-	-	245,000	-	1,127	-	246,127
Taxation	-	-	-	-	-	-	2,033	-	2,033
Deferred tax liabilities	-	-	-	-	-	-	2,251	-	2,251
Total liabilities	3,290,797	1,649,513	169,643	11,908	245,000	-	699,934	20,144	6,086,939
Total equity	-	-	-	-	-	-	651,756	-	651,756
Total liabilities and equity	3,290,797	1,649,513	169,643	11,908	245,000	-	1,351,690	20,144	6,738,695
On-balance sheet interest sensitivity gap	(1,370,005)	(1,394,502)	(114,340)	129,345	396,322	2,641,606			
Off-balance sheet interest sensitivity gap	(105,000)	45,110	(20,110)	100,030	4,970	(25,000)			
Total interest-sensitivity gap	(1,475,005)	(1,349,392)	(134,450)	229,375	401,292	2,616,606			

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	<------ Non-trading book						------>		
Bank 2011	**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**
Cash and short term funds	1,920,935	-	-	-	-	-	92,794	-	2,013,729
Deposits and placements with banks and other financial institutions	-	250,000	-	-	-	-	227	-	250,227
Financial assets held-for-trading	-	-	-	-	-	-	-	116,884	116,884
Financial investments AFS	70,611	2,004	119,239	35,230	258,802	1,892,872	17,126	-	2,395,884
Financial investments held-to-maturity	40,412	61,397	-	3,505	77,721	517,985	(92,666)	-	608,354
Loans and advances	41,819	-	2	6	83	1,672	(654)	-	42,928
Clients' and brokers' balances	78,346	-	-	-	-	-	154,330	-	232,676
Other assets	-	-	-	-	-	-	19,349	-	19,349
Derivative assets	-	-	-	-	-	-	-	18,759	18,759
Tax recoverable	-	-	-	-	-	-	10,049	-	10,049
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	114,250	-	114,250
Investments in subsidiaries	-	-	-	-	-	-	84,970	-	84,970
Investment in a joint venture	-	-	-	-	-	-	21,463	-	21,463
Property, plant and equipment	-	-	-	-	-	-	12,167	-	12,167
Goodwill	-	-	-	-	-	-	159,280	-	159,280
Total assets	2,152,123	313,401	119,241	38,741	336,606	2,412,529	592,685	135,643	6,100,969

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	<---------- Non-trading book					---------->			
Bank 2011	**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**
Deposits from customers	2,209,634	255,633	-	-	-	-	3,048	-	2,468,315
Deposits and placements of banks and other financial institutions	1,665,131	373,085	37,373	53,500	-	-	6,801	-	2,135,890
Clients' and brokers' balances	-	-	-	-	-	-	562,393	-	562,393
Other liabilities	-	-	-	-	-	-	54,586	-	54,586
Derivative liabilities	-	-	-	-	-	-	-	19,040	19,040
Subordinated obligations	-	-	-	200,000	45,000	-	1,069	-	246,069
Deferred tax liabilities	-	-	-	-	-	-	2,297	-	2,297
Total liabilities	3,874,765	628,718	37,373	253,500	45,000	-	630,194	19,040	5,488,590
Total equity	-	-	-	-	-	-	612,379	-	612,379
Total liabilities and equity	3,874,765	628,718	37,373	253,500	45,000	-	1,242,573	19,040	6,100,969
On-balance sheet interest sensitivity gap	(1,722,642)	(315,317)	81,868	(214,759)	291,606	2,412,528			
Off-balance sheet interest sensitivity gap	-	-	(50,000)	(70,000)	165,000	(45,000)			
Total interest-sensitivity gap	(1,722,642)	(315,317)	31,868	(284,759)	456,606	2,367,528			

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Bank 2010	<---- 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
Cash and short term funds	1,761,378	-	-	-	-	-	80,316	-	1,841,694
Deposits and placements with banks and other financial institutions	-	250,000	-	120	-	-	155	-	250,275
Financial assets held-for-trading	-	-	-	-	-	-	-	350,330	350,330
Financial investments AFS	-	5,011	55,286	38,025	612,766	2,493,518	53,080	-	3,257,686
Financial investments held-to-maturity	-	-	-	102,981	28,303	145,503	(91,869)	-	184,918
Loans and advances	48,973	-	17	96	186	2,261	(1,642)	-	49,891
Clients' and brokers' balances	70,241	-	-	-	-	-	350,886	-	421,127
Other assets	-	-	-	-	-	-	17,277	-	17,277
Derivative assets	-	-	-	-	-	-	-	19,094	19,094
Tax recoverable	-	-	-	-	-	-	8,516	-	8,516
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	33,250	-	33,250
Investments in subsidiaries	-	-	-	-	-	-	84,970	-	84,970
Investment in a joint venture	-	-	-	-	-	-	27,399	-	27,399
Property, plant and equipment	-	-	-	-	-	-	12,334	-	12,334
Goodwill	-	-	-	-	-	-	159,280	-	159,280
Total assets	1,880,592	255,011	55,303	141,222	641,255	2,641,282	733,952	369,424	6,718,041

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Bank 2010	<- 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
Deposits from customers	1,794,051	821,107	27,650	-	-	-	3,613	-	2,646,421
Deposits and placements of banks and other financial institutions	1,496,746	828,406	141,993	11,908	-	-	6,828	-	2,485,881
Clients' and brokers' balances	-	-	-	-	-	-	610,360	-	610,360
Other liabilities	-	-	-	-	-	-	60,052	-	60,052
Derivative liabilities	-	-	-	-	-	-	-	20,144	20,144
Subordinated obligations	-	-	-	-	245,000	-	1,127	-	246,127
Deferred tax liabilities	-	-	-	-	-	-	2,251	-	2,251
Total liabilities	3,290,797	1,649,513	169,643	11,908	245,000	-	684,231	20,144	6,071,236
Total equity	-	-	-	-	-	-	646,805	-	646,805
Total liabilities and equity	3,290,797	1,649,513	169,643	11,908	245,000	-	1,331,036	20,144	6,718,041
On-balance sheet interest sensitivity gap	(1,410,205)	(1,394,502)	(114,340)	129,314	396,255	2,641,282			
Off-balance sheet interest sensitivity gap	(105,000)	45,110	(20,110)	100,030	4,970	(25,000)			
Total interest-sensitivity gap	(1,515,205)	(1,349,392)	(134,450)	229,344	401,225	2,616,282			

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Group and the Bank to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. 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 (includes non-financial instruments) as at 31 December 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8:

Group 2011	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	1,910,920	169,765	-	-	-	-	-	2,080,685
Deposits and placements with banks and other financial institutions	-	-	250,227	-	-	-	-	250,227
Financial assets held-for-trading	-	18,368	24,865	2,614	-	71,037		116,884
Financial investments AFS	-	23,269	17,670	125,333	35,565	2,210,410	-	2,412,247
Financial investments held-to-maturity	19,786	21,427	62,893	1,249	3,506	499,493	-	608,354
Loans, advances and financing	29,272	12,546	-	2	6	1,102	-	42,928
Clients' and brokers' balances	162,873	69,803	-	-	-	-	-	232,676
Other assets	7,419	1,146	9,927	186	-	102	11,328	30,108
Derivative assets	-	-	-	-	-	18,759	-	18,759
Tax recoverable	-	-	-	-	-	-	11,062	11,062
Deferred tax assets	-	-	-	-	-	-	1,919	1,919
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	114,250	114,250
Investment in a joint venture	-	-	-	-	-	-	19,020	19,020
Property, plant and equipment	-	-	-	-	-	-	14,053	14,053
Goodwill	-	-	-	-	-	-	172,844	172,844
Total assets	2,130,270	316,324	365,582	129,384	39,077	2,800,903	344,476	6,126,016

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group 2011	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
LIABILITIES								
Deposits from customers	814,692	1,397,636	255,987	-	-	-	-	2,468,315
Deposits and placements of banks and other financial institutions	917,785	751,530	374,616	37,970	53,989	-	-	2,135,890
Clients' and brokers' balances	393,675	168,718	-	-	-	-	-	562,393
Other liabilities	14,233	19,560	9,825	8,039	473	9,306	16,044	77,480
Derivative liabilities	-	69	-	224	546	18,201	-	19,040
Taxation	-	-	-	-	-	-	2,046	2,046
Deferred tax liabilities	-	-	-	-	-	-	2,584	2,584
Subordinated obligations	-	-	-	1,069	200,000	45,000	-	246,069
Total liabilities	2,140,385	2,337,513	640,428	47,302	255,008	72,507	20,674	5,513,817

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8:

Group 2010	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	1,196,357	710,842	-	-	-	-	-	1,907,199
Deposits and placements with banks and other financial institutions	-	-	250,155	-	120	-	-	250,275
Financial assets held-for-trading	-	78,014	95,535	36,695	100,374	39,712	-	350,330
Financial investments AFS	657	10,440	26,721	60,153	38,535	3,121,745	13,980	3,272,231
Financial investments held-to-maturity	-	-	526	341	19,974	164,077	-	184,918
Loans, advances and financing	33,156	14,215	-	16	95	2,409	-	49,891
Clients' and brokers' balances	294,789	126,338	-	-	-	-	-	421,127
Other assets	3,076	2,737	6,163	1,785	24	457	14,857	29,099
Derivative assets	-	-	-	-	1,178	17,916	-	19,094
Tax recoverable	-	-	-	-	-	-	8,542	8,542
Deferred tax assets	-	-	-	-	-	-	776	776
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	33,250	33,250
Investment in a joint venture	-	-	-	-	-	-	25,044	25,044
Property, plant and equipment	-	-	-	-	-	-	14,075	14,075
Goodwill	-	-	-	-	-	-	172,844	172,844
Total assets	1,528,035	942,586	379,100	98,990	160,300	3,346,316	283,368	6,738,695

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group 2010	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
LIABILITIES								
Deposits from customers	683,056	1,113,563	822,070	27,732	-	-	-	2,646,421
Deposits and placements of banks and other financial institutions	599,469	900,716	831,101	142,683	11,912	-	-	2,485,881
Clients' and brokers' balances	427,252	183,108	-	-	-	-	-	610,360
Other liabilities	5,127	18,091	17,846	7,020	-	10,230	15,408	73,722
Derivative liabilities	-	-	111	914	89	19,030	-	20,144
Taxation	-	-	-	-	-	-	2,033	2,033
Deferred tax liabilities	-	-	-	-	-	-	2,251	2,251
Subordinated obligations	-	-	-	1,127	-	245,000	-	246,127
Total liabilities	1,714,904	2,215,478	1,671,128	179,476	12,001	274,260	19,692	6,086,939

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank 2011	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	1,853,476	160,253	-	-	-	-	-	2,013,729
Deposits and placements with banks and other financial institutions	-	-	250,227	-	-	-	-	250,227
Financial assets held-for-trading	-	18,368	24,865	2,614	-	71,037	-	116,884
Financial investments AFS	-	23,269	17,670	125,333	35,565	2,194,047	-	2,395,884
Financial investments held-to-maturity	19,786	21,427	62,893	1,249	3,506	499,493	-	608,354
Loans, advances and financing	29,272	12,546	-	2	6	1,102	-	42,928
Clients' and brokers' balances	162,873	69,803	-	-	-	-	-	232,676
Other assets	-	-	7,586	-	-	-	11,763	19,349
Derivative assets	-	-	-	-	-	18,759	-	18,759
Tax recoverable	-	-	-	-	-	-	10,049	10,049
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	114,250	114,250
Investments in a joint venture	-	-	-	-	-	-	21,463	21,463
Investment in a subsidiaries	-	-	-	-	-	-	84,970	84,970
Property, plant and equipment	-	-	-	-	-	-	12,167	12,167
Goodwill	-	-	-	-	-	-	159,280	159,280
Total assets	2,065,407	305,666	363,241	129,198	39,077	2,784,438	413,942	6,100,969

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank 2011	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
LIABILITIES								
Deposits from customers	814,692	1,397,636	255,987	-	-	-	-	2,468,315
Deposits and placements of banks and other financial institutions	917,785	751,530	374,616	37,970	53,989	-	-	2,135,890
Clients' and brokers' balances	393,675	168,718	-	-	-	-	-	562,393
Other liabilities	-	11,823	9,279	7,939	-	9,306	16,239	54,586
Derivative liabilities	-	69	-	224	546	18,201	-	19,040
Deferred tax liabilities	-	-	-	-	-	-	2,297	2,297
Subordinated obligations	-	-	-	1,069	200,000	45,000	-	246,069
Total liabilities	2,126,152	2,329,776	639,882	47,202	254,535	72,507	18,536	5,488,590

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank 2010	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	1,140,752	700,942	-	-	-	-	-	1,841,694
Deposits and placements with banks and other financial institutions	-	-	250,155	-	120	-	-	250,275
Financial assets held-for-trading	-	78,014	95,535	36,695	100,374	39,712	-	350,330
Financial investments AFS	657	10,440	26,721	60,153	38,535	3,121,180	-	3,257,686
Financial investments held-to-maturity	-	-	526	341	19,974	164,077	-	184,918
Loans, advances and financing	33,156	14,215	-	16	95	2,409	-	49,891
Clients' and brokers' balances	294,789	126,338	-	-	-	-	-	421,127
Other assets	-	-	6,155	-	-	-	11,122	17,277
Derivative assets	-	-	-	-	1,178	17,916	-	19,094
Tax recoverable	-	-	-	-	-	-	8,516	8,516
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	33,250	33,250
Investments in a joint venture	-	-	-	-	-	-	27,399	27,399
Investment in a subsidiaries	-	-	-	-	-	-	84,970	84,970
Property, plant and equipment	-	-	-	-	-	-	12,334	12,334
Goodwill	-	-	-	-	-	-	159,280	159,280
Total assets	1,469,354	929,949	379,092	97,205	160,276	3,345,294	336,871	6,718,041

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank 2010	**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**
LIABILITIES								
Deposits from customers	683,056	1,113,563	822,070	27,732	-	-	-	2,646,421
Deposits and placements of banks and other financial institutions	599,469	900,716	831,101	142,683	11,912	-	-	2,485,881
Clients' and brokers' balances	427,252	183,108	-	-	-	-	-	610,360
Other liabilities	-	12,866	17,189	6,662	-	10,016	13,319	60,052
Derivative liabilities	-	-	111	914	89	19,030	-	20,144
Deferred tax liabilities	-	-	-	-	-	-	2,251	2,251
Subordinated obligations	-	-	-	1,127	-	245,000	-	246,127
Total liabilities	1,709,777	2,210,253	1,670,471	179,118	12,001	274,046	15,570	6,071,236

40 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 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 2011	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
Deposits from customers	2,214,770	257,341	-	-	-	-	2,472,111
Deposits and placements of banks and other financial institutions	1,671,058	414,898	55,295	-	-	-	2,141,251
Clients' and brokers' balances	562,393	-	-	-	-	-	562,393
Other liabilities	33,793	10,100	8,237	-	-	9,306	61,436
Derivative liabilities							
- Net settled derivatives	673	3,396	4,024	8,510	2,496	261	19,360
Subordinated obligations	-	6,538	206,538	46,238	-	-	259,314
Total financial liabilities	4,482,687	692,273	274,094	54,748	2,496	9,567	5,515,865

40 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 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 (continued):

Group 2010	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
Deposits from customers	1,798,737	854,375	-	-	-	-	2,653,112
Deposits and placements of banks and other financial institutions	1,501,593	980,203	12,205	-	-	-	2,494,001
Clients' and brokers' balances	610,360	-	-	-	-	-	610,360
Other liabilities	23,216	18,334	6,532	-	-	26,627	74,709
Derivative liabilities							
- Net settled derivatives	760	3,562	4,659	14,001	3,627	1,279	27,888
Subordinated obligations	-	6,538	6,538	259,313	-	-	272,389
Total financial liabilities	3,934,666	1,863,012	29,934	273,314	3,627	27,906	6,132,459

40 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 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 (continued):

Bank 2011	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
Deposits from customers	2,214,770	257,341	-	-	-	-	2,472,111
Deposits and placements of banks and other financial institutions	1,671,058	414,898	55,295	-	-	-	2,141,251
Clients' and brokers' balances	562,393	-	-	-	-	-	562,393
Other liabilities	11,823	9,454	7,764	-	-	9,306	38,347
Derivative liabilities							
- Net settled derivatives	673	3,396	4,024	8,510	2,496	261	19,360
Subordinated obligations	-	6,538	206,538	46,238	-	-	259,314
Total financial liabilities	4,460,717	691,627	273,621	54,748	2,496	9,567	5,492,776

40 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 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 (continued):

Bank 2010	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
Deposits from customers	1,798,737	854,375	-	-	-	-	2,653,112
Deposits and placements of banks							
and other financial institutions	1,501,593	980,203	12,205	-	-	-	2,494,001
Clients' and brokers' balances	610,360	-	-	-	-	-	610,360
Other liabilities	12,866	17,319	6,532	-	-	22,426	59,143
Derivative liabilities							
- Net settled derivatives	760	3,562	4,659	14,001	3,627	1,279	27,888
Subordinated obligations	-	6,538	6,538	259,313	-	-	272,389
Total financial liabilities	3,924,316	1,861,997	29,934	273,314	3,627	23,705	6,116,893

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's and the Bank's commitments and contingencies:

Group and Bank 2011	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Obligations under an on-going underwriting agreements	-	121,000	121,000
Direct credit substitutes	1,000	-	1,000
Transaction related contingencies	1,093	-	1,093
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	80,860	-	80,860
Commitments and contingencies	82,953	121,000	203,953

Undrawn loan 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.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's and the Bank's commitments and contingencies (continued):

Group and Bank 2010	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Obligations under an on-going underwriting agreements	177,762	-	177,762
Assets sold with recourse	4,718	-	4,718
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	157	157
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness	97,205	-	97,205
Commitments and contingencies	279,685	157	279,842

Undrawn loan 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.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

40 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	**2011 RM'000**	**2010 RM'000**
Credit risk exposure relating to on-balance sheet assets:		
Short term funds	2,080,676	1,907,190
Deposits and placements with banks and other financial institutions	250,227	250,275
Financial assets and investments portfolio (exclude shares):		
- Financial assets held-for-trading	116,884	350,330
- Financial investments available-for-sale	2,374,572	3,239,412
- Financial investments held-to-maturity	608,354	184,918
Loans and advances	42,928	49,891
Clients' and brokers' balances	232,676	421,127
Other financial assets	27,566	26,866
Derivative assets	18,759	19,094
	5,752,642	6,449,103
Credit risk exposure of off-balance sheet items:		
Commitments and contingencies	203,953	259,080
Total maximum credit risk exposure	5,956,595	6,708,183

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

Bank	2011 RM'000	2010 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short term funds	2,013,720	1,841,685
Deposits and placements with banks and other financial institutions	250,227	250,275
Financial assets and investments portfolio (exclude shares):		
- Financial assets held-for-trading	116,884	350,330
- Financial investments available-for-sale	2,373,998	3,238,847
- Financial investments held-to-maturity	608,354	184,918
Loans and advances	42,928	49,891
Clients' and brokers' balances	232,676	421,127
Other financial assets	17,094	15,076
Derivative assets	18,759	19,094
	5,674,640	6,371,243
Credit risk exposure of off-balance sheet items:		
Commitments and contingencies	203,953	259,080
Total maximum credit risk exposure	5,878,593	6,630,323

(ii) Collaterals

The main types of collateral obtained by the Group and the Bank are as follows:

(a) Cash
(b) Quoted shares

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for loans and advances and clients' and brokers' balances as at 31 December 2011 for the Group and the Bank are 88.2% and 87.0% respectively. The financial effect of collateral held for the other financial assets is not significant.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality

(a) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and derivative assets

Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and derivative assets of the Group are summarised as follows:

Group	Short term fund and deposits and placements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other financial assets RM'000
2011						
Neither past due nor impaired	2,330,903	116,884	2,345,632	586,240	18,759	27,308
Impaired	-	-	28,940	122,655	-	1,791
	2,330,903	116,884	2,374,572	708,895	18,759	29,099
Less: Allowance for impairment	-	-	-	(100,541)	-	(1,533)
	2,330,903	116,884	2,374,572	608,354	18,759	27,566
2010						
Neither past due nor impaired	2,157,465	350,330	3,180,977	148,699	19,094	26,676
Impaired	-	-	58,435	129,979	-	1,756
	2,157,465	350,330	3,239,412	278,678	19,094	28,432
Less: Allowance for impairment	-	-	-	(93,760)	-	(1,566)
	2,157,465	350,330	3,239,412	184,918	19,094	26,866

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(a) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and derivative assets (continued)

Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and derivative assets of the Bank are summarised as follows (continued):

Bank	Short term fund and deposits and placements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other financial assets RM'000
2011						
Neither past due nor impaired	2,263,947	116,884	2,345,632	586,240	18,759	16,836
Impaired	-	-	28,366	121,655	-	1,791
	2,263,947	116,884	2,373,998	707,895	18,759	18,627
Less: Allowance for impairment	-	-	-	(99,541)	-	(1,533)
	2,263,947	116,884	2,373,998	608,354	18,759	17,094
2010						
Neither past due nor impaired	2,091,960	350,330	3,180,977	148,699	19,094	14,886
Impaired	-	-	57,870	128,979	-	1,756
	2,091,960	350,330	3,238,847	277,678	19,094	16,642
Less: Allowance for impairment	-	-	-	(92,760)	-	(1,566)
	2,091,960	350,330	3,238,847	184,918	19,094	15,076

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(b) Analysis of short term funds and deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets which are neither past due nor impaired, for the Group by rating agency designation as at 31 December 2011 are as follows:

Group 2011	Short term fund and deposits and placements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other financial assets RM'000
Aaa to Aa	-	50,510	512,114	193,670	6,664	-
A1 to A3	-	-	56,748	-	10,002	-
Baa1 to Ba3	-	-	-	-	2,093	-
P1 to P3	616,439	45,255	-	-	-	-
Unrated	1,714,464	21,119	1,776,770	392,570	-	27,308
Of which:						
- Bank Negara Malaysia	1,504,212	-	-	-	-	-
- Malaysian Government Securities	-	21,119	692,753	45,864	-	-
- Malaysian Government Investment Issues	-	-	942,089	312,857	-	-
- Private Debt Securities	-	-	140,673	33,826	-	-
- Others	210,252	-	1,255	23	-	27,308
	2,330,903	116,884	2,345,632	586,240	18,759	27,308

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(b) Analysis of short term funds and deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets which are neither past due nor impaired, for the Group by rating agency designation as at 31 December 2010 are as follows:

Group 2010	Short term fund and deposits and placements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other financial assets RM'000
Aaa to Aa	-	4,721	891,313	99,872	6,166	-
A1 to A3	-	51,502	52,996	-	10,105	-
Baa1 to Ba3	-	-	-	-	2,823	-
P1 to P3	935,680	65,600	-	-	-	-
Unrated	1,221,785	228,507	2,236,668	48,827	-	26,676
Of which:						
- Bank Negara Malaysia	1,111,711	-	-	-	-	-
- Malaysian Government Securities	-	192,952	1,321,458	45,298	-	-
- Malaysian Government Investment Issues	-	35,555	774,379	-	-	-
- Private Debt Securities	-	-	139,549	3,506	-	-
- Others	110,074	-	1,282	23	-	26,676
	2,157,465	350,330	3,180,977	148,699	19,094	26,676

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(b) Analysis of short term funds and deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets which are neither past due nor impaired, for the Bank by rating agency designation as at 31 December 2011 are as follows:

Bank 2011	**Short term fund and deposits and placements RM'000**	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Financial investments held-to-maturity RM'000**	**Derivative assets RM'000**	**Other financial assets RM'000**
Aaa to Aa	-	50,510	512,114	193,670	6,664	-
A1 to A3	-	-	56,748	-	10,002	-
Baa1 to Ba3	-	-	-	-	2,093	-
P1 to P3	549,483	45,255	-	-	-	-
Unrated	1,714,464	21,119	1,776,770	392,570	-	16,836
Of which:						
- Bank Negara Malaysia	1,504,212	-	-	-	-	-
- Malaysian Government Securities	-	21,119	942,089	312,857	-	-
- Malaysian Government Investment Issues	-	-	692,753	45,864	-	-
- Private Debt Securities	-	-	140,673	33,826	-	-
- Others	210,252	-	1,255	23	-	16,836
	2,263,947	116,884	2,345,632	586,240	18,759	16,836

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(b) Analysis of short term funds and deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets which are neither past due nor impaired, for the Bank by rating agency designation as at 31 December 2010 are as follows:

Bank 2010	Short term fund and deposits and placements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other financial assets RM'000
Aaa to Aa	-	4,721	891,313	99,872	6,166	-
A1 to A3	-	51,502	52,996	-	10,105	-
Baa1 to Ba3	-	-	-	-	2,823	-
P1 to P3	870,175	65,600	-	-	-	-
Unrated	1,221,785	228,507	2,236,668	48,827	-	14,886
Of which:						
- Bank Negara Malaysia	1,111,711	-	-	-	-	-
- Malaysian Government Securities	-	192,952	1,321,458	45,298	-	-
- Malaysian Government Investment Issues	-	35,555	774,379	-	-	-
- Private Debt Securities	-	-	139,549	3,506	-	-
- Others	110,074	-	1,282	23	-	14,886
	2,091,960	350,330	3,180,977	148,699	19,094	14,886

The credit quality of financial assets other than loans and advances and clients' and brokers' balances 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 Aa
- A1 to A3
- Baa1 to Ba3
- B1 to C
- P1 to P3

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(c) Loans and advances

Loans and advances comprise mainly share margin financing are summarised as follows:

Group and Bank	2011 RM'000	2010 RM'000
Neither past due nor impaired	43,547	50,615
Impaired	619	918
Gross loans and advances	44,166	51,533
Less: Individual impairment allowance	(584)	(882)
Collective impairment allowance	(654)	(760)
Net loans and advances	42,928	49,891

Analysis of loans and advances that are neither past due nor impaired are as follows:

Group and Bank	2011 RM'000	2010 RM'000
Share margin financing	41,784	48,049
Staff loans	1,763	2,566
	43,547	50,615

All loans and advances is unrated. All share margin financing is above the 130% margin required prescribed by Bursa Securities.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(iii) Credit quality (continued)

(d) Clients' and brokers' balances

Clients' and brokers' balances are summarised as follows:

Group and Bank	2011 RM'000	2010 RM'000
Neither past due nor impaired	230,400	419,575
Impaired	11,825	9,387
Gross clients' and brokers' balances	242,225	428,962
Less: Individual impairment allowance	(9,309)	(7,478)
Collective impairment allowance	(240)	(357)
Net clients' and brokers' balances	232,676	421,127

Analysis of clients' and brokers' balances that are neither past due nor impaired are as follows:

Group and Bank	2011 RM'000	2010 RM'000
Brokers' balances	-	176,660
Clients' balances:		
- outstanding purchases	185,180	202,633
- contra losses	908	1,182
Margin placed with Clearing House ('MDCH')	44,312	39,100
	230,400	419,575

The amount of clients' and brokers' balances of the Group and the Bank that are past due but not impaired is not material.

Included in clients' and brokers' balances are outstanding purchases and contra losses which are settled within the Fixed Delivery Settlement System cycle.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) The following table sets out the credit risk concentrations of the Group by asset class:

Group 2011	Short term funds & placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale* RM'000	Financial investments held-to-maturity RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets@ RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agricultural	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	45,255	147,729	25,620	-	-	218,604	111,000
Electricity, gas and water	-	30,200	191,677	30,320	-	-	252,197	-
Construction	-	-	20,498	-	-	-	20,498	-
Real estate	-	-	40,969	-	-	-	40,969	-
General commerce	-	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	20,310	15,570	-	-	-	35,880	10,000
Transport, storage and communication	-	-	15,264	40,690	-	-	55,954	353
Finance, insurance and business services	826,836	-	294,810	153,003	-	23,193	1,297,842	1,740
Government and government agencies	1,504,067	21,119	1,647,480	358,721	-	-	3,531,387	-
Purchase of landed property	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	41,819	232,915	274,734	-
Purchase of transport vehicles	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	-	-
Others	-	-	575	-	1,763	23,133	25,471	80,860
Total	2,330,903	116,884	2,374,572	608,354	43,582	279,241	5,753,536	203,953

* Excludes equity instruments amounting to RM37,676,000.

Excludes general allowance amounting to RM654,000.

@ Clients' and brokers' balances exclude general allowance of RM240,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) The following table sets out the credit risk concentrations of the Group by asset class (continued):

Group 2010	Short term funds & placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale* RM'000	Financial investments held-to-maturity RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets@ RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agricultural	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	38,727	152,120	39,726	-	-	230,573	157,100
Electricity, gas and water	-	24,906	109,186	-	-	-	134,092	-
Construction	-	4,721	37,822	-	-	-	42,543	-
Real estate	-	-	20,662	-	-	-	20,662	-
General commerce	-	1,967	18,954	-	-	-	20,921	-
Wholesale & retail trade and restaurants & hotels	-	-	5,192	-	-	-	5,192	460
Transport, storage and communication	-	-	117,467	99,872	-	-	217,339	-
Finance, insurance and business services	1,046,082	51,502	669,623	23	-	21,671	1,788,901	-
Government and government agencies	1,111,383	228,507	2,107,821	45,297	-	-	3,493,008	-
Purchase of landed property	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	48,085	421,484	469,569	-
Purchase of transport vehicles	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	-	-
Others	-	-	565	-	2,566	24,289	27,420	101,520
Total	2,157,465	350,330	3,239,412	184,918	50,651	467,444	6,450,220	259,080

* Excludes equity instruments amounting to RM32,819,000.
\# Excludes general allowance amounting to RM760,000.
@ Clients' and brokers' balances exclude general allowance of RM357,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) The following table sets out the credit risk concentrations of the Bank by asset class:

Bank 2011	Short term funds & placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale* RM'000	Financial investments held-to-maturity RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets@ RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agricultural	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	45,255	147,729	25,620	-	-	218,604	111,000
Electricity, gas and water	-	30,200	191,678	30,320	-	-	252,198	-
Construction	-	-	20,498	-	-	-	20,498	-
Real estate	-	-	40,969	-	-	-	40,969	-
General commerce	-	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	20,310	15,570	-	-	-	35,880	10,000
Transport, storage and communication	-	-	15,264	40,690	-	-	55,954	353
Finance, insurance and business services	759,881	-	294,810	153,003	-	20,319	1,228,013	1,740
Government and government agencies	1,504,066	21,119	1,647,480	358,721	-	-	3,531,386	-
Purchase of landed property	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	41,819	232,915	274,734	-
Purchase of transport vehicles	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	-	-
Others	-	-	-	-	1,763	15,535	17,298	80,860
Total	2,263,947	116,884	2,373,998	608,354	43,582	268,769	5,675,534	203,953

* Excludes equity instruments amounting to RM21,886,000.

\# Excludes general allowance amounting to RM654,000.

@ Clients' and brokers' balances exclude general allowance of RM240,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) The following table sets out the credit risk concentrations of the Bank by asset class (continued):

Bank 2010	Short term funds & placements with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale* RM'000	Financial investments held-to-maturity RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other financial assets@ RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agricultural	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	38,727	152,120	39,726	-	-	230,573	157,100
Electricity, gas and water	-	24,906	109,186	-	-	-	134,092	-
Construction	-	4,721	37,822	-	-	-	42,543	-
Real estate	-	-	20,662	-	-	-	20,662	-
General commerce	-	1,967	18,954	-	-	-	20,921	-
Wholesale & retail trade and restaurants & hotels	-	-	5,192	-	-	-	5,192	460
Transport, storage and communication	-	-	117,467	99,872	-	-	217,339	-
Finance, insurance and business services	980,577	51,502	669,623	23	-	19,927	1,721,652	-
Government and government agencies	1,111,383	228,507	2,107,821	45,297	-	-	3,493,008	-
Purchase of landed property	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	48,085	421,484	469,569	-
Purchase of transport vehicles	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	-	-
Others	-	-	-	-	2,566	14,243	16,809	101,520
Total	2,091,960	350,330	3,238,847	184,918	50,651	455,654	6,372,360	259,080

* Excludes equity instruments amounting to RM18,839,000.
\# Excludes general allowance amounting to RM760,000.
@ Clients' and brokers' balances exclude general allowance of RM357,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value measurement

Amendments to FRS 7 "Financial Instruments: Disclosures – improving disclosures about financial instruments" (effective from 1 January 2011) require disclosure of fair value measurements by level of a fair value measurement hierarchy. Comparatives disclosures is not required by the standard.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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 **2011**	**Level 1** **RM'000**	**Level 2** **RM'000**	**Level 3** **RM'000**	**Total** **RM'000**
Financial assets				
Financial assets held-for-trading	-	116,884	-	116,884
Financial investments available-for-sale	1,999	2,352,080	58,167	2,412,246
Derivative assets	-	18,759	-	18,759
	1,999	2,487,723	58,167	2,547,889
Financial liabilities				
Derivative liabilities	-	19,040	-	19,040
Bank				
2011				
Financial assets				
Financial assets held-for-trading	-	116,884	-	116,884
Financial investments available-for-sale	1,340	2,352,081	42,463	2,395,884
Derivative assets	-	18,759	-	18,759
	1,340	2,487,724	42,463	2,531,527
Financial liabilities				
Derivative liabilities	-	19,040	-	19,040

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value measurement (continued)

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy are as follows:

	Financial investment available-for-sale		
Group	**Domestic**	**Overseas**	**Total**
2011	**RM'000**	**RM'000**	**RM'000**
As at 1 January 2011	53,458	564	54,022
Total gains or losses recognised in other comprehensive income	4,936	-	4,936
Sales	(800)	-	(800)
Exchange differences	-	9	9
	57,594	573	58,167

	Financial investment available-for-sale		
Bank	**Domestic**	**Overseas**	**Total**
2011	**RM'000**	**RM'000**	**RM'000**
As at 1 January 2011	39,478	-	39,478
Total gains or losses recognised in other comprehensive income	3,785	-	3,785
Sales	(800)	-	(800)
	42,463	-	42,463

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below summarises the carrying amounts and the fair values of those financial assets not presented on the Group's and the Bank's statements of financial position at their fair values:

2011	Group and Bank Carrying amount RM'000	Group and Bank Fair value RM'000
Financial assets		
Financial investments held-to-maturity	608,354	615,445
Financial liabilities		
Subordinated obligations	246,069	250,164

2010	Group and Bank Carrying amount RM'000	Group and Bank Fair value RM'000
Financial assets		
Financial investments held-to-maturity	184,918	187,749
Financial liabilities		
Subordinated obligations	246,127	252,331

The fair values are based on the following methodologies and assumptions:

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.

Financial investments held-to-maturity

The fair value for financial investments held-to-maturity 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 indicative interest yields 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 a similar instrument at the date of statements of financial position.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values are based on the following methodologies and assumptions (continued):

Loans and advances

For floating rate loans, the carrying amount 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 risks and maturities.

The fair values of impaired floating and fixed rate loans are represented by their carrying amounts, net of impairment allowance.

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.

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.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions, with maturities of less than six months approximate the carrying values. For the items with maturities 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 maturities.

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.

Credit risk related contracts

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.

Foreign exchange rate, interest rate and equity contracts

The fair values of foreign exchange rate, interest rate and equity contracts are the estimated amounts the Group or the Bank would receive or pay to terminate the contracts as at the date of statements of financial position.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

42 SEGMENT REPORTING

Following the management approach of FRS 8, 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.

Segment information is presented in respect of the Group's business segment. All of the Group's business transactions are conducted in Malaysia.

The business segment results are prepared based on the Group's internal management reporting, which reflect 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 can be 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, and structuring of bilateral lending, project financing, loans syndication, infrastructure financing, initial public offerings of equity related instruments, private placements and underwriting. This segment also cover 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.

(b) Treasury

Treasury and money market operations is involved in proprietary trading of various financial products that include short-term money market instruments, long term securities and foreign exchange and derivatives products.

42 SEGMENT REPORTING (CONTINUED)

Group 2011	Investment Banking RM'000	Treasury RM'000	Elimination RM'000	Total RM'000
External revenue	189,492	63,516	-	253,008
Overhead expenses of which:	(152,056)	(12,951)	-	(165,007)
Depreciation of property, plant and equipment	(3,498)	(673)	-	(4,171)
Allowance for impairment on loans, advances and financing	(1,586)	-	-	(1,586)
Impairment losses on other assets	(6,336)	(29,504)	-	(35,840)
Profit before unallocated expenses	29,514	21,061	-	50,575
Sub-debt interest				(13,075)
Profit after unallocated expenses				37,500
Share of results of jointly controlled entity				427
Profit before taxation				37,927
Taxation				(14,161)
Net profit for the financial year				23,766

- Total segment revenue comprise of net interest income (excluding interest expense on subordinated obligations amounting to RM13,075,000) and other operating income.
- During the financial year, no one group of related customers accounted for more than 10% of the Group's revenue.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

42 SEGMENT REPORTING (CONTINUED)

Group 2011	Investment Banking RM'000	Treasury RM'000	Others RM'000	Elimination RM'000	Total RM'000
Segment assets	949,513	5,105,555	29,571	(4,677)	6,079,962
Investments in jointly controlled entity					19,020
Tax recoverable					11,062
Deferred tax assets					1,919
Unallocated assets					14,053
Total assets					6,126,016
Segment Liabilities	1,252,519	3,971,976	43,300	(4,677)	5,263,118
Tax liabilities					2,046
Deferred tax liabilities					2,584
Subordinated obligations					246,069
Total liabilities					5,513,817

42 SEGMENT REPORTING (CONTINUED)

Group 2010	Investment Banking RM'000	Treasury RM'000	Elimination RM'000	Total RM'000
External revenue	196,512	106,070	-	302,582
Overhead expenses of which:	(143,064)	(15,694)	-	(158,758)
Depreciation of property, plant and equipment	(5,341)	(228)	-	(5,569)
Allowance for impairment on loans, advances and financing	332	-	-	332
Impairment losses on other assets	(367)	(42,000)	-	(42,367)
Profit before unallocated expenses	53,413	48,376	-	101,789
Sub-debt interest				(13,075)
Profit after unallocated expenses				88,714
Share of results of jointly controlled entity				792
Profit before taxation				89,506
Taxation				(22,271)
Net profit for the financial year				67,235

- Total segment revenue comprise of net interest income (excluding interest expense on subordinated obligations amounting to RM13,075,000) and other operating income.
- During the financial year, no one group of related customers accounted for more than 10% of the Group's revenue.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

42 SEGMENT REPORTING (CONTINUED)

Group 2010	Investment Banking RM'000	Treasury RM'000	Others RM'000	Elimination RM'000	Total RM'000
Segment assets	1,035,931	5,628,593	28,540	(2,806)	6,690,258
Investments in jointly controlled entity					25,044
Tax recoverable					8,542
Deferred tax assets					776
Unallocated assets					14,075
Total assets					6,738,695
Segment Liabilities	1,366,071	4,423,767	49,496	(2,806)	5,836,528
Tax liabilities					2,033
Deferred tax liabilities					2,251
Subordinated obligations					246,127
Total liabilities					6,086,939

43 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2012.

Statement By Directors
Pursuant To Section 169(15) of The Companies Act, 1965

We, Dato' Mohamed Khadar Merican and Dato' Saw Choo Boon, being two of the directors of RHB Investment Bank Berhad, state that, in the opinion of the directors, the financial statements set out on pages 066 to 194 are drawn up so as to give a true and fair view of the state of affair of the Group and of the Bank as of 31 December 2011 and of their financial results and cash flows for the year then ended in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

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

DATO' MOHAMED KHADAR MERICAN
CHAIRMAN

DATO' SAW CHOO BOON
DIRECTOR

Kuala Lumpur
28 February 2012

Statutory Declaration
Pursuant To Section 169(16) of The Companies Act, 1965

I, Muffriezal bin Ahmad Sufian @ Qurnain, 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 066 to 194 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

MUFFRIEZAL BIN AHMAD SUFIAN @ QURNAIN

Subscribed and solemnly declared by the abovenamed Muffriezal bin Ahmad Sufian @ Qurnain at Kuala Lumpur on 28 February 2012, before me.

COMMISSIONER FOR OATHS

Independent Auditors' Report

To The Members of RHB Investment Bank Berhad
(Incorporated in Malaysia)
(Company No. 19663 P)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Investment Bank Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Bank, and the income statements, statements of comprehensive income, changes in equity and cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 066 to 194.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report
To The Members of RHB Investment Bank Berhad (continued)
(Incorporated in Malaysia)
(Company No. 19663 P)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2011 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur
28 February 2012

Pillar 3 Disclosures Contents

Statement by Officer in Charge

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 and Senior Management of RHB Investment Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of the Bank for the year ended 31st December 2011 are accurate and complete.

CHAN CHEONG YUEN
Officer in Charge
RHB Investment Bank Berhad

1.0 INTRODUCTION

This document discloses RHB Investment Bank'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').

This document covers the qualitative and quantitative information for financial year ended 31st December 2011 with comparative quantitative information of the preceding financial year 2010. This is RHB Investment Bank's second annual Pillar 3 disclosure report published in accordance with the Guideline. This disclosure report has been verified and approved internally in line with the RHB Banking Group Pillar 3 Disclosure Policy.

RHB Investment Bank's Pillar 3 disclosure report will be made available under the Investor Relations section of the Bank's website at www.rhb.com.my as a separate report in the Bank's annual report 2011, after the notes to the financial statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Investment Bank's information is presented on a consolidated basis, i.e. RHB Investment Bank Berhad, its subsidiaries and its overseas joint venture company and is referred to as 'RHB Investment Bank Group' or 'the Bank'.

In accordance with the accounting standards for financial reporting, all subsidiaries of the Bank are fully consolidated from the date the Bank obtains control until the date such control ceases. Refer to Note 13 to the financial statement for a list of consolidated entities.

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 investments to be deducted from eligible capital are required under BNM's Guideline 'Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components)' Part B Paragraph 4.

RHB Investment Bank Group also offers advisory and fund raising services and issuances of various forms of debt securities, comprising bonds, commercial papers, medium term notes and asset-backed securities for Islamic finance facilities.

The transfer of funds or regulatory capital within the Bank is subject to shareholders' and regulatory approval.

3.0 CAPITAL ADEQUACY

Capital adequacy is the degree 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 credit across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors.

Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and the confidence of the shareholders. The Bank aims to maximize the shareholder's value through an optimal capital structure that protects the stakeholders' interests and provides sufficient room for growth while meeting the regulatory requirements.

The Bank is also committed to maintaining a sound capital base to support the risks associated with diversified businesses, while still providing investors with reasonable returns.

BNM's Guideline 'Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components)' Part B Paragraph 5 on Capital Adequacy Requirements, sets out the current requirements relating to the minimum capital adequacy ratios which a bank incorporated in Malaysia shall use in calculating these ratios.

The capital ratios of the Bank are computed based on BNM's Guideline on 'Risk-Weighted Capital Adequacy Framework (RWCAF): Standardised Approach for Credit Risk, Standardised Approach for Market Risk, and Basic Indicator Approach for Operational Risk (Basel II)'.

3.1 Capital Adequacy Ratios

The core capital ratios and risk-weighted capital ratios of the Bank on consolidated ('RHB Investment Bank Group') and global basis ('RHB Investment Bank') as at 31st December 2011 and 31st December 2010 are as follows:-

Table 1: Capital Adequacy Ratios

	RHB Investment Bank Group		RHB Investment Bank	
	2011	**2010**	**2011**	**2010**
Before proposed final dividends:				
Core capital ratio	32.69%	30.20%	36.43%	32.47%
Risk-weighted capital ratio	46.99%	43.68%	45.07%	41.02%
After proposed final dividends:				
Core capital ratio	30.42%	25.71%	33.97%	27.69%
Risk-weighted capital ratio	43.59%	39.19%	41.37%	33.85%

The above core capital ratios and risk-weighted capital ratios are above the minimum level required by BNM.

3.0 CAPITAL ADEQUACY (CONTINUED)

3.2 Minimum Capital Requirements and Risk-Weighted Assets ('RWA')

Table 2: Risk-Weighted Assets ('RWA') by Risk Types

	RHB Investment Bank Group (RM'000)		RHB Investment Bank (RM'000)	
	2011	2010	2011	2010
Credit RWA	709,331	928,519	658,111	887,428
Market RWA	126,884	161,901	126,884	161,901
Operational RWA	453,579	469,394	402,937	414,976
Total	1,289,794	1,559,814	1,187,932	1,464,305

Capital requirements for the three risk types are derived by multiplying the risk-weighted assets by 8%.

The following tables show the breakdown of the RWA by risk types as at 31st December 2011 and 31st December 2010:-

Table 3a: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31st December 2011

	RWA (RM'000)		Capital Requirement (RM'000)	
Risk Type	**RHB Investment Bank Group**	**RHB Investment Bank**	**RHB Investment Bank Group**	**RHB Investment Bank**
Credit Risk				
Under Standardised Approach	709,331	658,111	56,746	52,649
Market Risk				
Under Standardised Approach	126,884	126,884	10,151	10,151
Operational Risk				
Under Basic Indicator Approach	453,579	402,937	36,286	32,235
Total	1,289,794	1,187,932	103,183	95,035

Table 3b: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31st December 2010

	RWA (RM'000)		Capital Requirement (RM'000)	
Risk Type	**RHB Investment Bank Group**	**RHB Investment Bank**	**RHB Investment Bank Group**	**RHB Investment Bank**
Credit Risk				
Under Standardised Approach	928,519	887,428	74,282	70,994
Market Risk				
Under Standardised Approach	161,901	161,901	12,952	12,952
Operational Risk				
Under Basic Indicator Approach	469,394	414,976	37,551	33,198
Total	1,559,814	1,464,305	124,785	117,144

RHB Investment Bank Group did not have any capital requirement for Large Exposure Risk as there was no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline "Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components)" Parts C and D. These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the RHB Investment Bank Group.

Tier 1 capital consists primarily of ordinary share capital, share premium, retained profits and other reserves. Tier II capital consists of subordinated obligations and collective impairment allowance. Refer to Notes 21 and 22 to the Financial Statements for the terms of these capital instruments.

The following table sets forth details on the capital resources for RHB Investment Bank Group and RHB Investment Bank as at 31st December 2011 and 31st December 2010.

Table 4: Capital Structure

	RHB Investment Bank Group (RM'000)		RHB Investment Bank (RM'000)	
	2011	**2010**	**2011**	**2010**
Tier I Capital				
Paid-up ordinary share capital	263,646	263,646	263,646	263,646
Retained profits	57,585	103,817	53,198	93,912
Other reserve	278,549	278,549	278,549	278,549
Total Tier I Capital	599,780	646,012	595,393	636,107
Less:				
Deferred tax assets	(5,284)	(2,091)	(3,365)	(1,315)
Goodwill	(172,844)	(172,844)	(159,280)	(159,280)
Eligible Tier I Capital	421,652	471,077	432,748	475,512
Tier II Capital				
Collective impairment allowance	893	1,117	893	1,117
Maximum allowable subordinated debt capital	210,826	235,538	216,374	237,756
Total Tier II Capital	211,719	236,655	217,267	238,873
Less:				
Investment in subsidiary companies and joint ventures	(19,020)	(25,044)	(106,433)	(112,369)
Securitisation exposures subject to deductions	(7,781)	(1,086)	(7,781)	(1,086)
Other deductions	(440)	(344)	(440)	(336)
Total deductions from Tier II Capital	(27,241)	(26,474)	(114,654)	(113,791)
Eligible Tier II Capital	184,478	210,181	102,613	125,082
Capital Base	606,130	681,258	535,361	600,594

5.0 RISK MANAGEMENT

Risk is inherent in the RHB Investment Bank Group's activities and is managed through a process of ongoing 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, and 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 generate profits consistently while sustaining competitive advantage, and is thus a central part of the financial and operational management of the Bank.

To this extent, the RHB Group's Risk Management Framework governs the management of risks in the RHB Banking Group. The Framework operates as two interlocking layers:
- It provides a holistic overview of the risk and control environment of the Group, with the risk management going towards loss minimisation and mitigation against losses which may occur through, principally, the failure of effective checks and balances in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is effected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

The following sections describe some of these risk management content areas.

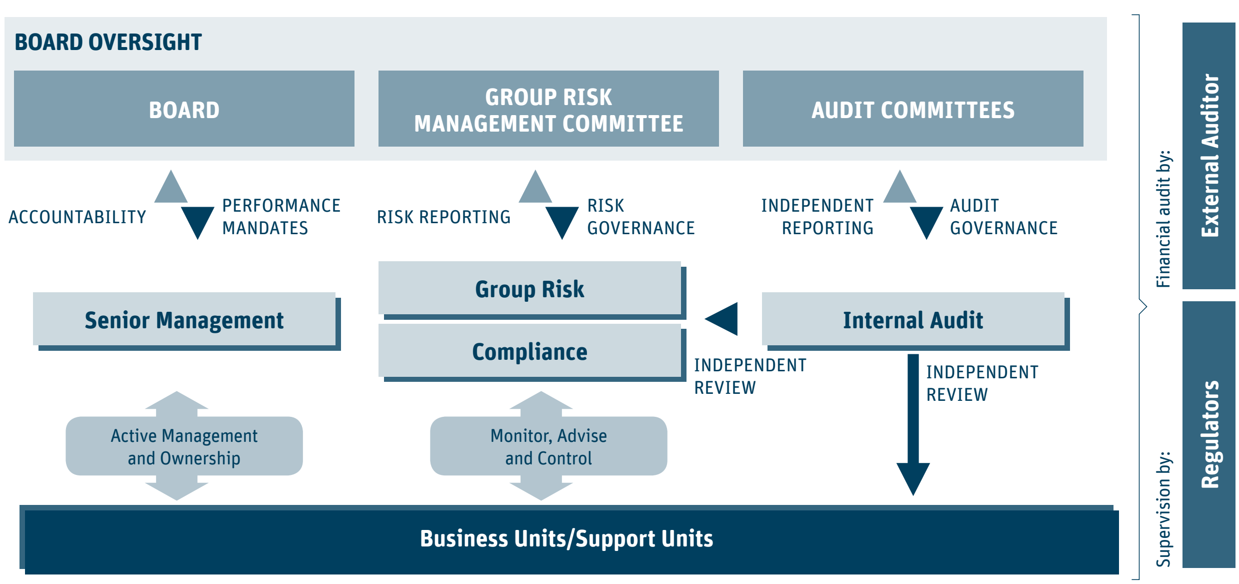
OVERARCHING RISK MANAGEMENT PRINCIPLES

The framework enshrines five fundamental principles that drive the philosophy of risk management in the RHB Banking Group. They are:
- risk governance from the Boards of Directors of companies in the Group;
- clear understanding of risk management;
- institutionalisation of a risk focused organisation;
- alignment of risk management to business strategies; and
- optimisation of risk adjusted economic and financial returns

Principle 1: Risk Governance from the Boards of Directors of Companies in the Group

The ultimate responsibility of the Boards of Directors in the RHB Banking Group is in ensuring 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 oversight responsibilities which is depicted in the accompanying diagram:

Structured Framework to Support Board Oversight Role in Risk Management



5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION

The Board of Directors ('Board' or 'BOD') through the Group Risk Management Committee ('GRMC') and the Group Risk Management function ('GRM function') establishes the risk appetite and risk principles of the RHB Banking Group. The GRMC is the principal Board Committee that provides oversight and governance of risks for the Group, oversees the senior management's activities in managing credit, market, liquidity, operational, legal and other risks to ensure that the risk management process of the Group is in place and functional. GRMC also reviews and endorses the Group's overall risk management philosophy; risk management frameworks, major risk policies and risk models.

Principle 2: Clear Understanding of Risk Management Ownership

Risk awareness culture is instilled throughout the Group through proactive risk ownership. The business and functional units of the Group are primarily responsible for identifying, managing and reporting their risks. The business units manage certain defined risks through the use of facilities and services provided by the functional units.

Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board. This leads to risk management ownership with differing levels of focus established across the Group as follows:

Risk Management Ownership and Lines of Defence

Principle 3: Institutionalisation of a Risk Focused Organisation

The RHB Banking Group has promoted a risk-focussed culture throughout the organisation through a number of measures. Two of these are :-
- Strengthening of the central risk coordination functions, and
- Continuous reinforcing of a risk and control environment within the Group.

They are described in further detail in the succeeding sections:

Central Risk Coordination Functions

The following summarises the key differences in perspectives (which are also strategically complementary) between the Risk Management, Compliance and Internal Audit functions.

The **Risk Management** function is responsible for upholding the integrity of our risk and return decisions, and in particular in ensuring that risks are properly assessed and managed.

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Coordination Functions (Continued)

The risk management function is independent of the origination and sales functions to ensure that the necessary balance in risk/ return decisions is not compromised by short-term pressures to generate revenues. This risk function reports directly to GRMC and assists the GRMC and Board in formulating risk related policies, advises the GRMC/ Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

The risk function is also responsible for maintaining the Group Risk Management Framework, ensuring it remains appropriate to the Group's activities, and is effectively communicated and implemented across the Group.

The risk management function in the Group reports to the Head of Group Risk Management. Among the roles and responsibilities of the Head of Group Risk Management are:
- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practice risk management disciplines are adopted across the Group, including the setting of risk management parameters and risk underwriting models;
- Developing a pro-active; balanced and risk attuned culture within the Group;
- Advising senior management, the GRMC and the Board on risk issues of, and impacts on, the Group;
- Administering the delegation of discretionary powers to management personnel within the Group.

The **Compliance** function is centrally managed and provides assurance to management that the Group's activities are in compliance with external requirements and internal policies and procedures.

The **Audit** function independently reviews and reports on the adequacy and integrity of the Group's internal control systems and information management systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Risk and Control Environment

Business, functional and governance heads are accountable for risk management in their businesses and functions, and for countries where they have governance responsibilities. The business and functional units have a clear segregation of duties with sufficient check and balance to ensure that business processes are functioning effectively. There is appropriate accountability delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

Primary responsibility for managing risks, therefore, rests with the business managers. They are best equipped to ensure that risk management and control are 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.

Principle 4: Alignment of Risk Management to Business Strategies

A statement of intent of the Group's Risk Management framework is to align the Group's business strategy to risk strategy, and vice versa. This is typically articulated through the Group's annual business and financial budgetary plan, which is progressively facilitated by the integration of risk measures in economic capital management. It is also implemented through the Group's construction of a sustaining risk-focused organisation as described in preceding sections where business and support units are required to be primarily responsible and accountable for risk management.

Principle 5: Optimisation of Risk Adjusted Economic and Financial Returns

An objective of economic capital management is to reflect a true return in relation to risk level assumed by businesses throughout the Group. By linking risk to capital, the risk adjusted returns measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses whose value creation significantly exceeds the risk profile of their activities. The medium to long term strategy and principle of risk management of the Group is to deepen the integration of economic capital management within the Group. The Group's management has implemented a risk-adjusted returns based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk arises as a result of customers' or counterparties' inability to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending obligations, trade finance and its funding, investment and trading activities.

6.1 Credit Risk Management Oversight and Organisation

The Central Credit Committee ('CCC') is the senior management committee that reviews the Group's credit risk philosophy, framework, and policies; aligns credit risk management with business strategy and planning; recommends credit approval authority limits; reviews the credit profile of material portfolios; and recommends actions where necessary to ensure that credit risk remains within established risk tolerances. CCC also approves and renews loans/facilities and submits to the Group Credit Committee ('GCC') for affirmation or veto if the loan/ facilities exceed a pre-defined threshold.

The GCC's main functions are affirming, imposing additional covenants or vetoing credits of the RHB Investment Bank Group which are duly approved by the CCC.

The RHB Banking Group has established a Group Recovery Committee ('GRC') to oversee the management of non-performing loans/non-performing accounts ('NPL/NPA') and high risk accounts as well as affirming, imposing additional covenants or vetoing credits under NPL/NPA from Credit Recovery for amounts above the defined thresholds of the CCC. The GRC has since been dissolved on 31st December 2011 and the discretionary powers and responsibilities of the GRC are now vested to the GCC.

Within Group Risk Management, the Credit Risk Management Department has the functional responsibility for credit risk management, including portfolio risk monitoring and risk reporting. Group Risk management units also conduct regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the Board and GRMC. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take corrective actions promptly, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

The RHB Banking Group's credit risk management framework which is founded upon BNM's guidelines on 'Best Practices for the Management of Credit Risk' is documented under the Group Credit Policy. The Bank abides strictly by this Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, which ensures a reliable and satisfactory risk-weighted return. Industry best practices are instilled in the continual updating of credit risk policies.

The Bank ensures that processes are in place before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated by an independent credit evaluation and management function.

The Bank's credit risk management process is documented in the Group Credit Procedures Manual ('GCPM') which sets out the operational procedures and guidelines governing the credit processes of Corporate and Investment Banking, Treasury and Share Margin Financing Business operations.

The GCPM has been designed to ensure that:-

- The process of credit initiation, administration, supervision and management of loans 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 laid down by the respective Boards of the RHB Banking Group.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (Continued)

Lending to Corporate and Institutional Customers

Loans to corporate and institutional customers are in the course of its trading or investment banking activities from trading, derivative and debt securities activities. The Bank does not undertake bilateral lending activities to corporate customers.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment banking activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities.

Lending to Share Margin Financing

Loans to share margin clients are based on credit 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. RHB Investment Bank Group does not undertake bilateral lending activities to corporate customers.

Credit Risk Measurement

For Share Margin Financing, credit risk is mitigated through the establishment of appropriate approving authority structure 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 issuer, through timely management reporting procedures.

6.3 Off-Balance Sheet Exposures and Counterparty Credit Risk ('CCR')

Off-Balance Sheet Exposures

Off-Balance sheet exposures of RHB Investment Bank Group are mainly from the following:-

- Underwriting commitments in respect of RHB Investment Bank Group's debt capital or equity capital market activities,
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities,
- Principal or notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out under Section 6.2 of this report.

Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk ('CCR') on derivative financial instruments is the risk that the Bank's counterparty in a foreign exchange, interest rate, commodity, equity, options or credit derivative contract defaults prior to the maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. 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 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. Treasury Operations Department monitors counterparties' positions and promptly escalates to the relevant parties upon any shortfall in the threshold levels.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio

All credit exposures for the RHB Investment Bank Group are booked in Malaysia. The subsequent tables reflect the credit exposures (EAD) of the Bank, segregated by:-

- the various types of asset classes, showing details of the exposures, before and after credit risk mitigation (CRM), the corresponding RWA and capital requirement,
- disclosure on Off-Balance Sheet and Counterparty Credit Risk
- industry sector, and
- residual maturity; breakdown into exposures with maturity of one year or less, one to five years, and over five years.

Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

Table 5a: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On and Off-Balance Sheet Exposures) as at 31st December 2011

Exposure Class	Gross Exposures/ EAD before CRM (RM'000)	Net Exposures/ EAD after CRM (RM'000)	Risk-Weighted Assets (RM'000)	Minimum Capital Requirement at 8% (RM'000)
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns and Central Banks	3,869,839	3,869,839	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	655,532	655,532	131,106	10,488
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	601,077	601,077	228,223	18,258
Regulatory Retail	1,736	1,736	1,302	104
Residential Mortgage	1,814	1,814	648	52
Higher Risk Assets	-	-	-	-
Other Assets	602,776	602,776	243,945	19,516
Specialised Financing/Investment	-	-	-	-
Securitisation Exposures	23,826	23,826	6,474	518
Equity Exposures	37,304	37,304	37,304	2,984
Defaulted Exposures	22,149	22,149	11,074	886
Total On-Balance Sheet Exposures	5,816,053	5,816,053	660,076	52,806
Off-Balance Sheet Exposures				
OTC Derivatives	55,944	55,944	11,189	895
Credit Derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	78,219	78,219	38,066	3,045
Defaulted Exposures	-	-	-	-
Total Off-Balance Sheet Exposures	134,163	134,163	49,255	3,940
Total On and Off-Balance Sheet Exposures	5,950,216	5,950,216	709,331	56,746

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 5b: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On & Off-Balance Sheet Exposures) as at 31st December 2010

Exposure Class	Gross Exposures/ EAD before CRM (RM'000)	Net Exposures/ EAD after CRM (RM'000)	Risk-Weighted Assets (RM'000)	Minimum Capital Requirement at 8% (RM'000)
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns and Central Banks	3,546,365	3,546,365	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	1,131,569	1,131,569	226,314	18,105
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	686,773	686,773	221,584	17,726
Regulatory Retail	4,284	4,284	3,213	257
Residential Mortgage	1,182	1,182	449	36
Higher Risk Assets	-	-	-	-
Other Assets	681,289	681,289	294,034	23,524
Specialised Financing/Investment	-	-	-	-
Securitisation Exposures	54,484	54,484	72,884	5,831
Equity Exposures	32,466	32,466	32,466	2,597
Defaulted Exposures	53,530	53,530	35,401	2,832
Total On-Balance Sheet Exposures	6,191,942	6,191,942	886,345	70,908
Off-Balance Sheet Exposures				
OTC Derivatives	61,727	61,727	12,346	988
Credit Derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	93,678	93,678	29,828	2,386
Defaulted Exposures	-	-	-	-
Total Off-Balance Sheet Exposures	155,405	155,405	42,174	3,374
Total On and Off-Balance Sheet Exposures	6,347,347	6,347,347	928,519	74,282

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 6a: Exposures for Off-Balance Sheet and Counterparty Credit Risk (After Credit Risk Mitigation) as at 31st December 2011

Nature of Item	Principal/ Notional Amount (RM'000)	Positive Fair Value of Derivative Contracts (RM'000)	Credit Equivalent Amount (RM'000)	RWA (RM'000)
Direct credit substitutes	1,000		1,000	1,000
Transaction related contingent items	1,093		547	163
Assets sold with recourse	-		-	-
NIFs and obligations under an ongoing underwriting agreement	121,000		60,500	21,250
Interest/profit rate related contracts	2,020,000	18,759	55,944	11,189
1 year or less	150,000	-	235	47
Over 1 year to 5 years	1,785,000	16,998	49,548	9,910
Over 5 years	85,000	1,761	6,161	1,232
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-	-
Other commitments such as formal standby facilities and credit lines, with original maturity of over 1 year	-		-	-
Other commitments such as formal standby facilities and credit lines, with original maturity of up to 1 year	80,860		16,172	15,653
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	2,223,953	18,759	134,163	49,255

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 6b: Exposures for Off-Balance Sheet and Counterparty Credit Risk (After Credit Risk Mitigation) as at 31st December 2010

Nature of Item	Principal/ Notional Amount (RM'000)	Positive Fair Value of Derivative Contracts (RM'000)	Credit Equivalent Amount (RM'000)	RWA (RM'000)
Direct credit substitutes	-		-	-
Transaction related contingent items	-		-	-
Assets sold with recourse	4,718		4,718	-
NIFs and obligations under an ongoing underwriting agreement	177,762		88,881	29,800
Interest/profit rate related contracts	2,010,000	19,092	61,727	12,346
1 year or less	290,000	1,178	1,663	333
Over 1 year to 5 years	1,605,000	16,034	51,434	10,287
Over 5 years	115,000	1,880	8,630	1,726
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-	-
Other commitments such as formal standby facilities and credit lines, with original maturity of over 1 year	157		79	28
Other commitments such as formal standby facilities and credit lines, with original maturity of up to 1 year	-		-	-
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	97,205		-	-
Total	2,289,842	19,092	155,405	42,174

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2011

Exposure Class	Manufacturing (RM'000)	Electricity, Gas & Water Supply (RM'000)	Construction (RM'000)	Wholesale, Retail Trade, Restaurants & Hotels (RM'000)	Transport, Storage & Communi-cation (RM'000)	Finance, Insurance, Real Estate & Business (RM'000)	Government and Government Agencies (RM'000)	General Commerce (RM'000)	Others (RM'000)	Total (RM'000)
Exposures under Standardised Approach										
Sovereigns and Central Banks	-	30,320	-	-	40,691	1,792,627	2,006,201	-	-	3,869,839
Public Sector Entities	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	-	-	-	-	-	711,476	-	-	-	711,476
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-	-
Corporates	205,480	191,855	-	29,737	15,265	191,293	-	5,000	60,772	699,402
Regulatory Retail	-	-	-	-	-	76	-	-	3,675	3,751
Residential Mortgage	-	-	-	-	-	-	-	-	1,842	1,842
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	588,130	593	-	14,053	602,776
Specialised Financing/ Investment	-	-	-	-	-	-	-	-	-	-
Total Exposures under Standardised Approach	205,480	222,175	-	29,737	55,956	3,283,602	2,006,794	5,000	80,342	5,889,086

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2010

Exposure Class	Manufacturing (RM'000)	Electricity, Gas & Water Supply (RM'000)	Construction (RM'000)	Wholesale, Retail Trade, Restaurants & Hotels (RM'000)	Transport, Storage & Communi-cation (RM'000)	Finance, Insurance, Real Estate & Business (RM'000)	Government and Government Agencies (RM'000)	General Commerce (RM'000)	Others (RM'000)	Total (RM'000)
Exposures under Standardised Approach										
Sovereigns/Central Banks	-	-	-	-	119,980	1,171,439	2,233,527	-	26,137	3,551,083
Public Sector Entities	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	-	-	-	-	-	1,170,805	-	-	22,306	1,193,111
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-	-
Corporates	188,819	108,532	17,274	-	83,536	283,344	-	56,968	90,705	829,178
Regulatory Retail	-	-	-	-	-	-	-	-	4,290	4,290
Residential Mortgage	-	-	-	-	-	79	-	-	1,182	1,261
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	244,386	8,542	-	428,546	681,474
Specialised Financing/Investment	-	-	-	-	-	-	-	-	-	-
Total Exposures under Standardised Approach	188,819	108,532	17,274	-	203,516	2,870,053	2,242,069	56,968	573,166	6,260,397

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Maturity as at 31st December 2011

Exposure Class	One year or less (RM'000)	One to five years (RM'000)	Over five years (RM'000)	Total (RM'000)
Exposures under Standardised Approach				
Sovereigns and Central Banks	1,618,469	256,880	1,994,490	3,869,839
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	590,382	69,920	51,174	711,476
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	408,913	189,271	101,218	699,402
Regulatory Retail	1,660	-	2,091	3,751
Residential Mortgages	-	-	1,842	1,842
Higher Risk Assets	-	-	-	-
Other Assets	588,131	-	14,645	602,776
Specialised Financing/Investment	-	-	-	-
Total Exposures under Standardised Approach	3,207,555	516,071	2,165,460	5,889,086

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Maturity as at 31st December 2010

Exposure Class	One year or less (RM'000)	One to five years (RM'000)	Over five years (RM'000)	Total (RM'000)
Exposures under Standardised Approach				
Sovereigns and Central Banks	1,128,539	259,645	2,162,899	3,551,083
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	923,579	161,438	108,094	1,193,111
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	243,738	455,893	129,547	829,178
Regulatory Retail	2,624	174	1,492	4,290
Residential Mortgages	57	216	988	1,261
Higher Risk Assets	-	-	-	-
Other Assets	640,604	27,195	13,675	681,474
Specialised Financing/Investment	-	-	-	-
Total Exposures under Standardised Approach	2,939,141	904,561	2,416,695	6,260,397

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio (Continued)

Table 9a: Portfolios under the Standardised Approach by Risk-Weights as at 31st December 2011

Exposures after CRM (RM'000)	Risk Weight (%)								Deduction from Capital Base	Total Exposures (RM'000)
	0%	20%	35%	50%	75%	100%	150%	350%		
Sovereigns and Central Banks	3,869,839	-	-	-	-	-	-	-	-	3,869,839
Banks, MDBs and DFIs	-	711,476	-	-	-	-	-	-	-	711,476
Corporates	-	480,680	-	98,687	-	99,373	20,662	-	-	699,402
Regulatory Retail	-	-	-	10	3,741	-	-	-	-	3,751
Residential Mortgages	-	-	1,758	84	-	-	-	-	-	1,842
Other Assets	357,119	2,140	-	-	-	243,517	-	-	-	602,776
Securitisation	-	5,162	-	10,883	-	-	-	-	7,781	23,826
Equity	-	-	-	-	-	37,304	-	-	-	37,304
Total Exposures after CRM (RM'000)	4,226,958	1,199,458	1,758	109,664	3,741	380,194	20,662	-	7,781	5,950,216
Total Risk- Weighted Assets (RM'000)	-	239,892	615	54,832	2,805	380,194	30,993	-	-	709,331

Table 9b: Portfolios under the Standardised Approach by Risk-Weights as at 31st December 2010

Exposures after CRM (RM'000)	Risk Weight (%)								Deduction from Capital Base	Total Exposures (RM'000)
	0%	20%	35%	50%	75%	100%	150%	350%		
Sovereigns and Central Banks	3,551,083	-	-	-	-	-	-	-	-	3,551,083
Banks, MDBs and DFIs	-	1,193,111	-	-	-	-	-	-	-	1,193,111
Corporates	30,929	543,126	-	153,932	-	101,191	-	-	-	829,178
Regulatory Retail	-	-	-	6	4,284	-	-	-	-	4,290
Residential Mortgages	-	-	1,026	235	-	-	-	-	-	1,261
Other Assets	244,201	179,001	-	-	-	258,272	-	-	-	681,474
Securitisation	-	34,548	-	-	-	-	-	18,850	1,086	54,484
Equity	-	-	-	-	-	32,466	-	-	-	32,466
Total Exposures after CRM (RM'000)	3,826,213	1,949,786	1,026	154,173	4,284	391,929	-	18,850	1,086	6,347,347
Total Risk- Weighted Assets (RM'000)	-	389,958	359	77,087	3,213	391,929	-	65,973	-	928,519

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings

For sovereigns, corporates and banking institutions, external ratings from approved external credit assessment institutions ('ECAI'), where available, are used to determine the risk-weighted assets and regulatory capital.

The process used to map ECAI issuer ratings or comparable ECAI issue ratings, are as per BNM standards. Approved ECAIs are as follows:-
(i) Standard & Poors ('S&P'),
(ii) Moody's Investor Services ('Moody's'),
(iii) Fitch Ratings ('Fitch'),
(iv) Malaysian Rating Corporation Berhad ('MARC'),
(v) Rating Agency Malaysia ('RAM), and
(vi) 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. Where the counterparty is not rated, the corresponding exposure is mapped as 'unrated' and the appropriate risk weighting for unrated exposures is assigned.

The following tables show RHB Investment Bank Group's credit exposures to sovereigns, corporate and banking institutions according to the ratings by ECAIs for 31st December 2011 and compared with 31st December 2010 position.

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (Continued)

Table 10a: Rated Exposures According to Ratings by ECAIs as at 31st December 2011

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
On and Off-Balance Sheet Exposures						
Corporates (RM'000)		491,387	45,946	20,662	-	80,907

Short Term Ratings of Corporates 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
On and Off-Balance Sheet Exposures						
Corporates (RM'000)		30,000	30,500	-	-	-

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
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks (RM'000)	-	3,869,839	-	-	-	-

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
On and Off-Balance Sheet Exposures						
Banks, MDBs and DFIs (RM'000)	561,476	150,000	-	-	-	-

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (Continued)

Table 10b: Rated Exposures According to Ratings by ECAIs as at 31st December 2010

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
On and Off-Balance Sheet Exposures						
Corporates (RM'000)		530,611	51,701	-	-	168,366

Short Term Ratings of Corporates 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
On and Off-Balance Sheet Exposures						
Corporates (RM'000)		31,500	47,000	-	-	-

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
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks (RM'000)		-	3,551,083	-	-	-	-

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
On and Off-Balance Sheet Exposures							
Banks, MDBs and DFIs (RM'000)		313,988	411,546	292,823	-	-	174,754

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control

Credit Risk Mitigation

As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group'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 correlation and counterparty risk of the guarantor.

The main types of collateral taken by RHB Investment Bank Group are:-

- Shares listed on Bursa Malaysia (including listed warrants)
- Land and/ or Buildings
- Cash Deposit

Collateral is valued in accordance with the Group'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 with the annual/ periodic renewal of facilities, as well as updated into the relevant Bank's system.

The RHB Investment Bank Group also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture, assignment of contract payments, 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.

Equity securities or collaterals acquired arising from debt conversions are accounted for as a disposal of the loan and an 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.

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (Continued)

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31st December 2011

Exposure Class	Exposures Before Credit Risk Mitigation (RM'000)	Exposures Covered by Guarantees/ Credit Derivatives (RM'000)	Exposures Covered by Eligible Financial Collateral (RM'000)
On-Balance Sheet Exposures			
Sovereigns and Central Banks	3,869,839	-	-
Banks, Development Financial Institutions and MDBs	655,532	-	-
Corporates	601,077	154,708	614
Regulatory Retail	1,736	-	-
Residential Mortgages	1,814	-	-
Other Assets	602,776	-	-
Securitisation Exposures	23,826	-	-
Equity Exposures	37,304	-	-
Defaulted Exposures	22,149	-	-
Total On-Balance Sheet Exposures	5,816,053	154,708	614
Off-Balance Sheet Exposures			
OTC Derivatives	55,944	-	-
Off-Balance Sheet exposures other than OTC Derivatives or Credit Derivatives	78,219	-	-
Total Off-Balance Sheet Exposures	134,163	-	-
Total On and Off-Balance Sheet Exposures	5,950,216	154,708	614

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (Continued)

Table 11b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31st December 2010

Exposure Class	Exposures Before Credit Risk Mitigation (RM'000)	Exposures Covered by Guarantees/ Credit Derivatives (RM'000)	Exposures Covered by Eligible Financial Collateral (RM'000)
On-Balance Sheet Exposures			
Sovereigns and Central Banks	3,546,365	-	-
Banks, Development Financial Institutions and MDBs	1,131,569	-	-
Corporates	686,773	185,412	755
Regulatory Retail	4,284	-	-
Residential Mortgages	1,182	-	-
Other Assets	681,289	-	-
Securitisation Exposures	54,484	-	-
Equity Exposures	32,466	-	-
Defaulted Exposures	53,530	-	-
Total On-Balance Sheet Exposures	6,191,942	185,412	755
Off-Balance Sheet Exposures			
OTC Derivatives	61,727	-	-
Off-Balance Sheet exposures other than OTC Derivatives or Credit Derivatives	93,678	-	-
Total Off-Balance Sheet Exposures	155,405	-	-
Total On and Off-Balance Sheet Exposures	6,347,347	185,412	755

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (Continued)

Credit Concentration Risks

The RHB Banking Group manages the diversification of its portfolio to avoid undue credit risk concentrations. Credit risk concentrations exist in lending to single customer groups, borrowers engaged in similar activities, or diverse groups of borrowers that could be affected by similar economic or other factors. To manage these concentrations, exposure limits are established for single borrowing groups and industry segments. In this respect, analysis of large customer group exposures are regularly conducted, and the lending and financing units undertake intensive account updates, monitoring and management of these exposures.

Industry and sectoral analysis are also incorporated within the overall credit risk management regiment. In this respect, the Group seeks to continually update lending and financing guidelines based on periodic reviews and updates of industry and sectoral risk factors and economic outlook. This facilitates the better management of credit concentration risk.

Credit Monitoring and Annual Reviews

The RHB Banking Group regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management and risk committees, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and loan impairment performance.

In addition to the ongoing qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct.

Group Internal Audit conducts independent post approval reviews on sampling basis to ensure that the quality of credit appraisals and approval standards are in accordance with the credit standards and lending policies established by the Bank's management, laws and regulations.

6.7 Impairment Allowances for Loans/Financing

The BNM's Guideline on Classification and Impairment Provisions for Loans provides for two types of impairment assessment methodologies, i.e. individual assessment and collective assessment. The former applies to significant borrowers/customers with certain pre-defined threshold limits whereas the latter applies to facilities of homogeneous portfolios.

The impairment assessment for borrowers/customers under individual assessment is based on pre-defined impairment triggers, of which aging more than 90 days or 3 months is only one of the mandatory status triggers. In the case of portfolios under collective assessment, the impairment assessment is primarily time bound based on default period of more than 90 days or more than 3 months. A loan/financing is considered past due or defaulted when scheduled payment of principal or interest/profit is due and not paid. When this financing is past due or defaulted for a period of more than 90 days or more than 3 months, this financing is classified as non-performing or impaired.

The impairment provisioning for portfolio under individual assessment are established based primarily on estimates on the realisable value of the collateral to secure the loans and advances and are measured as the difference between the loan or advance's carrying amount and the net present value of the expected future cash flows discounted based on the original effective interest/ profit rates. All other loans and advances that have been individually evaluated but not considered to be individually impaired are assessed collectively for impairment.

In the case of loans portfolio under collective assessment, loans and advances are grouped on the basis of similar credit risk characteristics, taking into account the historical loss experience of such loans.

The Bank has adopted the transitional provision as provided under the revised BNM GP3: BNM's Guideline on Classification and Impairment Provisions for Loans/Financing. Under the transitional provision, collective assessment provision is derived based on 1.5% of the total outstanding loans/financing amounts, net of provisions made (both individual assessment provisions and specific provisions under the previous BNM's GP3 Guideline).

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (Continued)

Write-Off Policy

Loans are written-off against impairment allowances when recovery action has been instituted, prospect of recovery is considered remote or when all feasible avenues of recovery have been exhausted. The management and administration of such exposures are outlined in the Group's Policy on Non Performing/Impaired Loans. The Bank's write-off policy is in compliance with the requirements specified in BNM's Guideline on Classification and Impairment Provisions for Loans.

For investments in PDS, positions are written-off against impairment allowances when recovery action has been instituted, prospect of recovery is considered remote or when all feasible avenues of recovery have been exhausted.

Table 12a: Impaired and Past Due Loans/Financing and Provision for Impairment by Industry Sector as at 31st December 2011

Industry Sector	Impaired Loans and Advances/ Financing (RM'000)	Individual Impairment Provision (RM'000)	Collective Impairment Provision (RM'000)	Charges for Individual Impairment (RM'000)	Write-Offs (RM'000)
Share Margin Financing	619	584	654	9	185
Total	619	584	654	9	185

Table 12b: Impaired and Past Due Loans/Financing and Provision for Impairment by Industry Sector as at 31st December 2010

Industry Sector	Impaired Loans and Advances/ Financing (RM'000)	Individual Impairment Provision (RM'000)	Collective Impairment Provision (RM'000)	Charges for Individual Impairment (RM'000)	Write-Offs (RM'000)
Share Margin Financing	918	882	760	12	0
Total	918	882	760	12	0

Table 13: Reconciliation of Changes to Loan Impairment Provisions

Impairment Provision Details	Individual Impairment Provision (RM'000)		Collective Impairment Provision (RM'000)	
	2011	2010	2011	2010
Opening Balance	882	1,091	760	916
Net Allowance Made	9	12	-	(156)
Amount Recovered	(122)	(221)	(106)	-
Amount Written-Off	(185)	-	-	-
Closing Balance	584	882	654	760

All impaired, past due and provisions for impaired loans are for credit exposures booked in Malaysia.

7.0 Securitisation Exposures

The Bank has exposure to securitised assets in its banking book as a result of previous securitisation exercises (prior to the year ended 31st December 2010). In general, RHB Investment Bank Group's strategy is to use securitisations for customer facilitation.

The Bank's role in securitisation activities include:

- **Securitisation of third-party assets**

  The Bank acted as Principal Advisor/ Lead Arranger ('PA/LA') and Facility Agent of the securitisation exercise, for which it assisted in the execution of the transactions for a third-party. The Bank's main responsibilities included the incorporation of the Special Purpose Vehicle ('SPV') for the transaction, co-ordinating the conduct of all necessary due diligence, submissions to Securities Commission Malaysia and BNM (where applicable) and overseeing the documentation and issuance process.

  The Bank can also have a secondary role as investor (whereby the Bank has taken onto its Portfolio positions in the securitised instrument issued by the SPV), and as such the Bank is subject to the normal market and credit risk that it would face in holding on to a Private Debt Security ('PDS') instrument, and therefore would be covered by the overall Market Risk Policy detailed in Section 8.0 and the overall Credit Risk Policy detailed in Section 6.0.

  The accounting policies governing initial recognition, valuation and recognition of gains and losses are also as those governing financial assets in the form of PDS as detailed in Note A 5 (Summary of Significant Accounting Policies/ Financial Assets) and A 15 (Summary of Significant Accounting Policies/ Impairment of Financial Assets) of the Statutory Financial Statements of the Bank.

  RAM Rating Services Sdn Bhd was the External Credit Assessment Institution ('ECAI') used in determining the initial rating of the securitised asset.

- **Securitisation of own assets**

  The Bank can act as Originator, whereby it transfers/sells assets originated form its own balance sheet to a SPV which funds the purchase with an issue of asset-backed securities. The specific objective in this case would be to create a Collateralised Loan Obligation ('CLO') whereby the underlying assets (loans) were created specifically to be then assigned to the SPV to be issued as a debt instrument to the market, and not as per traditional originated securitisation, where the intention is to transfer credit risk of the existing underlying assets away from the Bank. The CLO structure allows a pool of borrowers to access the debt capital market, which individually they would not have been able to.

  The accounting policies governing the accounting treatment of the securitisation exercise are as detailed in Note A 5 (Summary of Significant Accounting Policies/ Financial Assets) of the Statutory Financial Statements of the Bank, specifically Section (d) which pertains to de-recognition of assets.

  The Bank can have a secondary role as investor (whereby the Bank has taken onto its Portfolio positions in the securitised instrument issued by the SPV) and as such the Bank is subject to the normal market risk that it would face in holding on to a Private Debt Security ('PDS') instrument, and therefore would be covered by the overall Market Risk Policy detailed in Section 8.0 and the overall Credit Risk Policy detailed in Section 6.0.

  The accounting policies governing initial recognition, valuation and recognition of gains and losses are also as those governing financial assets in the form of PDS as detailed in Note A 5 (Summary of Significant Accounting Policies/ Financial Assets) and A 15 (Summary of Significant Accounting Policies/ Impairment of Financial Assets) of the Statutory Financial Statements of the Bank.

  Malaysian Rating Corporation Berhad was the ECAI used in determining the initial rating of the securitised asset.

7.0 Securitisation Exposures (Continued)

- **Securitisation of own assets (Continued)**

The definitions of the roles above are included in 'The Asset-Back Securities Policy' issued by the Bank, which governs the asset-backed securities activities, and covers all material risks of the Bank inherent in securitisation activities. This Policy incorporates Securities Commission and BNM's key requirements, as included in 'Guideline on The Offering of Asset-Backed Securities' (SC) and 'Prudential Standards on Asset Backed Securitisation Transactions by Licensed Institutions' (BNM).

In both instances detailed above, SPVs were created which are isolated from the originator (either the Bank or the third party), to which then all rights and obligations of the underlying assets are then transferred to. The guidelines on the criteria of the SPV, as well as the requirements to affect a 'true sale' are detailed in 'The Asset-Backed Securities Policy'.

For regulatory purposes, SPVs are not consolidated where significant risk has been transferred to third parties.

RHB Investment Bank Group has no remaining exposure to the SPVs created or the previous securitisation exercises in general, apart from the risks it faces as an investor, as detailed above.

Table 14: Disclosure on Securitisation Exposures in the Banking Book

Underlying Assets	Total Exposures Securitised (RM'000)		Impaired (RM'000)	
	2011	2010	2011	2010
Traditional Securitisation (Banking Book Exposure): Originated by the bank				
Collateralised Loan Obligation (Corporate Loans)	18,664	35,286	54,230	42,000
Securitisation of Third Party exposures where the Bank Acts only as a Sponsor				
Assets-Backed Securities (Personal Loans)	5,162	19,198	-	-
Total	23,826	54,484	54,230	42,000

The totals above relate to the carrying balance sheet value of the investment in the securitised instruments, including attached accrued interest for the period, as noted above (i.e. as investor). Please note that the CLO has been impaired to reflect the downgrading of the instrument rating by RAM Rating.

The Bank did not engage in securitisation activities during the year 2011.

7.0 Securitisation Exposures (Continued)

Capital Treatment for Securitisation Exposures

RHB Investment Bank Group applies the Standardised Approach to calculate the credit risk capital requirements in accordance with BNM's Guideline. The Bank's credit risk-weighted securitisation exposures are shown below:

Table 15a: Securitisation under the Standardised Approach for Banking Book Exposures as at 31st December 2011

Type of Securitisation Exposures	Net Exposure after CRM (RM'000)	Deduction from Capital (RM'000)		Risk-weights of the Securitisation Exposures		Risk-Weighted Assets (RM'000)
		Rated	Unrated	20%	50%	
Traditional Securitisation:						
Non-Originated Banking Institution						
Most Senior	5,162	-	-	5,162	-	1,032
Originating Banking Institution						
Most Senior	17,815	6,932	-	-	10,883	5,442
Mezzanine	849	849	-	-	-	-
Total	23,826	7,781	-	5,162	10,883	6,474

Table 15b: Securitisation under the Standardised Approach for Banking Book Exposures as at 31st December 2010

Type of Securitisation Exposures	Net Exposure after CRM (RM'000)	Deduction from Capital (RM'000)		Risk-weights of the Securitisation Exposures		Risk-Weighted Assets (RM'000)
		Rated	Unrated	20%	350%	
Traditional Securitisation:						
Non-Originated Banking Institution						
Most Senior	19,198	-	-	19,198	-	3,839
Originating Banking Institution						
Most Senior	34,200	-	-	15,350	18,850	69,045
Mezzanine	1,086	1,086	-	-	-	-
Total	54,484	1,086	-	34,548	18,850	72,884

The Bank did not have any exposure to synthetic securitisation during the financial years 2010 and 2011. The Bank also did 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 variables, such as interest rates, credit spreads, prices of bonds and equities and currency exchange rates.

Market risk is segregated into trading market risk and non-trading market risk. Trading market risk arises from changes in interest rates, foreign exchange rates, equity prices and credit spreads on the value of assets held for trading while non-trading market risk arises from changes in interest rates, foreign exchange rates and equity prices, of which the main non-trading market risk is interest rate risk arising from re-pricing mismatches of its assets and liabilities from its banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, interest rates, exchange rates, or indices. They include futures, forwards, swaps and options transactions in the foreign exchange and interest rate markets. Derivative contracts entered into by the Bank are primarily over the counter derivatives.

The RHB Banking Group has established a Trading Book Policy as guidance for market risk management. These are reviewed regularly at least once a year, and /or upon change in strategy or significant event that has a material impact on policy compliance.

The Group Asset and Liability Committee ('ALCO') performs a critical role in the management of market risk that supports the Group Risk Management Committee in the overall market risk management. Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of market risk; including 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 Market Risk Management Department 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 i.e. 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 various business units within the allocated limits. All trading positions are monitored on a daily basis by independent support units. Should exposures or transactions set off pre-established triggers, management will deliberate and determine course of actions required on a timely basis.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Bank's Hedging Policies that prescribe 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.

A hedge is defined as a position that materially or entirely offsets the component risk elements of another position or portfolio.

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 Group's treasury functions with the approval of Group ALCO.

8.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

RHB Investment Bank Group applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets (RWA) and the corresponding market risk capital charge for RHB Investment Bank Group as at 31st December 2011 and 31st December 2010 are shown in the tables below:-

Table 16a: Market Risk-Weighted Assets and Capital Charge as at 31st December 2011

Market Risk	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets (RM'000)	Capital Charge (RM'000)
Interest Rate Risk	2,239,791	2,020,000	87,250	6,980
Foreign Currency Risk	27,634	-	27,634	2,211
Options Risk	96,000	-	12,000	960
Total			126,884	10,151

Table 16b: Market Risk-Weighted Assets and Capital Charge as at 31st December 2010

Market Risk	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets (RM'000)	Capital Charge (RM'000)
Interest Rate Risk	2,508,514	2,010,000	93,163	7,453
Foreign Currency Risk	20,558	-	20,563	1,645
Options Risk	-	-	48,175	3,854
Total			161,901	12,952

As at 31st December 2011 and 31st December 2010, the RHB Investment Bank Group did not have any exposures under Commodity or Inventory Risk.

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. RHB Investment Bank Group holds positions as a result of debt equity conversions, exposures arising from equity underwriting commitments and for socio- economic purposes, which are deemed as non-trading instruments.

The Bank has established a policy 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.

Risk- weighted exposures of equity investments are shown below:

Table 17: Equity Exposures in the Banking Book

Equity Type	Equity Investments Exposures (RM'000)		Risk-Weighted Assets (RM'000)	
	2011	2010	2011	2010
Publicly traded				
- Holdings of equity investments	2,000	1,306	2,000	1,306
Privately held				
- For socio-economic purposes	19,601	16,616	19,601	16,616
- For non socio-economic purposes	15,703	14,544	15,703	14,544
Total	37,304	32,466	37,304	32,466

The Bank did not make any material gains or losses from the sale or liquidation of the equity exposures during the financial years 2011 and 2010.

10.0 LIQUIDITY RISK

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to roll over maturing debt or meet contractual commitments to lend. Market liquidity risk is the risk that the Bank will be unable to sell assets, without incurring an acceptable loss in order to generate cash required to meet payment obligations under a stress liquidity event.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer term loans. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.

Through the Group's Liquidity Practices Guide, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Group's Liquidity Practices Guide include maintaining financial market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

The Group's ALCO supports Group's Risk Management Committee by performing the critical role in the management of liquidity risks, and is responsible in establishing strategies that assist in controlling and reducing any potential exposures to liquidity risk. The ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Group's balance sheet profile. Global and domestic economic data, information and events are deliberated at the ALCO which enables the Group to determine its actions and reactions in the capital markets. The ALCO is also the governance body which sets interest/profit rates for liabilities products as well as reference rates for lending and financing products and services.

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.

10.0 LIQUIDITY RISK (CONTINUED)

Liquidity Contingency Plan

The Group's Liquidity Policy Statement establishes guidelines for managing a 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, the Group's Liquidity Contingency Plan identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

11.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK

Interest rate risk in the banking book refers to any opportunity loss to the Bank's income and/or economic value to changes in interest rate, which may arise from both on and off balance sheet positions in the banking book. Interest rate risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. Excessive interest rate risk can pose a significant threat to the Bank's earnings and capital. Changes in interest rates may affect the Bank's earnings in terms of the net interest income and economic value of equity.

Interest rate risk in the banking book comprises:
- Re-pricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and re-pricing (for floating rate) of bank's assets, liabilities and off-balance sheet positions;
- Basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics;
- Yield curve risk – changes in the shape and slope of the yield curve; and
- Embedded optionality – the risk pertaining to interest-related options embedded in bank's products.

The ALCO supports Group Risk Management Committee in establishing policies, strategies and limits for the management of balance sheet risk exposure. Group Risk Management supports the ALCO in the monthly monitoring of the interest rate/ rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest income, as well as to ensure that interest rate exposures are maintained within defined risk tolerances.

In addition, the Group has established the Interest Rate Risk/Rate of Return Risk Policy which provides for the governance of interest rate/rate of return. Interest rate/profit rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its interest rate/profit rate risk hedges.

In line with the Group's Interest Rate Risk/Rate of Return Risk Policy to achieve a balance between profitability from banking activities and minimizing risk to earnings and capital from changes in interest rates, interest rate risk to earnings is controlled using Management Action Triggers ('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 risks in an environment of rapid financial market changes.

The impact of changes in interest rate to net earnings and economic value for the Bank as at 31st December 2011 and 31st December 2010 are shown below:

11.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

Table 18a: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2011

Currency	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings (RM'000)		Increase/(Decline) in Economic Value (RM'000)	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
MYR	(28,521)	28,521	(127,377)	127,377
USD	110	(110)	(1)	1
Others*	160	(160)	(2)	2
Total	(28,251)	28,251	(127,380)	127,380

Table 18b: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2010**

Currency	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings (RM'000)		Increase/(Decline) in Economic Value (RM'000)	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
MYR	(27,760)	27,760	(126,936)	126,936
USD	30	(30)	0	0
Others*	160	(160)	(2)	2
Total	(27,570)	27,570	(126,938)	126,938

Note: * Inclusive of GBP, EUR, SGD, etc

**In 2010, 50bps was reported. For year-to-year comparison, the impact has been increased to 100bps.

In 2011, the impact has been increased to 100bps in line with industry practice. 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 that 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, certain assumptions are made to reflect the actual sensitivity behaviour of interest bearing items.

Economic value is characterised by the impact of interest rate changes on the value of all net cash flows i.e. 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.

However, the computation of net cash flows is derived taking into consideration a series of assumptions, for instance, assets and liabilities with non-fix maturity e.g. current and savings accounts. Assumptions are made to reflect the behavioural changes against interest rate movements. The scenarios used are simplified whereby it is assumed 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 unites and risk management to mitigate the effect of this movement in key variables.

12.0 OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, systems and from external events, which also includes IT and legal risks. Operational risks are inherent in RHB Investment Bank 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 risks is the existence of a sound internal control system based on the principle of dual control, checks and balance, segregation of duties, independent checks and verification processes, segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:-

- Analysis and Enhancement – The RHB Banking Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The RHB Banking Group undertakes change management activities to improve the risk management knowledge, culture and policies 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 against operational losses.
- Monitoring and Intervention – This is where the principal head office risk control units, including the operations management function, compliance function and the internal audit function, actively manage operational non-compliances, incidences, and undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

Operational Risk Management Function and Organisation

The Operational Risk Management Department reporting directly to the Head of Group Risk Management, has the functional responsibility for the development of risk policies, frameworks and methodologies, and providing guidance and information to the business units on operational risk areas. Its function also includes generating a broader understanding and awareness of operational risk issues at all levels of the RHB Banking Group. It also ensures that operational risk 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, GRMC and the Board. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting allows senior management to identify adverse operational lapses, take corrective actions promptly, and ensure appropriate risk mitigation decision making and action plans.

12.0 OPERATIONAL RISK (CONTINUED)

Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting. These are outlined as follows:

- **Risk and Control Self Assessment ('RCSA')**

  Each business unit is required to identify and assess their own operational risks. RCSA is a risk profiling tool which facilitates effective operational risk management for the Bank, and focuses on future risk assessment by using past records of loss or near misses, key risk indicators and related issues such as audit findings. The RCSA process is facilitated by the business units themselves who together with personnel from Operational Risk Management would identify and assess key operational risks that could affect the effectiveness of controls and impact the achievement of business objectives. For identified risks lacking sufficient mitigation, the business units are required to establish action plans to improve the control environment so as to contain the risks to acceptable levels.

- **Key Risk Indicators ('KRIs')**

  Business 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 given frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident and Loss Management**

  Business and support units are required to report operational losses for further analysis of root cause for further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

  The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management.

Risk Mitigation and Controls

Risk mitigation tools and techniques are used to minimise risk to an acceptable level and aims to decrease the likelihood of an undesirable event and the impact on the business, should it occur.

The control tools and techniques are as follows:-

- **Business Continuity Management ('BCM')**

  To mitigate the impact of unforeseen operational risk events, the Bank has ongoing 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 Business Continuity Management ('BCM') Department.

  The Board of Directors has an oversight function through the GRMC and CMC. The Group Business Continuity Management Steering Committee ('GBCMSC') is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCMSC reports to the CMC.

- **Outsourcing**

  With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing of RHB Banking Group's Operations and Services ensures that outsourcing risks are adequately identified, assessed and managed prior to entering into any new arrangements and on an ongoing basis.

12.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls (Continued)

- **Insurance Management**

  The RHB Banking Group considers risk transfer by means of insurance to mitigate operational risk. The Group has a programme of insurances designed to reduce its exposure to liability and to protect its assets. The Group 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 financially mitigate the economic consequences of risks.

New Product and Services Approval Process

The RHB Banking Group has established a Policy 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 risks 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 Group's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

Country Cross-Border Risk

Country cross-border risk is the risk that the Bank will be unable to obtain payment from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross border assets comprise loans and advances, interest bearing deposits 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.

RHB Investment 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 equal and adequate protection to its customers as well as the Group's interests, thus reducing the risks associated with business activities.

Treatment for Operational Risk Capital Charge

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital. The operational risk-weighted assets and the corresponding risk capital charge as at 31st December 2011 and 31st December 2010 are shown below:

Table 19: Operational Risk-Weighted Assets and Capital Charge

Operational Risk	RHB Investment Bank Group (RM'000)		RHB Investment Bank (RM'000)	
	2011	2010	2011	2010
Risk-Weighted Assets	453,579	469,394	402,937	414,976
Capital Charge at 8%	36,286	37,551	32,235	33,198

13.0 REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the conduct of RHB Investment Bank Group or any of the entities within the Group, 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.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk will arise from failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental or social risk.

Reputational risk in the Bank is managed and controlled throughout by codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Framework.

The key elements for management of reputational risk include:
- prompt and effective communication with all stakeholders,
- strong and consistent enforcement of controls relating to governance, business compliance and legal compliance,
- continuous monitoring of threats to reputation,
- ensuring ethical practices throughout the organisation, and
- establishing and continually updating crisis management plans.

14.0 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) issued in December 2010, the Group has embarked on implementing ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy shall be assessed in relation to the Group's risk profiles, and strategies will be put in place to maintain appropriate capital levels. An implementation plan and roadmap has been established in order to meet BNM's requirement on ICAAP by 1st quarter 2013.

An ICAAP Framework will be formulated for implementation across the Group to ensure that all material risks are identified, measured and reported and adequate capital levels consistent with the risk profiles including capital buffers are maintained to support the Group's current and projected demand for capital under existing and stressed conditions.

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