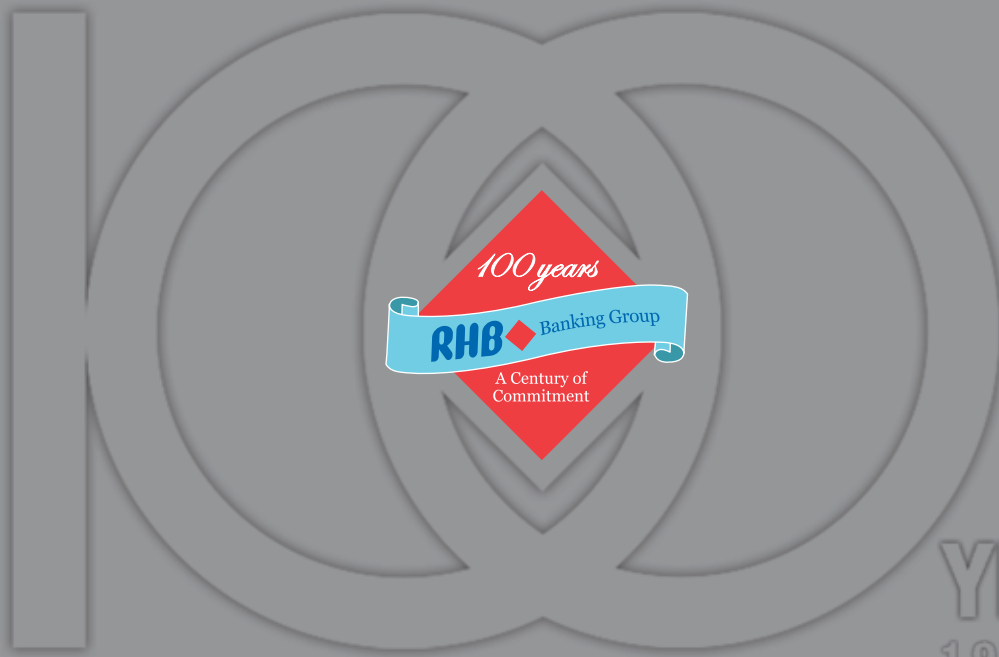




RHB Investment Bank Berhad



YEARS
1913-2013

Inside

this report

2	Group Financial Highlights
3	Five-Year Group Performance
4	Corporate Information
7	RHB Capital Berhad Group Structure
8	Board of Directors
10	Profiles of the Board of Directors
17	Investment Banking Services
19	Corporate Governance Statement
43	Statement on Risk Management & Internal Control
47	Group Audit Committee Report
52	Awards & Recognition
53	Financial Statements
54	Directors' Report
69	Statements of Financial Position
71	Income Statements
72	Statements of Comprehensive Income
73	Statements of Changes In Equity
77	Statements of Cash Flows
80	Summary of Significant Accounting Policies And Critical Accounting Estimates And Assumptions
100	Notes To The Financial Statements
228	Statement By Directors
228	Statutory Declaration
229	Independent Auditors' Report To The Member of RHB Investment Bank Berhad
231	Basel II Pillar 3 Disclosures

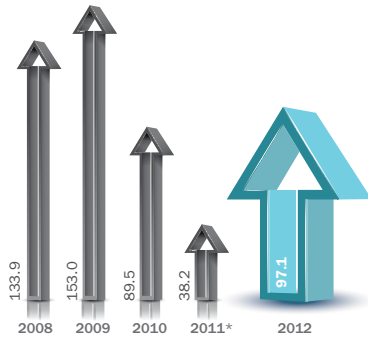
Group Financial Highlights

	2012	2011*	2010*	2009	2008
RESULTS (RM'000)					
Profit before taxation	97,133	38,170	89,506	153,013	133,838
Net profit for the financial year	70,870	23,948	67,235	113,243	97,242
Net dividends	17,005	29,265	69,998	185,870	60,507
STATEMENTS OF FINANCIAL POSITION (RM'000)					
Share capital	263,646	263,646	263,646	263,646	263,646
Shareholder's equity	651,699	614,308	653,683	742,486	718,100
Total assets	4,582,830	5,804,345	6,535,482	5,789,630	6,810,160
Loans and advances	39,639	43,582	50,651	60,158	468,244
Total deposits	3,254,305	4,604,205	5,132,302	4,305,318	5,425,445
RATIOS					
Earnings per share (sen)	26.9	9.1	25.5	43.0	34.4
Gross dividend per share (sen)	8.6	14.8	35.4	94.0	30.6
Net tangible assets per share (sen)	179.7	165.3	179.9	216.1	192.7
Return on shareholder's equity (%)	11.2	3.8	9.6	15.5	13.7

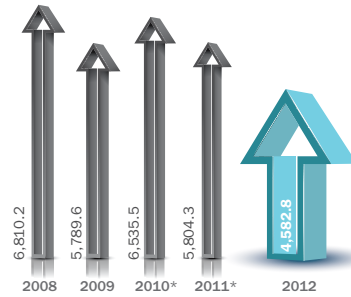
* Restated as a result of retrospective application of MFRS 139 and FRSIC 18.

Five-Year Group Performance

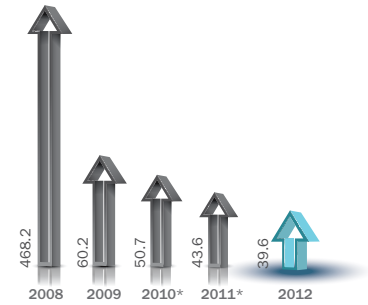
**PROFIT BEFORE TAXATION
(RM' Million)**



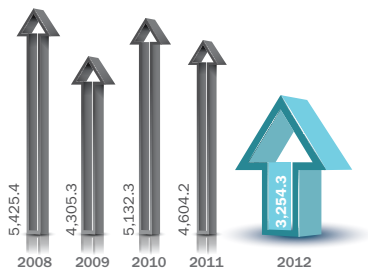
**TOTAL ASSETS
(RM' Million)**



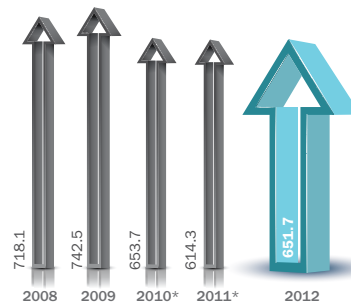
**LOANS & ADVANCES
(RM' Million)**



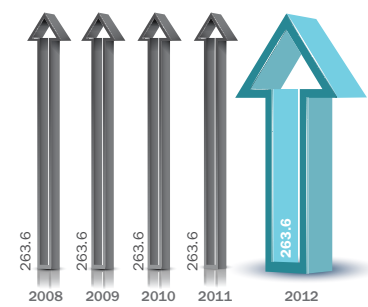
**TOTAL DEPOSITS
(RM' Million)**



**TOTAL EQUITY
(RM' Million)**



**SHARE CAPITAL
(RM' Million)**



* Restated as a result of retrospective application of MFRS 139 and FR SIC 18.

Corporate Information

As At 22 March 2013

BOARD OF DIRECTORS

Tan Sri Ong Leong Huat @ Wong Joo Hwa

Non-Independent Non-Executive Chairman

Lew Foon Keong

Senior Independent Non-Executive Director

Dato' Mohamed Khadar Merican

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

(LS 0006901)

BOARD COMMITTEES

GROUP AUDIT COMMITTEE*

Ong Seng Pheow

Chairman

Dato' Othman Jusoh

Haji Md Ja'far Abdul Carrim

Dato' Saw Choo Boon

Dato' Mohd Ali Mohd Tahir

GROUP NOMINATING 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 Bin Mohd Tahir

Kellee Kam Chee Khiong

Johari Abdul Muid

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong

Group Managing Director, RHB Banking Group

Johari Abdul Muid

Managing Director, RHB Bank Berhad

U Chen Hock

CEO, OSK Investment Bank Berhad

Mike Chan

*Director, Corporate Banking &
Officer-in-Charge, RHB Investment Bank Berhad*

Kong Shu Yin

Managing Director, RHB Insurance Berhad

Tuan Haji Abd Rani Lebai Jaafar

*Managing Director, RHB Islamic Bank Berhad
(until 14 February 2013)*

Prem Kumar

Group Chief Financial Officer

Norazzah Sulaiman

Director, Group Corporate Services

Michael Lim Kheng Boon

*Director, Group Transaction Banking
Director, Group Treasury*

Vince Au Yoong

Director, Retail Banking

Amy Ooi Swee Lian

Director, Business Banking

Ee Yew Chai

Director, Operations

Yeoh Beng Hooi

Director, Branch Management

Azaharin Abd Latiff

Director (Acting), Human Resource Management

Patrick Ho Kwong Hoong

Director, Group Risk Management

Wong Yih Yin

Chief Internal Auditor

Azman Shah Md Yaman

Group Company Secretary

MANAGEMENT

Mike Chan

Officer in Charge

MANAGEMENT OF SUBSIDIARIES

RHB INVESTMENT MANAGEMENT SDN BHD

Anthony Siau Ming Chong

Acting Principal Officer, Investment Management

RHB RESEARCH INSTITUTE SDN BHD

Lim Chee Sing

Executive Director/Head, Research Institute

► **Corporate Information**
As At 22 March 2013

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603-9287 8888
Fax : 603-9280 6507

JOINTLY CONTROLLED ENTITY

Vietnam Securities Corporation
Level 12B, 29 Nguyen Dinh Chieu
Le Dai Hanh, Hai Ba Trung
Hanoi, Vietnam
Tel : (84) 4 3944 6066, 67, 68, 69
Fax : (84) 4 3944 6070

COMPANY NO.

19663-P

AUDITORS

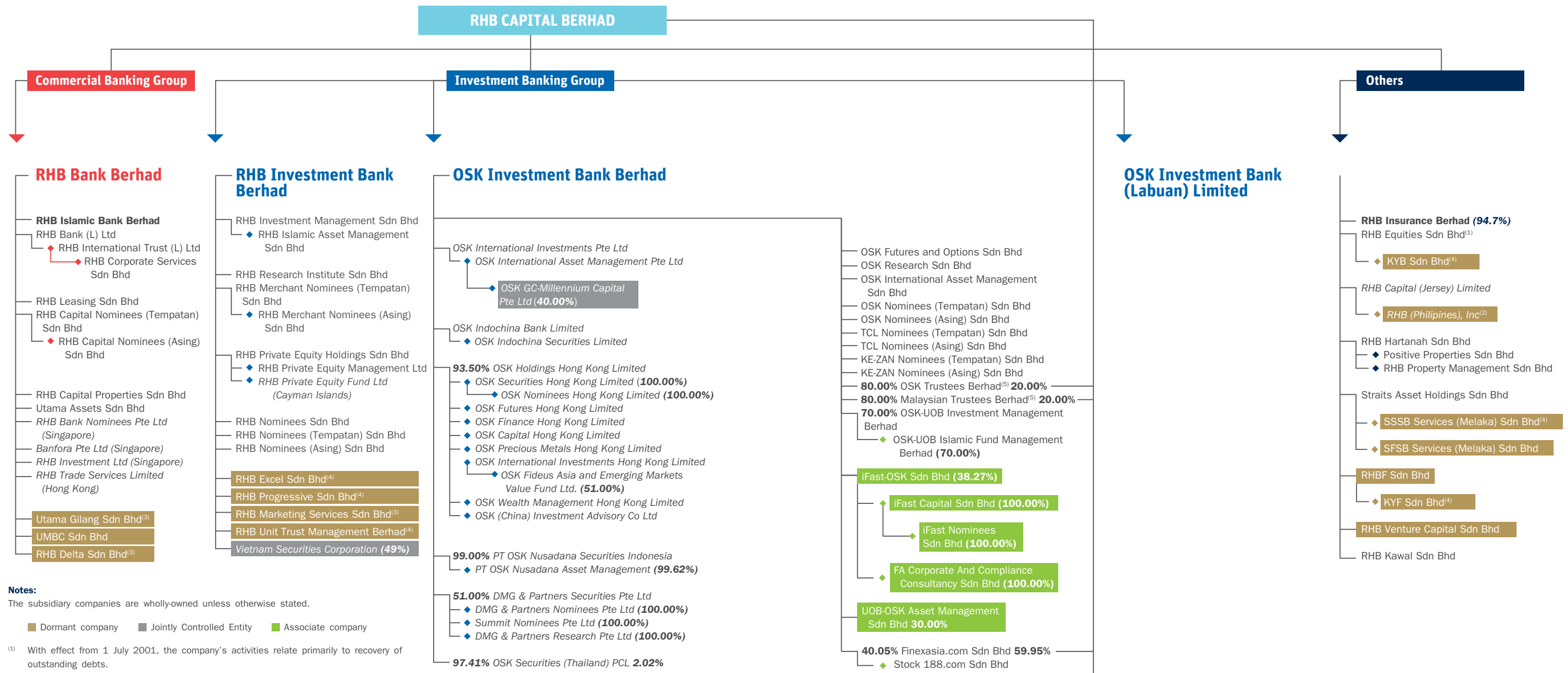
PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Travers, Kuala Lumpur Sentral
P.O. Box 10192
50706 Kuala Lumpur
Malaysia
Tel : 603-2173 1188
Fax : 603-2173 1288

BUSINESS ADDRESS

- 1) Head Office
Level 13, Tower 3
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : (03) 9287 3888
Fax : (03) 9281 5000
 - 2) Melaka Branch
Lot 19, 21 & 23 Jalan Merdeka
Taman Melaka Raya
75000 Melaka
Tel : (06) 283 3622
Fax : (06) 284 9886
 - 3) Taipan (USJ) Branch
1B & 2B Jalan USJ 10/1J
47610 UEP Subang Jaya
Tel : (03) 8022 1888
Fax : (03) 8022 1999
 - 4) 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
-

Note:

- * 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.



Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

■ Dormant company ■ Jointly Controlled Entity ■ Associate company

⁽¹⁾ With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.

⁽²⁾ The company has ceased operations from the close of business on 10 December 2001.

⁽³⁾ The company has commenced members' voluntary winding-up on 16 February 2011.

⁽⁴⁾ The company has commenced members' voluntary winding-up on 28 March 2012.

⁽⁵⁾ Held by: (i) OSKIB; (ii) OSK Nominees (Tempatan) Sdn. Bhd. (iii) OSK Nominees (Asing) Sdn. Bhd. and (iv) OSK Futures and Options Sdn. Bhd. with direct shareholdings of 20.00% each.

Country of incorporation is Malaysia unless otherwise indicated in italics

Board of Directors

Standing from left to right:

LEW FOON KEONG

Senior Independent Non-Executive
Director

ABDUL AZIZ PERU MOHAMED

Independent Non-Executive
Director

TAN SRI AZLAN ZAINOL

Non-Independent Non-Executive
Director

**DATO' MOHAMED KHADAR
MERICAN**

Independent Non-Executive
Director



**TAN SRI ONG LEONG
HUAT@ WONG JOO HWA**

Non-Independent Non-Executive
Chairman



DATO' SAW CHOO BOON

Independent Non-Executive
Director



PATRICK CHIN YOKE CHUNG

Independent Non-Executive
Director



▸ Profiles of the Board of Directors

Tan Sri Ong Leong Huat @ Wong Joo Hwa

(68 years of age – Malaysian)

Non-Independent Non-Executive Chairman



Tan Sri Ong Leong Huat @ Wong Joo Hwa (Tan Sri Ong) was appointed as a Non-Independent Non-Executive Director of RHB Investment Bank on 20 November 2012 and was subsequently appointed as the Chairman of RHB Investment Bank on 23 January 2013.

Tan Sri Ong holds a Capital Markets and Services Representative's licence issued by the Securities Commission of Malaysia under the Capital Markets and Services Act, 2007 for dealing in securities. Tan Sri Ong was a Director of MESDAQ from July 1999 to March 2002, a member of the Capital Market Advisory Council appointed by the Securities Commission in 2004 to advise on issues relating to the implementation of the Capital Market Master Plan. He was previously a member of the Securities Market Consultative Panel of Bursa Malaysia.

For over 17 years since 1969, Tan Sri Ong was attached to a leading financial institution where he last held the position of Senior General Manager. He was the Managing Director/Chief Executive Officer (CEO) of OSK Investment Bank Berhad (OSKIB) from July 1985 to January 2007 and thereafter appointed as the Group Managing Director/CEO of OSKIB. He was then re-designated as a Non-Independent Non-Executive Director of OSKIB, a position which he still holds.

Tan Sri Ong's other directorships in public companies include RHB Bank Berhad, OSK Holdings Berhad, OSK Property Holdings Berhad, OSK Investment Bank Berhad, OSK Ventures International Berhad, Bursa Malaysia Berhad and KE-ZAN Holdings Berhad.

Lew Foon Keong

(55 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 26 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.

Dato' Mohamed Khadar Merican

(56 years of age – Malaysian)

Independent Non-Executive Director



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. On 23 January 2013, Dato' Mohamed Khadar has been re-designated as Independent Non-Executive Director of RHB Investment Bank. He also serves as a Chairman of the Group Credit Committee and as a Member of the Group Nominating 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 Pemas 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, Astro Malaysia Holdings Berhad and Sona Petroleum Berhad.

Tan Sri Azlan Zainol

(63 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) and Jardine Carriage Limited (Singapore).

Patrick Chin Yoke Chung

(67 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) and Muda Holdings Berhad.

Dato' Saw Choo Boon

(66 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 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.

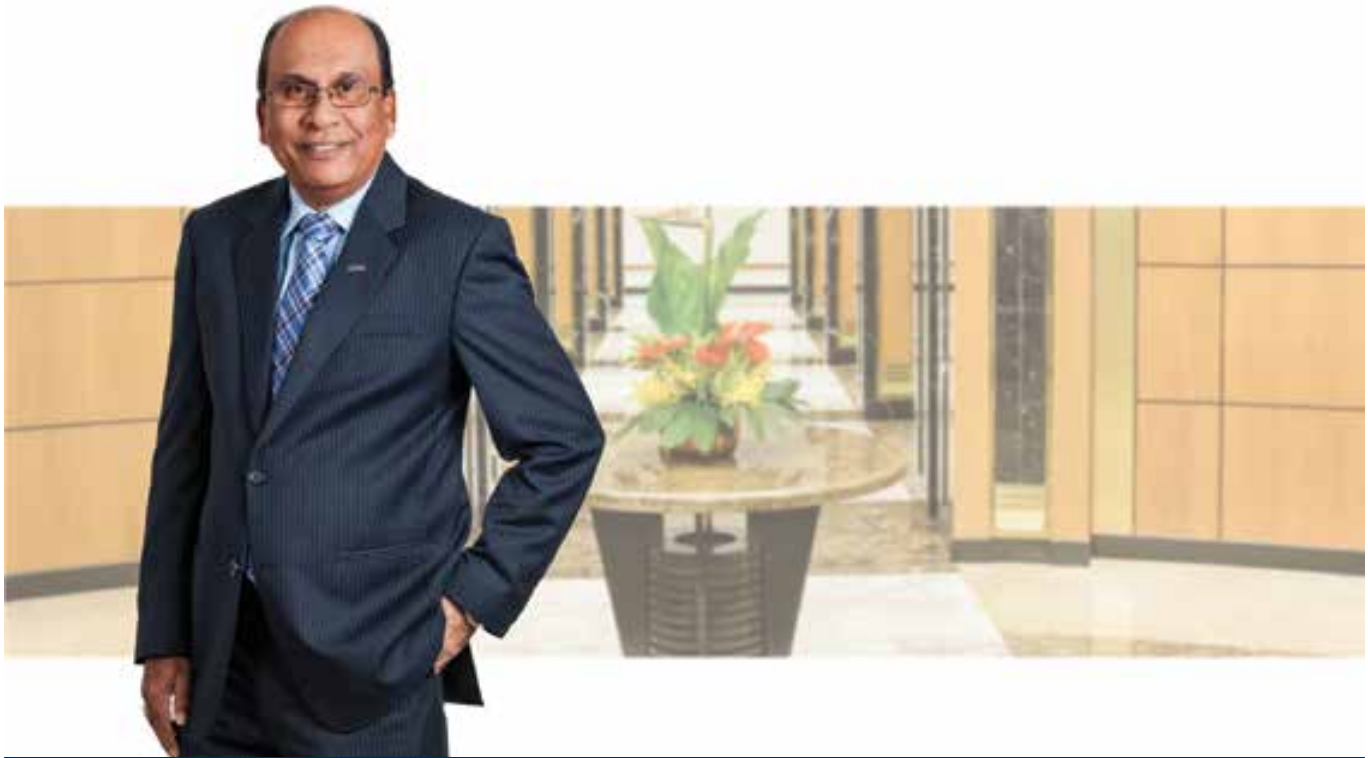
Dato' Saw was appointed the Chairman of Shell Malaysia on 1 March 2006. He was also the Vice President Business Development Asia Pacific responsible for the developing of commercial businesses in new market entries in Asia – China, India, Indonesia and Vietnam. From 1 January 2010, Dato' Saw was appointed 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, Digi.Com Berhad, Guinness Anchor Berhad (Chairman) and Phoenix Petroleum (M) Berhad.

Abdul Aziz Peru Mohamed

(64 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 specialised 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 Insurance Berhad, RHB Investment Management Sdn Bhd and As-Salihin Trustee Berhad.

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 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 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 flavour. CIB International, together with the respective business units, offers cross border transactional services covering corporate advisory, corporate restructuring, initial public offerings, mergers and acquisitions and origination, execution 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.

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 advice and support in the origination, structuring and pricing of equity fund raising transactions such as initial public offerings, private placements and rights issues. ECM also manages syndication, marketing and distribution of equity products through a quality network of institutional, corporate and private clients. The department also assists clients with price stabilisation activities for IPOs and managing investor relations, both prior to and after an equity fund raising transaction.

CORPORATE FINANCE

Corporate Finance delivers advisory services and transactional execution expertise to its client base across a range of products. This includes corporate and debt restructurings, mergers and acquisitions, takeovers, stock

exchange listings, public offerings of equity related instruments, private placements, underwriting and valuation of securities.

EQUITIES BROKING

Equities Broking offers facilities for share trading in the local stock market and in other markets such as Singapore, Thailand, Australia, the UK, the 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 shareholder 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 tailored financial solutions to clients. Typical mandates include corporate advisory, financial restructuring, project finance and balance sheet management type assignments. Assignments undertaken by the team include healthy and distressed companies across a wide range of industries.

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 provide investors with a view on the economy, market and industry outlook as well as analyse their implications for investors. 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 customised 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.

Introduction

“Boards and management must be mindful of their duty to direct their efforts and resources towards the best interest of the company and its shareholders while ensuring that the interests of other stakeholders are not compromised. Disclosure and transparency are essential for informed decision-making. The timely availability of quality and accurate information including the reporting of financial performance are key facets of investor protection and market confidence.”

Foreword, Chairman, Securities Commission Malaysia
Malaysian Code on Corporate Governance 2012 (MCCG 2012)

OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

The Board of Directors (Board) of RHB Investment Bank Berhad (RHB Investment Bank or Investment Bank) is committed to high standards of governance designed to protect the interests of shareholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability. The Board strives to ensure that our integrity and professional conduct are beyond reproach.

The Group is confident of its robust governance, which includes:

1. A clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed
2. Adequate internal control mechanisms
3. Sound administrative, accounting procedures, and IT systems and controls.

The Board believes that sound corporate governance practices contribute to managing the Group effectively and to achieving our strategic and operational goals and objectives. 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.

The Board's oversight of risk and control is facilitated through delegation of certain responsibilities to Committees of the Board, the principal Committees being the Group Audit Committee, Group Risk Management Committee and Group Nominating and Human Resource Committee.

Given the Group's vision to be a Leading Multi-National Financial Services Group as well as the five new customer-centric core values with the acronym PRIDE (i.e. Professional, Respect, Integrity, Dynamic and Excellence), the Board also considers the 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. RHB Banking Group's corporate governance structure is principally based on the following:

- (i) Malaysian Code on Corporate Governance 2012 (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 makes a 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 support the Group's efforts to compete in the global arena.

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

EASY BY RHB

- CIO Asean Awards 2011 – One of the Most Outstanding CIOs in the Asean Region 2011
- Celent Model Bank Award 2012 – Model Bank of the Year Award

BUSINESS BANKING

- Credit Guarantee Corporation Malaysia Berhad – Top SMI Award 2011
- SMI Association of Malaysia – Sahabat Negara Award 2012

RETAIL BANKING

- Trailblazer Award 2012 – Product Excellence in Co-Brand Credit Cards Category
- Visa Malaysia Bank Awards – Highest Payment Volume Growth, Visa Platinum Credit Card
- Visa Malaysia Bank Awards – Highest Payment Volume Growth, Visa Debit Card

RHB INVESTMENT BANK BERHAD

- Project Finance International Awards – Asia Pacific Project Bond of the Year
- Islamic Finance News Awards Deals of the Year – Malaysian Deal of the Year
- Alpha Southeast Asia Deals & Solutions Awards – Most Innovative Islamic Finance Deal of the Year in Southeast Asia
- Alpha Southeast Asia Deals & Solutions Awards – Best Dual-Listed IPO of the Year in Southeast Asia

- Alpha Southeast Asia Deals & Solutions Awards – Best IPO Deal of the Year in Southeast Asia; & Best Deal of the Year in Southeast Asia for Minority Shareholders
- Alpha Southeast Asia Deals & Solutions Awards – Best Project Financing Deal of the Year in Southeast Asia
- Alpha Southeast Asia Deals & Solutions Awards – Best Islamic Financial Deal of the Year in Southeast Asia

OSK INVESTMENT BANK BERHAD

- Alpha Southeast Asia Best Financial Institution Awards – Best Mid-cap Corporate Finance House in Malaysia
- Alpha Southeast Asia Best Financial Institution Awards – Best Mid-cap Corporate Finance House in Singapore
- Alpha Southeast Asia Deals & Solutions Awards – Most Innovative Islamic Finance Deal of the Year in Southeast Asia
- Alpha Southeast Asia Deals & Solutions Awards – Best Dual-Listed IPO of the Year in Southeast Asia
- Alpha Southeast Asia Deals & Solutions Awards – Best IPO Deal of the Year in Southeast Asia; & Best Deal of the Year in Southeast Asia for Minority Shareholders

RHB RESEARCH INSTITUTE SDN BHD

- Asiamoney Brokers' Poll 2012 – 2nd Best Strategy
- Asiamoney Brokers' Poll 2012 – 3rd Best Macroeconomics
- Asiamoney Brokers' Poll 2012 – 3rd Best Overall Country Research
- Asiamoney Brokers' Poll 2012 – 4th Best Analyst for Malaysia: Lim Chee Sing
- 2012 Financial Times and StarMine Analyst Awards for Asia – No. 2 Overall Stock Picker

- FactSet The Wall Street Journal's 2012 Asia's Best Analyst Survey – 1st Position for Oil & Gas
- FactSet The Wall Street Journal's 2012 Asia's Best Analyst Survey – 3rd Position for Food & Beverage

OSK RESEARCH SDN BHD

Asiamoney Brokers Poll 2012

Malaysia

- Best Research Coverage for Small Caps
- 3rd Best Local Brokerage
- 3rd Most Improved Brokerage Over the Last 12 Months
- 3rd Most Independent Research Brokerage

Singapore

- Best Research Coverage for Small Caps
- Best Research Coverage for Consumer Services
- Most Improved Brokerage Over the Last 12 Months
- 2nd Most Independent Research Brokerage
- 3rd Best for Overall Country Research

StarMine Analyst Awards

Asia

- Best Telecommunications Stock Picker
- 2nd Best Consumer Stock Picker
- 2nd Best Healthcare Stock Picker
- 3rd Best Overall Stock Picker

Singapore

- 3rd Most Productive Broker

Wall Street Journal Asia's Best Analyst

- 2nd Best Analyst in Malaysia: Alvin Tai Siew Shen

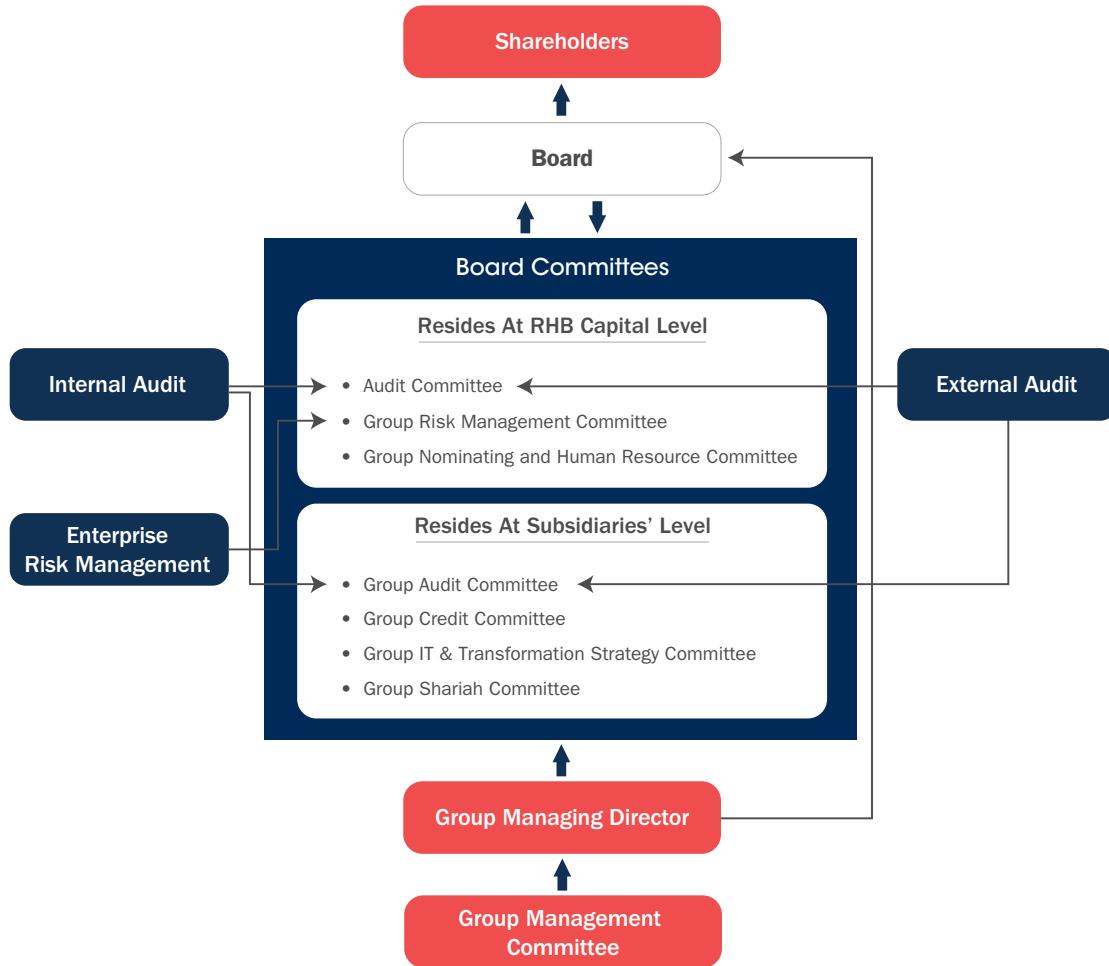
OSK-UOB INVESTMENT MANAGEMENT BERHAD

- The Edge-Lipper Malaysian Unit Trust Fund Awards – OSK-UOB Kidsave Fund, Best Mixed Asset MYR Balanced Fund (10 Years)



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.



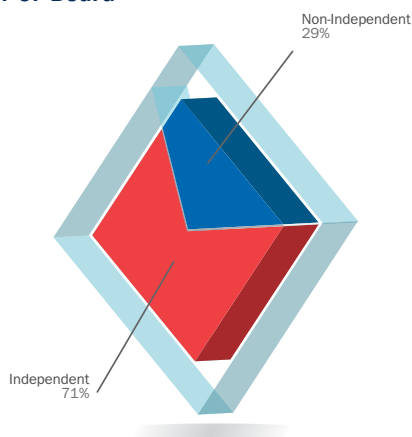
BOARD OF DIRECTORS

Board Composition and Balance

The Board believes that to be effective it needs to operate independent of the management. Each of the Non-Executive Directors has confirmed that they have been throughout the year and continue to be, independent of the management of the Group and free from any business/other relationship that could materially affect the exercise of their independent judgement.

Currently, the Board has seven (7) Members, with a Non-Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors (NEDs) and a 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



Recognising the importance of boardroom diversity and considering that gender diversity is also one of the important attributes of a well-functioning Board and an essential measure of good governance, a policy on boardroom and gender diversity is being established for RHB Banking Group in 2013. As an effort to strive towards the targeted goal of 30% female participation on board by 2016 (as stated in the Corporate Governance Blueprint 2011), the Group will continue its effort in sourcing and identifying suitable female candidates for appointment as Directors of the Group.

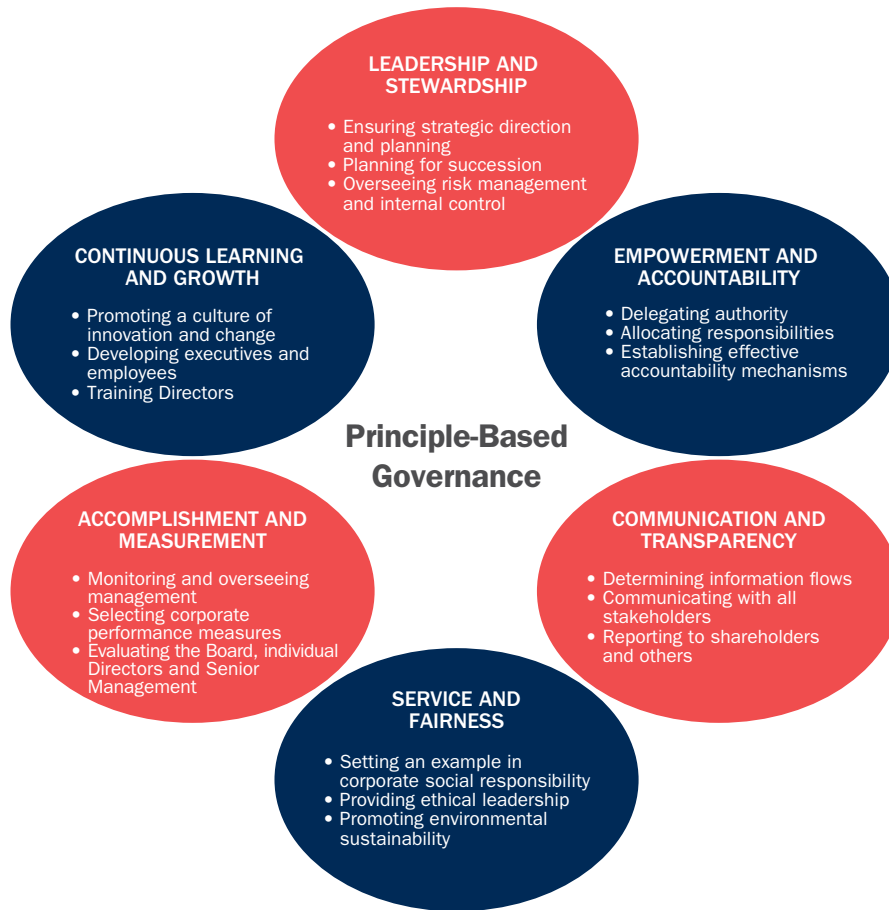
Directors' Qualification and Experience

As one of the leading 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 Group as a whole. Furthermore, being on the Board of an investment bank Board Members are required to be responsive to the constantly changing global financial landscape. The composition of the Board as well as the Boards of its major subsidiaries and the Group's Board Committees is reviewed regularly by the Group Nominating and Human Resource Committee to ensure that appropriate balance is maintained and that there is an adequate mix of skills and experience to govern the business effectively.

The effectiveness of the Investment Bank depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience. The Investment Bank benefits from the diverse range of skills, knowledge and experience acquired by the non-executive Directors from their work experience and as Directors of other companies, both national and international (including banking, property development, oil and gas, telecommunications, airline, consumer products, manufacturing, and consultancy). Collectively, the Board possesses skills and experience in a wide range of areas relevant to banking, business development, finance, accounting/audit and general management skills. A brief profile of each member of the Board outlining their qualifications, experience and skills is presented on pages 10 to 16 of this Annual Report.

Duties and Responsibilities of the Board

The Board adopts the following six basic principles to form a good governance 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. 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, and committed to ensuring that the highest corporate governance standards are adhered to. The overall principal 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 are 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 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;
- ensuring the formulation of a succession plan for the Investment Bank and Group for long-term business continuity; and
- ensuring the Investment Bank and Group maintain an effective investor relations programme or shareholder communication policy.

Commitment to Responsible Environment, Social and Governance (ESG) Principles

The Board acknowledges that a sustainable approach to investing has a positive impact on the value of investments and is vital for the interests of long-term investors. The Board is committed to considering ESG issues in our decision making, and to ensuring that our business and the entities that we control are responsible corporate entities. The Group has established a Corporate Responsibility (CR) strategic framework in 2007, that supports and creates value to the Group's business, operations and brand, and ensures positive contribution to our customers, employees and society at large.

The following are some of the key steps that the Board undertakes to embed sustainability in the Group.



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

Chairman

It is widely recognised that the roles of the Chairman and the Managing Director must be clearly demarcated. The Chairman's role is to facilitate the functioning of the Board independently of Management and to maintain and enhance the quality of our corporate governance. The Chairman is responsible for leading the Board and ensuring it performs in an effective manner.

The Chairman, YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa, presides over Board and General Meetings of the Investment Bank. He manages the affairs of the Board, with a view to ensuring that the Board functions effectively and meets its obligations and responsibilities, and leads the Board in the execution of its responsibilities to the shareholder. He ensures 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 also has these responsibilities:

- 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;
- to 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;
- to ensure that Board Committees are properly established and composed, with appropriate terms of reference;
- to ensure that all important agenda are appropriately discussed by the Board;
- to ensure the independence of the Board in discharging its duties. This includes encouraging Non-Executive Directors 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);
- to ensure that the Board and individual Directors fully exercise their responsibilities and adhere to applicable laws, regulations, rules, directives, policies and guidelines;
- to 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;

- to promote effective relationships 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
- to ensure effective relationships are maintained with all major stakeholders.

The Chairman, YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa holds a Capital Markets and Services Representative's licence issued by the Securities Commission of Malaysia under the Capital Markets and Services Act, 2007 for dealing in securities. YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa was a Director of MESDAQ from July 1999 to March 2002, a member of the Capital Market Advisory Council appointed by the Securities Commission in 2004 to advise on issues relating to the implementation of the Capital Market Master Plan. He was previously a member of the Securities Market Consultative Panel of Bursa Malaysia.

For over 17 years since 1969, YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa was attached to a leading financial institution where he last held the position of Senior General Manager. He was the Managing Director/Chief Executive Officer (CEO) of OSK Investment Bank Berhad (OSKIB) from July 1985 to January 2007 and thereafter appointed as the Group Managing Director/CEO of OSKIB. He was then re-designated as a Non-Independent Non-Executive Director of OSKIB, a position which he still holds.

YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa was appointed as the Chairman of RHB Investment Bank on 23 January 2013 and he exercises independent and broad judgement, provide independent opinion and constructive views on the Management's proposal.

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 (NEDs)

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 Board has determined that each current NEDs, with the exception of YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa and YBhg Tan Sri Azlan Zainol, are independent within the meaning of the regulatory provisions. 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 Investment Bank values and benefits from their judgement and the quality of their contributions to the deliberations of the Board and its Committees through their character, objectivity and integrity. The independence of the independent directors are required to provide their confirmations on their compliance with the criteria and definition of "independent director", as stipulated under Clause 2.26 and Clause 2.27 of BNM's CG Guidelines and Revised BNM/GP1-i, respectively.

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 and a Member of the Group Nominating and Human Resource Committee of RHB Capital; Mr Patrick Chin Yoke Chung who is a Member of Group Credit Committee and Group Risk Management Committee; YBhg Dato' Saw Choo Boon who is a Member of the Group Audit Committee, Group Nominating and Human Resource Committee and Group Risk Management Committee and Encik Abdul Aziz Peru Mohamed who is a Member of the Group Credit Committee.

YBhg Tan Sri Azlan Zainol, who has more than 29 years of experience in the financial sector, has been an effective Non-Independent Non-Executive Director of RHB Investment Bank (representing Employees Provident Fund Board). He was appointed onto the Board on 27 July 2005. He exercises independent and broad judgement as well as provides independent opinions and constructive views on Management proposals.

YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa was, appointed as a Non-Independent Non-Executive Director of RHB Investment Bank (representing OSK Holdings Berhad) on 20 November 2012 and was subsequently appointed as the Chairman of RHB Investment Bank on 23 January 2013. He actively participates in the deliberation of the Board and shares his views and opinions from the shareholder's perspective.

Senior Independent Non-Executive Director (SINED)

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.

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_jew@rhb.com.my

Board Charter

The Board Charter regulates how the Board and the individual members of the Board discharge their responsibilities according to the principles of good governance. The Board Charter aims to ensure that the Board members understand their duties and responsibilities as well as the laws, regulations and best practices governing their conduct. The Group recognises the importance of clearly defining the boundaries between the Board and Management. The Group has developed Board Charters for relevant entities, which set out the key corporate governance principles adopted by the Boards and ethos of the Group. The responsibilities of Boards and Chairperson are clearly defined therein. The Board Charters are also aimed to clearly stipulate the mandate of each party to find the right balance between support and check-and-balance as well as to avoid Boards over-focusing on operational details, which are the responsibilities of Management.

Within these broad boundaries, each Board, based on the context of the company, has also discussed, set and agreed upon with Management the annual balanced scorecard and key performance indicators that need to be executed and achieved by Management. The performance and progress thereof will then be reviewed by Boards from time to time. In addition, the Group has also established relevant guidelines in setting forth the matters/directions that need to be approved or sought from Boards, e.g. Group Approving Authority Matrix.

The Board Charters shall be reviewed by the Boards at relevant intervals as the Boards deem appropriate. The existing Board Charter of RHB Investment Bank is being reviewed and will be published on the website upon finalisation.

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 Code of Ethics forms part of the Board Charter which is currently being reviewed. The same will be published on the website upon finalisation.

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. The Code establishes the standards that govern the way employees deal with each other, our shareholders, customers, suppliers, competitors and communities. Within this framework, employees are expected to exercise good judgment and be accountable for their actions. Compliance with the Code is part of the terms and conditions of employment of every employee 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 report 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 decision 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 seven 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 as other business under the Agenda upon the 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 organisations 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 on-going Boardroom Modernisation Project. The benefits of circulating encrypted Board and Board Committee papers electronically and the use of iPads in place of paper have resulted in better mobility, faster movements of the documents, cost and time savings, greater convenience, better security and a positive impact on the environment. The RHB Banking Group firmly believes that technology is 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 decisions are communicated to the Management within two working days 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.

Over and above the issue of independence, each Director has a continuing responsibility to determine whether he/she has a potential/actual conflict of interest in relation to any material matter which comes before the Board. Such a situation may arise from external associations, interests or personal relationship. 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.

Corporate Governance Statement

The Board is able to seek clarification and advice as well as request for information on matters pertaining to the 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.

Expected Time Commitment

Directors are expected to set aside adequate time for their oversight of matters relating to the Investment Bank and the Group. A policy regarding expected time commitment of the directors is being formulated and established. For the financial year ended 31 December 2012, all directors have complied with the required minimum Board Meetings attendance of 75% under the BNM's revised guidelines. The Group Nominating and Human Resource Committee will review annually each Director's attendance record and degree of participation at meetings.

The Board convened twelve (12) meetings for the financial year ended 31 December 2012. 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	12/12	100
Mr Lew Foon Keong	11/12	92
YBhg Tan Sri Azlan Zainol	10/12	83
Mr Patrick Chin Yoke Chung	12/12	100
YBhg Dato' Saw Choo Boon	12/12	100
Encik Abdul Aziz Peru Mohamed	12/12	100
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa ^{1*}	2/2	100

Notes:

¹ Appointed as a Non-Independent Non-Executive Director on 20 November 2012.

* Based on the number of Board meetings attended since his appointment to the Board.

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 and Human Resource Committee (Group NHRC) is delegated with the role of reviewing and assessing the appointments/re-appointments of Directors.

Fit and Proper

RHB Banking Group has an effective and robust framework in place to ensure that individuals appointed to relevant senior positions within the Group have the appropriate fitness and propriety to properly discharge their prudential responsibilities on appointment and during the course of their appointment. It involves assessment being carried out for each Director and relevant senior executives.

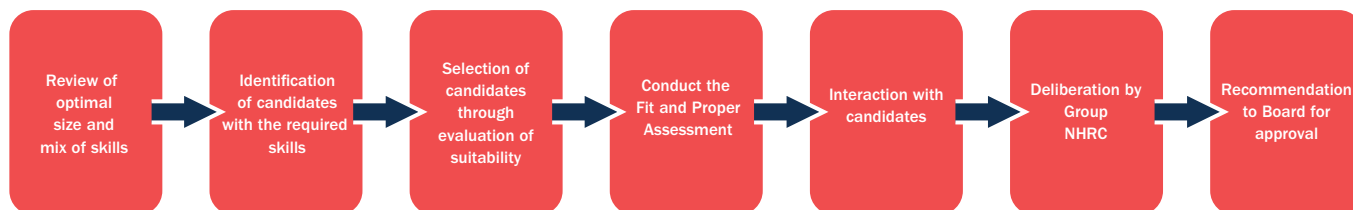
For the appointment of new Directors, a thorough and comprehensive fit and proper assessment (i.e. background, skills, knowledge and experience) of the nominee is undertaken by the Group

NHRC in accordance with the Policy and Guidelines on Fit and Proper for Key Responsible Persons of RHB Banking Group (Fit and Proper Policy), through a transparent nomination process before a recommendation is made to the Board for approval. These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, and also involve declaration being completed by each individual as well as the obtaining of evidence of material qualification and the carrying out of checks such as criminal record, bankruptcy and regulatory disqualification checks, among others. These assessments are reviewed thereafter on an annual basis. The Fit

and Proper Policy outlines the following criteria for assessment of the suitability of the candidate for appointment:

- Probity, personal integrity and reputation, where the candidate must have personal qualities such as honesty, integrity, diligence, independence of mind, fairness and ethical behaviour.
- Competence and capability, where the candidate must have the skills, experience, ability and commitment to carry out the role.
- Financial integrity, where the candidate must have financial soundness and able to manage his/her debts or financial affairs prudently.

Nomination Framework



As for the re-appointment of existing Directors, the Group NHRC refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation besides their ongoing experience during their formal/informal interactions with the Directors. 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 its internal guidelines on the Tenure of Appointment and Re-appointment of INEDs (Internal Guidelines) with the objective of preserving the independence of INEDs. The Board believes it should reflect a

balance between experience and learning on the one hand, and the need for renewal and fresh perspectives on the other. Directors are expected to serve up to a maximum of 10 years, assuming they receive satisfactory annual performance assessments, are annually re-elected by the shareholders, and meet the other requirements of the corporate governance requirements. In view of the current challenges in searching for suitably qualified and experienced INEDs (especially from the banking industry) in the market, the Group decided to maintain the two-year term of appointment or re-appointment of INEDs with a maximum service tenure of 10 years for a transition period of 1 year. The

maximum service tenure of 9 years recommended in the Code will be adopted in 2014. However, the allowance for extension/re-designation will still not be adopted. The Board verily believes that the transitory approach is appropriate to address the immediate needs of the Group and the decision of not adopting the extension of tenure/re-designation will ensure the spirit of governance is adopted in its true context notwithstanding the test of time.

Pursuant to the Internal Guidelines, INEDs over seventy years of age will also not be eligible for appointment or re-appointment on the Board 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.

Succession Planning

Succession planning and talent development are always the key priority of the RHB Banking Group in maintaining its sustainability and further enhancing its competitive market positioning as well as striving towards the Group's regional expansion goal. The Group has in place programmes by which candidates with potential are identified, developed and nurtured to fill senior positions. Such development programmes are monitored regularly to ensure that they are relevant and effective in grooming the next generation of RHB management.

In accordance with our framework, the Group has embarked on a 360 degree internal leadership competency assessment. Such assessment is to verify successors' suitability and identify their development gaps in the area of leadership and subsequently to enrol them into the Group's structured Talent Development Program. The results of the said assessment have been deliberated in detail by the Group NHRC and appropriate action plans are being developed in addressing the identified gaps.

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 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. This approach is in line with market best practices in ensuring the assessment is conducted independently from any internal influence. The BEE also includes interviews with Directors and Senior Management by PwCAS which are conducted in an in-depth manner to encompass areas which fall outside the realm of the written assessment. PwCAS will discuss the detailed BEE results with the Chairman of the Board as well as the Chairman of the Group NHRC. A summarised report will be presented to the Group NHRC as well as the Board of the Company 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.

Training And 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 training and development of Directors are spelled out in the Group's 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.

Conferences, seminars and training programmes attended by each Director of the Investment Bank in 2012 encompassed various topics, including the following:

Directors	Training Programmes
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa	Training Session No. 3 Of Internal Capital Adequacy Assessment Process (ICAAP)
YBhg Dato' Mohamed Khadar Merican	FIDE Elective Program: Private Equity Program
	Competition Act
	Managing Banking Operations And Innovation
	The Framework Of Shariah Compliance And Governance
	ICAAP Directors Workshop
	Training Session No. 2 Of ICAAP
	ICLIF Strategic Development Program
	ICAAP organised by Bank Negara Malaysia
	Training Session No. 3 Of ICAAP

► **Corporate Governance Statement**

Directors	Training Programmes
YBhg Tan Sri Azlan Zainol	Managing Banking Operations And Innovation
	The Framework Of Shariah Compliance And Governance
	ICAAP Directors Workshop
	Training Session No. 2 Of ICAAP
	ICLIF Strategic Development Program
	Training Session No. 3 Of ICAAP
Mr Lew Foon Keong	ICAAP Directors Workshop
	FIDE Elective Program: ICAAP
	FIDE Elective Program: Financial Statement Fundamentals
	FIDE Elective Program: Board IT Governance & Risk Management
Patrick Chin Yoke Chung	FIDE Elective Program: Private Equity Program
	Competition Act
	Managing Banking Operations And Innovation
	ICAAP Directors Workshop
	Training Session No. 2 Of ICAAP
	Training Session No. 3 Of ICAAP
Encik Abdul Aziz Peru Mohamed	FIDE Core 2012: Module B
	The Framework Of Shariah Compliance And Governance
	ICAAP Directors Workshop
	“Flex – Business Re-Imagined” By Mike Walsh
	ICLIF Strategic Development Program
	ICAAP Directors Workshop
YBhg Dato’ Saw Choo Boon	FIDE Core 2012: Module B
	Competition Act
	ICAAP Directors Workshop
	FIDE Elective Program: Financial Statements Fundamentals “What’s in the Numbers”
	FIDE Elective Program: ICAAP
	ICLIF Strategic Development Program
	Training Session No. 3 Of ICAAP

Board Professionalism Directorships in Other Companies

In ensuring that Directors' commitment, resources and time are more focused to enable them to discharge their duties effectively, the Group will be establishing a process whereby the Directors are required to notify the Group NHRC before accepting any new directorship in other companies. The notification should include information on the nature of the new appointment (executive or otherwise), number of meetings to attend (for example, quarterly meeting), complexity of organisation and degree of participation in any sub-committee of the said organisation. The appointment shall only take effect thereafter.

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 unless the procedures relating to dealing in securities during the closed period in accordance with paragraph 14.08 of the MMLR have been complied with. Notices on the closed period for trading in RHB Capital 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 under this policy.

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:

- ensures that the Board is kept well informed/updated on legal/regulatory requirements that affects the duties and responsibilities of Directors;
- ensures that the relevant companies within the Group comply 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 the external share registrar; and
- acts as a custodian of the Group's statutory records.

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 the RHB Bank or at RHB Capital level:

At RHB Capital Level

◆ Group Nominating and Human Resource Committee (i.e. the consolidated committee of the Group Nominating Committee and the Group Remuneration and Human Resource Committee)

- All of its members are Independent NEDs; and
- Its main objective is to support the Boards in providing oversight and direction on Human Resource matters and operations, and to recommend to the Boards for approval, the remuneration and human resource strategies, policies and frameworks.

◆ Group Risk Management Committee

- All of its members are Independent NEDs; and
- Its main objective is to provide oversight and governance of risks at the Group.

Corporate Governance Statement

At RHB Bank Level

◆ Group Audit Committee

- All of its members are Independent NEDs; and
- Its main objective is to provide independent oversight of the financial reporting and internal control system and ensure checks and balances for entities within RHB Banking Group, excluding RHB Capital.

◆ Group Credit Committee

- All of its members are Independent NEDs; and
- Its main objective is to affirm, veto or impose additional conditions on all credits/futures broking and debts and equity underwriting applications for amounts above the defined thresholds of the Central Credit Committee, as well as to oversee the management of impaired loans/assets and monitor the recovery of impaired loans/assets.

◆ Group IT & Transformation Strategy Committee

- Comprises Board members of the Group; and
- Its principal responsibility is to provide guidance on the Group's planning and/or execution of programmes and initiatives within the realm of information technology and strategic transformation management.

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/Audit Committee 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 level:

Group Nominating And Human Resource Committee

The Group Nominating Committee and the Group Remuneration and Human Resource Committee have been consolidated on 30 August 2012 (Consolidation), and is now known as Group Nominating and Human Resource Committee (Group NHRC). It solely comprises INEDs. Meetings of the Group NHRC are held as and when required but the Group NHRC often meets on a monthly basis. The Group Nominating Committee met seven times while the Group Remuneration and Human Resource Committee met eight times during financial year 2012, prior to the Consolidation. After the Consolidation, the Group NHRC met four times during the financial year 2012.

The composition of the Committee and the attendance of the members at meetings held in 2012 are as follows:

Attendance at Meetings

Name of Directors	Prior to the Consolidation		After the Consolidation
	Group Nominating Committee	Group Remuneration and Human Resource Committee	Group NHRC
YBhg Datuk Haji Faisal Siraj (Chairman)	7/7 (100%)	8/8 (100%)	4/4 (100%)
YBhg Dato' Mohamed Khadar Merican	6/7 (86%)	7/8 (88%)	4/4 (100%)
YBhg Dato' Saw Choo Boon	7/7 (100%)	8/8 (100%)	3/4 (75%)
YBhg Dato' Teo Chiang Liang	6/7 (86%)	7/8 (88%)	3/4 (75%)
Mr Choong Tuck Oon	6/7 (86%)	7/8 (88%)	4/4 (100%)
Tuan Haji Md Ja'far Abdul Carrim	7/7 (100%)	8/8 (100%)	4/4 (100%)

The salient terms of reference of the Group NHRC with regard to its nomination roles are as follows:

- Establish a documented procedure for the appointment of directors, board committee members, Group Shariah Committee (GSC) and key senior management officers.
- Establish and recommend for Board approval, minimum requirements for directors, GSC and key senior management officers.
- Establish and recommend for Board approval, the optimal size and mix of skills to ensure efficient operation of the Boards/Board Committees/ GSC.
- Review on a periodic basis, the policy on boardroom and gender diversity.
- Assess and recommend for Board approval, new and reappointed nominees for directorship, board committee members, GSC and key senior management officers.
- Establish and recommend for Board approval, the expectations on time commitment for the board members and protocols for accepting new directorships.
- Establish and recommend for Board approval, a mechanism for the formal assessment of the performance of Boards as a whole, Board Committees, GSC, each Director and key senior management officers.
- Review performance assessment results and recommend to the Board, the removal of any director, GSC or key senior management officer found to be ineffective, errant and negligent in the discharge or responsibilities.
- Ensure directors, board committee members and GSC receives an appropriate induction and continuous training programs for closure of skill gaps and keeping abreast with latest developments.

- Establish and recommend for Board approval, the criteria to assess independence of independent directors.
- Assess annually the independence of independent directors and that the directors and officers of the Group meet the identified independence criteria and are not disqualified under relevant regulations.
- Review and recommend for Board approval, any significant change in the organisation structure of the Group or/and the major operating subsidiaries.
- Whenever key expatriates at the Group are employed, to ensure there is in place a process for the transfer of expertise and skills from the expats to the staff of the Group.
- To recommend to the Board, a policy regarding the period of service for the Executive and Non-Executive Directors.
- Perform any other functions as defined by the Board.

The terms of reference of the Group NHRC with regard to its remuneration roles are as follows:

- Ensure the establishment of formal and transparent procedures for developing Remuneration and HR policies, strategies and framework for directors, GSC, key senior management officers (which entails Group MD, Chief Executive Officer/ Managing Directors (CEO/MD), and Direct Reports of the Group MD and CEO/MD in major entities (save for Chief Internal Auditor) and any persons as may be decided by the Committee) and staff.

- Recommend remuneration strategies, policies and framework and specific remuneration packages for directors, board committee members, GSC and key senior management officers, which should be (where relevant):

- Market competitive and in support of the Group's culture, vision, objectives and strategy.
- Reflective of the responsibilities and commitment required.
- Sufficient to attract and retain quality people but yet not excessive.
- Performance driven with sufficient emphasis on long term development of the Group to avoid excessive short-term risk-taking.
- The framework should cover all aspects of remuneration including directors' fees, salaries, allowances, bonuses, option and benefit-in-kind.

- Ensure Human Resource strategies, policies and frameworks are in place for all the building blocks of a quality Human Resource management system (e.g. succession planning, talent and leadership development, training, etc.) to support the Group in achieving its objectives.
- Review and assess the effectiveness of the Human Resource Division in supporting the Group.
- Review and recommend for Board approval, any significant change in the organisation structure of the Group or/and the major operating subsidiaries.
- Perform any other functions as defined by the Board.

Corporate Governance Statement

Group Risk Management Committee

The Group Risk Management Committee (Group RMC) comprises solely INEDs. The Group RMC met eighteen times during financial year 2012. The composition of the Group RMC and the attendance of the members at meetings held in 2012 are as follows:

Name of Directors	No. of Meetings Attended
Tuan Haji Khairuddin Ahmad (Chairman)	18/18 (100%)
Mr Patrick Chin Yoke Chung	16/18 (89%)
Tuan Haji Md Ja'far Abdul Carrim	18/18 (100%)
Mr Choong Tuck Oon	16/18 (89%)
YBhg Dato' Saw Choo Boon	15/18 (83%)

The salient terms of reference of the Group RMC 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 level:

Group Audit Committee

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

The Group AC meets regularly with the internal auditors. The Group AC together with the Senior Management of the respective companies in the Group meet with the external auditors in reviewing the 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 (20) Group AC meetings were held.

The Group AC 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 AC and the attendance of the Members thereof together with the terms of reference and activities of the Group AC during the financial year are set out in the Group AC Report at page 47 to page 51 of this Annual Report.

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 2012, a total of thirty nine (39) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Directors	No. of Meetings Attended
YBhg Dato' Mohamed Khadar Merican (Chairman)	34/39 (87%)
Tuan Haji Khairuddin Ahmad	38/39 (97%)
Encik Abdul Aziz Peru Mohamed	38/39 (97%)
Mr Patrick Chin Yoke Chung	32/39 (82%)

The salient terms of reference of the GCC 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 minimise credit loss and maximise 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 Berhad, RHB Bank (L) Ltd, RHB Investment Bank Berhad and RHB Islamic Bank Berhad.
- 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 (3) Independent Non-Executive Directors of whom one (1) is the Chairman, the Group Managing Director and the Managing Director of RHB Bank. During the financial year ended 31 December 2012, a total of eleven (11) meetings were held and the details of attendance of each member at the GI&TSC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Directors	No. of Meetings Attended
Mr Choong Tuck Oon (Chairman)	11/11 (100%)
Mr Ong Seng Pheow	11/11 (100%)
YBhg Dato' Mohd Ali Mohd Tahir	11/11 (100%)
Encik Johari Abdul Muid	8/11 (73%)
Mr Kellee Kam Chee Khiong	7/11 (64%)

The salient terms of reference of the GI&TSC are as follows:

- To review the Group's overall IT strategic plan and system architecture for recommendation to the Board of Directors (BOD).
- To review and recommend to the BOD, strategic and major projects proposed by Strategic Business Group (SBG)/Strategic Functional Group (SFG).
- To review Group IT policies for recommendation to BOD.
- To discuss current developments and updates in the IT industry affecting the Group, as and when needed.
- To review the progress of on going programs/initiatives monitored by the Transformation Management Office (TMO) and endorse the status update of these programs/initiatives for the relevant Board's information.
- To discuss/guide the TMO on the next course of action on overcoming major issues hindering the success of current transformation programs/initiatives.

Group Shariah Committee

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

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

- to act as an independent advisory body to the Boards and management of the RHB Banking Group in ensuring that the Islamic business and operations of the Group is in compliance with Shariah principles at all times;
- to ensure effective working arrangements are established between the GSC and the Shariah Advisory Council (SAC) of BNM as well as that of Securities Commission; and
- to ensure the establishment of appropriate procedures in leading to the prompt compliance with the Shariah principles for the Group.

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
- Executive Management Committees at the Regional Operations-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 tiered 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.

Further details on the aggregate remuneration of the Directors of the Investment Bank (comprising remuneration received and/or receivable from the Investment Bank and its subsidiaries during the financial year 2012) are 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 RHB Banking Group recognises the importance of developing a healthy relationship with the investment community. With the view of creating shareholder value and keeping communication channels open between the Group and the investment community, the Investor Relations team planned and implemented a comprehensive engagement programme in 2012. The

Group engages proactively and regularly with the investment community to share the Group's strategy and vision and to discuss on the overall operations, business and financial performance, whilst ensuring timely and fair dissemination of information.

The key spokespersons and representatives for Investor Relations of the Investment Bank are the Managing Director and Head of Investor Relations who engage with research analysts and institutional investors directly.

Meetings and Tele-conferences

The RHB Banking Group continues to attract strong interest from both the domestic and international investment community. Management regularly holds one-on-one meetings and teleconferences with analysts, fund managers and shareholder.

Conferences and Roadshows

The Group's commitment to Investor Relations is not limited to participation of conferences and roadshows at the domestic front, but extends beyond Malaysian borders.

In 2012, the Group attended the annual Invest Malaysia Conference in Kuala Lumpur (May) and Hong Kong (November), the OSK Asean & Hong Kong Corporate Day in Singapore (June) and the Credit Suisse Asean + India Conference in Singapore (August). The Group also undertook a non-deal roadshow in June 2012 covering Singapore and London following our announcement of the OSKIB transaction.

These events provide an excellent opportunity to maintain regular contact with shareholder, to reach potential investors and to build rapport with international investors.

INTERNAL CONTROL

The Board is responsible for reviewing the adequacy and effectiveness of the Group's system of risk management and internal control. The size and complexity of the Group's operations necessitate the managing of a wide and diverse spectrum of risks. The risk management and control framework established in the Group includes an ongoing process for identifying, evaluating, managing and reporting of significant risks that may affect the achievement of the Group's business objectives and strategies.

The Board considers that the Group'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, are operating adequately and effectively to safeguard the shareholder's investment and the Group's assets.

An overview of the Investment Bank and the Group's systems of internal control is contained in the Statement on Risk Management & Internal Control set out on pages 43 to 46 of this Annual Report.

Relationship with External Auditors

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group AC. The role of the Group AC in relation to the External Auditors is disclosed in the Group AC Report set out on pages 47 to 51 of this Annual Report.

► Corporate Governance Statement

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors (Policy). The Group AC undertakes to review the non-audit services rendered by the External Auditors and the related fees prior to approval of non-audit service by the External Auditors. A non-audit fees report is also presented to the Group AC quarterly. This is to ensure that the independence of the External Auditors is not compromised and its compliance with the Policy and the terms of all relevant professional and regulatory requirements when rendering the audit and non-audit services to the Group. The External Auditors are also required to declare their independence for all non-audit engagements undertaken.

Internal Audit Function

The Group Internal Audit (GIA), which is guided by the Group Internal Audit Charter, performs regular reviews and reports on the adequacy and effectiveness of the Group's risk management, internal control and governance processes. The results of the audits conducted by GIA are reported to the Group AC/AC of RHB Capital. The follow-up actions and the review of the status of actions taken as per the auditors' recommendations are carried out by the respective Management Audit Committees (chaired by the MD of the entity) established at the key operating subsidiaries within the Group. The group internal auditors also work closely with the external auditors to resolve any control issues as raised by them to ensure that all issues are duly acted upon by the management. Further details of the activities of the GIA function are set out in the Statement on Risk Management & Internal Control of this Annual Report.

Risk Management

The Group recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and safeguard shareholder's investments as well as the Group's assets. The system of risk management and internal control that we have in place facilitates and drives our business operations and enables us to manage our Group in an effective and efficient manner with sound financial reporting as well as compliance with relevant laws and regulations, and internal procedures.

An overview of the Bank and the Group's systems of risk management is contained in the Statement on Risk Management & Internal Control set out on pages 43 to 46 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 AC for deliberation.

Details of these transactions are set out under Notes 35 to the Financial Statements on pages 140 to 145 of this Annual Report.

Group Whistle Blower Policy

The Group has also put in place a Group Whistle Blower Policy in strengthening its governance practice. The policy provides employees with an

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, six complaints pursuant to the Group Whistle Blower Policy were received and investigated and pursued accordingly based on the requirement of the Policy.

All reports or complaints shall be filed with the Designated Recipient as specified in the Group Whistle Blower Policy.

The Group Whistle Blower Policy is available on the Group's internal portal for reference by the staff across the Group.

COMPLIANCE WITH THE CODE

The Board is satisfied that the Investment Bank and Group have applied the principles and recommendations outlined in the Code as at 31 December 2012.

RHB Banking Group has mapped its current corporate governance practices with the Code and identified relevant gaps thereto. The Board is pleased to report that the Group is generally in compliance with the Code.

This Statement of Corporate Governance was approved by the Board of Directors on 26 March 2013.

Statement on Risk Management & Internal Control

INTRODUCTION

The Board of Directors (Board) recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and to safeguard shareholders' investments as well as RHB Investment Bank Berhad (the Investment Bank) Group's assets. The system of risk management and internal control that we have in place facilitates our business operations and enables us to manage our Group in an effective and efficient manner with sound financial reporting as well as compliance with relevant laws and regulations, and internal procedures.

Set out below is the Board's Statement on Internal Control, which has been prepared in accordance with the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

RESPONSIBILITY

The Board acknowledges its responsibility for reviewing the adequacy and effectiveness of the Investment Bank's system of risk management and internal control. The responsibilities of the Board for the governance of risks and controls include, amongst others, reviewing the risk management framework, processes, tasks and assessing whether they provide reasonable assurance that risks are managed within the Investment Bank's defined risk appetite and tolerance.

Management continuously assists the Board in the implementation of approved policies and procedures on risk management and control for application and adherence across the Investment Bank as well as ensuring

that such policies and procedures are being continuously reviewed in order to meet the changing financial landscape. The risk management and control framework established in the Investment Bank to manage risk includes an ongoing process for identifying, evaluating, managing and reporting of significant risks that may affect the achievement of the Investment Bank's business objectives and strategies. This covers the period throughout the financial year under review and up to the date of approval of this report.

Management is accountable to the Board for implementing and monitoring the system of risk management and internal control and for providing assurance to the Board that it has done so. In this regard, the Board acknowledged that it has received assurance from the Officer-In-Charge and Group Chief Financial Officer as well as the Director, Group Risk Management that the Investment Bank's risk management and internal control system is operating adequately and effectively.

RISK MANAGEMENT AND CONTROL FRAMEWORK

A sound framework of risk management and internal control is fundamental to good corporate governance. The key elements implemented by the Board and Management for maintaining a sound system of risk management and internal control encompass 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 for the risks taken, given that the risks within the industry we operate in continually change and evolve. This process is regularly reviewed by the Board through its 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, Group IT and Transformation Strategy Committee, and Group Capital and Strategic Risk Management Committee.

In line with regulatory requirements and industry best practices, the Group subscribes to the principle that risk management is a core responsibility of the respective businesses and operating units. This has been clearly articulated and documented in the risk management framework of the Group.

▶ Statement on Risk Management & Internal Control

To support and promote 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 the effectiveness thereof.

The Group has also embarked on implementing the Internal Capital Adequacy Assessment Process (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 ICAAP framework has been 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.

◆ 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. Follow-up action and the review of the status of action taken as per the auditors' recommendations are carried out by Management via the Management Audit Committee (chaired by the Officer-In-Charge of the Investment Bank) whose members comprise senior management. The minutes of meetings of the Management Audit Committee 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 Banking Group 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 procedures.

Compliance management is the collective responsibility of the Board, senior management 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 oversight and guidance is provided by the Board in managing reputational risk.

The Compliance unit in collaboration with the businesses and operating units, continuously assesses and recommends improvements to compliance by carrying out root cause analysis on 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 heighten awareness to compliance and to embed a compliance culture within the Group.

◆ **Board Committees**

Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have the oversight 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 following are the Group Board Committees that reside at RHB Bank Berhad:

- Group Credit Committee;
- Group Audit Committee; and
- Group IT and Transformation Strategy Committee.

The Group Board Committees currently residing at RHB Capital Berhad are as follows:

- Group Nominating and Human Resource Committee; and
- Group Risk Management Committee.

◆ **Management Committee**

The Management Committee (MC) comprises key management personnel of the Investment Bank and is chaired by the Officer-In-Charge of the Investment Bank. The MC provides a forum for the Investment Bank's Senior Management to discuss and deliberate on strategic matters that impact the Investment Bank's vision and strategic direction as well as operational matters, business synergies and brand value. The MC 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 intranet portal. These policies, procedures and processes are reviewed and updated by the business and functional units 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, reviews 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/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 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 Board.

◆ **Performance Review**

Regular and comprehensive information is 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 Management Committee and the Board receive and review the monthly accounts and financial information reports at their monthly or regular meetings.

◆ **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 risk management and internal control 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, 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 emphasis on human capital development and talent management with the objective of ensuring that staff at all levels are adequately trained both from a technical perspective as well as equipped with management and leadership capabilities.

▶ Statement on Risk Management & Internal Control

◆ **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.

◆ **Group Whistle Blower Policy**

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All staff are accorded the opportunity to report via the Whistle-Blowing mechanism with the assurance that it shall be dealt with confidentially and that the reporter's identity is protected.

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

The AML/CFT Programme is continuously reviewed and updated 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 Programme and to be continuously vigilant against the Investment Bank being exposed or used to launder money or finance illegal activities including terrorist financing.

◆ **Incident Management Framework**

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

ASSESSMENT OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Reviewing the effectiveness of the risk management and internal control system is an essential part of the Board's responsibility. The Board has, through its Group Risk Management Committee and Group AC, assessed the adequacy and effectiveness of the Investment Bank's risk management and internal control system. Based on the outcome of these reviews as well as the assurance it has received from Management, the Board is of the view that the Investment Bank's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this report.

ACTIVITIES OF THE GROUP AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Activities Of The 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 2012 (year), a total of twenty (20) 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)	20/20 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	20/20 (100%)
3. Tuan Haji Md Ja'far Abdul Carrim (Member/Independent Non-Executive Director)	20/20 (100%)
4. Dato' Saw Choo Boon (Member/Independent Non-Executive Director)	19/20 (95%)
5. Dato' Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director)	19/20 (95%)

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 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;
- ◆ Reviewed with the external auditors, the results of their annual audit and audit committee report together with the management's response to their findings and recommendations;
- ◆ 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;
- ◆ 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 related party transactions entered into by RHB Investment Bank Berhad and its subsidiaries;

▶ Group Audit Committee Report

- ◆ 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

- Internal Capital Adequacy Assessment Process (ICAAP) Directors' Workshop
- Training Session No. 2 Of ICAAP
- Training Session No. 3 Of ICAAP
- Financial Institutions Directors' Education (FIDE) Core Programme – Module A and B
- FIDE Elective Programme: Financial Statement Fundamentals “What's in the Numbers”
- FIDE Elective Programme: ICAAP
- FIDE Elective Programme: Corporate Finance
- FIDE Elective Programmes: Insurance Insights
- FIDE Elective Programme: Banking Insights
- Managing Banking Operations and Innovation
- Flex-Business Re-imagined
- ICAA-MICPA Audit Forum
- ICLIF Strategic Development Programme
- Competition Act

(b) Board and Corporate Governance

- FIDE Elective Programme: The Director's Legal Tool Kit
- FIDE Elective Programme: Risk Management Committee
- Risk Management Committee Programme – Bank
- The Framework of Shariah Compliance and Governance
- FIDE Elective Programme: Board IT Governance

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.
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.
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.

Duties and Responsibilities

1. The Group AC 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 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.

▶ Group Audit Committee Report

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.
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.
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.

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.

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.
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.
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.

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 and Human Resource 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.

Awards & Recognition

RHB INVESTMENT BANK

Project Finance International Awards

- **Asia Pacific Project Bond of the Year**

Tanjung Bin Energy Issuer Berhad
RM5.23 billion Senior Sukuk
Murabahah Programme
Joint Lead Manager

Islamic Finance News Deals of the Year

- **Malaysian Deal of the Year**

PLUS Expressways Berhad
RM23.35 billion Islamic Medium
Term Notes Programme
Joint Lead Manager

Alpha Southeast Asia Deals & Solutions Awards

- **Most Innovative Islamic Finance Deal of the Year In Southeast Asia**

First Resources Limited
RM600 million (USD196 million)
Sukuk Musharakah
Joint Lead Manager and Joint
Bookrunner
(Joint with OSKIB)

- **Best Dual-Listed IPO of the Year in Southeast Asia**

IHH Healthcare Berhad
RM6.7 billion Initial Public Offering
Joint Underwriter for the Malaysia
Offering
(Joint with OSKIB)

- **Best IPO Deal of the Year in Southeast Asia & Best Deal of the Year in Southeast Asia for Minority Shareholders**

Felda Global Ventures Holdings
Berhad USD3.1 billion Initial Public
Offering
Joint Underwriter for the Retail
Offering
(Joint with OSKIB)

- **Best Project Financing Deal Of the Year In Southeast Asia**

DanaInfra Nasional Berhad
RM2.4 billion (USD780 million)
Islamic Commercial Papers &
Islamic Medium Term Notes
Joint Lead Manager

- **Best Islamic Finance Deal of the Year In Southeast Asia**

PLUS Expressways Berhad
RM23.35 billion Islamic Medium
Term Notes Programme
Joint Lead Manager

The Asset Triple A Regional Deal Awards

- **Best Project Finance Deal**

Tanjung Bin Energy Issuer Berhad
RM3.29 billion Senior Sukuk
Murabahah
Joint Lead Manager

RAM Ratings

- **RAM Lead Manager Award**

- Conventional by Number of Issues – Joint 3rd
- Islamic by Number of Issues – Joint 3rd

- **RAM Award of Distinction**

Blueprint Award – Most Innovative
Deal of the Year
RM3.29 billion Senior Sukuk
Murabahah Under Tawarrug by
Tanjung Bin Energy Issuer Berhad
Joint Lead Manager
(Joint with OSKIB)

- **First RAM-rated Foreign Entity from Republic of Indonesia**

RM600 million (USD196 million)
Sukuk Musharakah by First
Resources Limited
Joint Lead Arranger

- **First RAM-rated Foreign Entity from United Arab Emirates**

RM3.5 billion Medium Term Notes
Programme for Abu Dhabi
Commercial Bank
Joint Lead Arranger

- **First RAM-rated Foreign Entity from State of Kuwait**

RM1.0 billion Dual Tranche Fixed
Rate Bonds by Gulf Investment
Corporation
Joint Lead Manager, Joint
Bookrunner

RHB RESEARCH INSTITUTE SDN BHD

Asiamoney Brokers Poll 2012

Malaysia

- 2nd Best Strategy Coverage
- 2nd Best Macroeconomics Coverage
- 3rd Best Overall Country Research
- 4th Best Analyst for Malaysia:
Lim Chee Sing

StarMine Analyst Awards 2012

Asia

- 2nd Best Overall Stock Picker

Wall Street Journal Asia's Best Analysts 2012

- Best Oil & Gas Analyst in Asia
 - 3rd Best Food & Beverage Analyst
in Asia
-



Financial Statements

54	Directors' Report
69	Statements of Financial Position
71	Income Statements
72	Statements of Comprehensive Income
73	Statements of Changes In Equity
77	Statements of Cash Flows
80	Summary of Significant Accounting Policies And Critical Accounting Estimates And Assumptions
100	Notes To The Financial Statements
228	Statement By Directors
228	Statutory Declaration
229	Independent Auditors' Report To The Member of RHB Investment Bank Berhad

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 2012.

PRINCIPAL ACTIVITIES

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

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

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

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before taxation	97,133	84,378
Taxation	(26,263)	(25,308)
Net profit for the financial year	70,870	59,070

DIVIDENDS

The dividends paid by the Bank since 31 December 2011 were as follows:

	RM'000
In respect of the financial year ended 31 December 2011:	
Final dividend of 14.80 sen less 25% tax, paid on 7 June 2012	29,265

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 8.60 sen less 25% tax amounting to RM17,005,167 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 2013 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

Tan Sri Ong Leong Huat @ Wong Joo Hwa (Chairman)*

Tan Sri Azlan Zainol

Dato' Mohamed Khadar Merican (Redesignated as Independent Non-Executive Director on 23 January 2013)

Lew Foon Keong

Patrick Chin Yoke Chung

Dato' Saw Choo Boon

Abdul Aziz Peru Mohamed

Akira Miyama (Ceased to be Director on 25 February 2012)

* Appointed as Director and Chairman on 20 November 2012 and 23 January 2013, respectively.

Pursuant to Article 93 of the Bank's Articles of Association, Tan Sri Azlan Zainol and Abdul Aziz Peru Mohamed retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 97 of the Bank's Articles of Association, Tan Sri Ong Leong Huat @ Wong Joo Hwa retires at the forthcoming Annual General Meeting and, being eligible, offers himself 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 31.12.2012
	As at 1.1.2012/ (date of appointment)	Bought [#]	Sold	
Holding Company RHB Capital Berhad				
Dato' Mohamed Khadar Merican				
– Direct	61,503	1,257 [#]	–	62,760
Tan Sri Ong Leong Huat @ Wong Joo Hwa				
– Indirect interest	1,100 [^]			
	245,000,000 [*]	–	–	245,001,100

Note:

- [#] The shares were acquired pursuant to the Dividend Reinvestment Plan.
- [^] The interest is held through family member.
- ^{*} Deemed interested pursuant to Section 6A of the Companies Act, 1965 by virtue of his substantial shareholdings in OSK Holdings Berhad.

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 Financial Reporting Standards, International Financial Reporting Standards 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 2012 and of the financial results and cash flows of the Group and of the Bank for the financial year ended 31 December 2012.

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS (CONTINUED)

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 228 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 seven (7) members, comprising a Non-Independent Non-Executive Chairman, one (1) Non-Independent Non-Executive Director and five (5) Independent Non-Executive Directors, details of which are as follows:

Name of Director	Designation
Tan Sri Ong Leong Huat @ Wong Joo Hwa	Non-Independent Non-Executive Chairman
Tan Sri Azlan Zainol	Non-Independent Non-Executive Director
Dato' Mohamed Khadar Merican	Independent Non-Executive Director
Lew Foon Keong	Senior 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

Tan Sri Ong Leong Huat @ Wong Joo Hwa was appointed as Non-Independent Non-Executive Director and Non-Independent Non-Executive Chairman on 20 November 2012 and 23 January 2013, respectively.

Dato' Mohamed Khadar Merican was redesignated as Independent Non-Executive Director on 23 January 2013.

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Duties and responsibilities of the Board (continued)

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.

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 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 the Agenda upon consent of the Chairman being obtained.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Board Meetings (Continued)

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

The Board convened twelve (12) meetings for the financial year ended 31 December 2012. 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	12/12	100
Lew Foon Keong	11/12	92
Tan Sri Azlan Zainol	10/12	83
Patrick Chin Yoke Chung	12/12	100
Dato' Saw Choo Boon	12/12	100
Abdul Aziz Peru Mohamed	12/12	100
Tan Sri Ong Leong Huat @ Wong Joo Hwa (appointed on 20 November 2012)	2/2	100

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 2012, a total of twenty (20) meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	20/20	100
Dato' Othman Jusoh	20/20	100
Haji Md Ja'far Abdul Carrim	20/20	100
Dato' Saw Choo Boon	19/20	95
Dato' Mohd Ali Bin Mohd Tahir	19/20	95

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.

Group Nominating and Human Resource Committee

The Group Nominating Committee (Group NC) and Group Remuneration and Human Resource Committee (Group RHRC) were consolidated into one (1) committee known as Group Nominating and Remuneration Committee (Group NRC) with effect from 30 August 2012 in line with the Group's continuous effort to improve business efficacy and work efficiency. The Committee's name was further changed to Group Nominating and Human Resource Committee (Group NHRC) in December 2012.

The Group NHRC comprises six (6) Independent Non-Executive Directors of whom one (1) is the Chairman. From 30 August 2012 until 31 December 2012, a total of four (4) meetings were held and the details of attendance of each member at the Group NHRC Meetings held since 30 August 2012 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	4/4	100
Dato' Mohamed Khadar Merican	4/4	100
Dato' Saw Choo Boon	3/4	75
Dato' Teo Chiang Liang	3/4	75
Choong Tuck Oon	4/4	100
Haji Md Ja'far Abdul Carrim	4/4	100

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Nominating and Human Resource Committee (continued)

Prior to the consolidation of Group NC and Group RHRC, separate meetings were held for both Committees. The details of attendance of each member at each of the Committee Meetings held up to 30 August 2012 are as follows:

Group NC

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	7/7	100
Dato' Mohamed Khadar Merican	6/7	86
Dato' Saw Choo Boon	7/7	100
Dato' Teo Chiang Liang	6/7	86
Choong Tuck Oon	6/7	86
Haji Md Ja'far Abdul Carrim	7/7	100

Group RHRC

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	8/8	100
Dato' Mohamed Khadar Merican	7/8	88
Dato' Saw Choo Boon	8/8	100
Dato' Teo Chiang Liang	7/8	88
Choong Tuck Oon	7/8	88
Haji Md Ja'ar Abdul Carrim	8/8	100

The Group NHRC combines both the Group NC and Group RHRC's roles and responsibilities in providing the Boards in the selection and assessment, and recommending to the Boards for approval, the appointment of directors, board committee members, Group Shariah Committee (GSC) and key senior management officers (which entails Group Managing Director (Group MD), Chief Executive Officer (CEO)/ Managing Director (MD), and Direct Reports of the Group MD and CEO/MD in major entities (save for Chief Internal Auditor) and any persons as may be decided by the Committee, and in providing oversight and direction on Human Resource (HR) matters and operations and to recommend to the Boards for approval, the remuneration and human resource strategies, policies and frameworks.

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 2012, a total of eighteen (18) meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman)	18/18	100
Patrick Chin Yoke Chung	16/18	89
Haji Md Ja'far Abdul Carrim	18/18	100
Choong Tuck Oon	16/18	89
Dato' Saw Choo Boon	15/18	83

The Group RMC provides overall 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.

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 2012, a total of thirty nine (39) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohamed Khadar Merican (Chairman)	34/39	87
Haji Khairuddin Ahmad	38/39	97
Abdul Aziz Peru Mohamed	38/39	97
Patrick Chin Yoke Chung	32/39	82

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.

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 2012, a total of eleven (11) meetings were held and the details of attendance of each member at the GI&TSC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Choong Tuck Oon (Chairman)	11/11	100
Ong Seng Pheow	11/11	100
Dato' Mohd Ali Mohd Tahir	11/11	100
Johari Abdul Muid	8/11	73
Kellee Kam Chee Khiong	7/11	64

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 risk management aimed 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 is a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board is an integral part of the risk management process.

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 accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management framework.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(B) RISK MANAGEMENT FRAMEWORK (CONTINUED)

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, market and related information and events are considered at the ALCO which enables the Banking Group to determine its course of actions.

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 the course of actions required (whether remedial or otherwise) on a timely basis. Triggers and limits are based on the Investment Bank's risk appetite and is determined by the 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 management follow-up and review of the status of actions taken on the auditors' recommendations are carried out 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(D) MANAGEMENT REPORTS

Annual business plans and financial budgets are prepared by the Investment Bank's strategic business groups and operating subsidiaries and are reviewed and approved by the Board. The performance of business groups 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.

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 2012

RHB Investment Bank continued to show a satisfactory performance in 2012. We completed 32 debt capital market transactions involving a total issued amount of more than RM66 billion and emerged a respectable 4th placing on the Bloomberg fixed income league table last year. For the deals completed, RHB Investment Bank garnered several awards including PFI's Asia Pacific Project Bond Of The Year, Islamic Finance News' Malaysia Deal Of The Year, The Asset Triple A Awards' Best Corporate Sukuk and Best Project Finance Deal and Alpha Southeast Asia's Best Islamic Finance Deal Of The Year.

RHB Investment Bank was also active in the equity capital market last year. We executed 37 corporate finance transactions during the year, comprising IPOs, underwriting, fundraising, M&As and internal reorganisation mandates, with a total transaction value of more than RM34 billion. One of the IPOs completed was awarded Best Islamic Equity by The Asset Triple A Islamic Finance Awards.

In November 2012, RHB Capital completed the acquisition of OSK Investment Bank and RHB Investment Bank is now one of Malaysia's largest investment bank. With this acquisition, RHB Capital has immediate access to key strategic markets in the region. Prior to the completion of the merger exercise, both RHB Investment Bank and OSK Investment Bank have been creating inroads together in many capital market transactions. Among these, we successfully brought foreign issuers to tap the strong liquidity in the Ringgit market. Several significant cross-border sukuk issuances executed in 2012 were prime results of the excellent RHB-OSK collaboration. Both RHB Investment Bank and OSK Investment Bank won Alpha Southeast Asia's Most Innovative Islamic Finance Deal Of The Year award for executing the cross-border sukuk deals.

BUSINESS STRATEGY AND PROSPECTS 2013

With the completion of the acquisition of OSK Investment Bank, RHB Investment Bank strives to improve its market position in South East Asia.

Malaysia's real GDP growth is expected to sustain at 5.4% in 2013 with the positive outlook underpinned by the implementation of big-ticket infrastructure projects driven by the Government. As such, RHB Investment Bank is confident that the capital market will remain active next year and we will continue to intensify efforts to secure more deals and market share.

RATINGS BY RATING AGENCY

On November 2012, RAM Rating Services Berhad (RAM) has reaffirmed the Bank's long-term financial institution rating of AA2 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.

TAN SRI ONG LEONG HUAT @ WONG JOO HWA
CHAIRMAN

DATO' SAW CHOO BOON
DIRECTOR

Kuala Lumpur
28 February 2013

Statements Of Financial Position

As At 31 December 2012

	Note	Group		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Cash and short term funds	2	1,238,662	1,754,771	1,700,350
Deposits and placements with banks and other financial institutions	3	650,074	250,227	250,275
Financial assets held-for-trading	4	324,889	116,884	350,330
Financial investments available-for-sale	5	1,028,550	2,412,247	3,272,231
Financial investments held-to-maturity	6	671,892	608,354	184,918
Loans and advances	7	39,639	43,582	50,651
Clients' and brokers' balances	8	300,193	236,265	424,005
Other assets	9	56,456	30,108	29,097
Derivative assets	10	9,380	18,759	19,094
Tax recoverable		4,042	11,062	8,542
Deferred tax assets	11	1,663	1,919	776
Statutory deposit with Bank Negara Malaysia	12	49,600	114,250	33,250
Investment in a joint venture	14	18,967	19,020	25,044
Property, plant and equipment	15	10,864	8,443	7,560
Goodwill and other intangible assets	16	177,959	178,454	179,359
TOTAL ASSETS		4,582,830	5,804,345	6,535,482
LIABILITIES AND EQUITY				
Deposits from customers	17	1,668,104	2,468,315	2,646,421
Deposits and placements of banks and other financial institutions	18	1,586,201	2,135,890	2,485,881
Clients' and brokers' balances	19	286,676	238,007	404,603
Other liabilities	20	86,311	77,383	73,697
Derivative liabilities	10	10,244	19,040	20,144
Taxation		1,883	2,046	2,033
Deferred tax liabilities	11	581	3,287	2,893
Subordinated obligations	21	291,131	246,069	246,127
TOTAL LIABILITIES		3,931,131	5,190,037	5,881,799
Share capital	22	263,646	263,646	263,646
Reserves	23	388,053	350,662	390,037
TOTAL EQUITY		651,699	614,308	653,683
TOTAL LIABILITIES AND EQUITY		4,582,830	5,804,345	6,535,482
COMMITMENTS AND CONTINGENCIES	36	1,991,961	2,223,953	2,289,842

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

► **Statements Of Financial Position**
As At 31 December 2012

	Note	Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Cash and short term funds	2	1,151,456	1,687,816	1,634,846
Deposits and placements with banks and other financial institutions	3	650,074	250,227	250,275
Financial assets held-for-trading	4	324,889	116,884	350,330
Financial investments available-for-sale	5	1,028,089	2,395,884	3,257,686
Financial investments held-to-maturity	6	671,892	608,354	184,918
Loans and advances	7	39,639	43,582	50,651
Clients' and brokers' balances	8	300,193	236,265	424,005
Other assets	9	36,527	19,349	17,275
Derivative assets	10	9,380	18,759	19,094
Tax recoverable		2,536	10,049	8,516
Statutory deposit with Bank Negara Malaysia	12	49,600	114,250	33,250
Investments in subsidiaries	13	84,970	84,970	84,970
Investment in a joint venture	14	15,363	21,463	27,399
Property, plant and equipment	15	9,833	7,366	6,588
Goodwill and other intangible assets	16	163,502	164,081	165,026
TOTAL ASSETS		4,537,943	5,779,299	6,514,829
LIABILITIES AND EQUITY				
Deposits from customers	17	1,668,104	2,468,315	2,646,421
Deposits and placements of banks and other financial institutions	18	1,586,201	2,135,890	2,485,881
Clients' and brokers' balances	19	286,676	238,007	404,603
Other liabilities	20	52,979	54,490	60,028
Derivative liabilities	10	10,244	19,040	20,144
Deferred tax liabilities	11	581	3,000	2,893
Subordinated obligations	21	291,131	246,069	246,127
TOTAL LIABILITIES		3,895,916	5,164,811	5,866,097
Share capital	22	263,646	263,646	263,646
Reserves	23	378,381	350,842	385,086
TOTAL EQUITY		642,027	614,488	648,732
TOTAL LIABILITIES AND EQUITY		4,537,943	5,779,299	6,514,829
COMMITMENTS AND CONTINGENCIES	36	1,991,961	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 2012

	Note	Group		Bank	
		31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Interest income	24	136,233	186,853	135,309	185,882
Interest expense	25	(118,351)	(159,722)	(118,351)	(159,722)
Net interest income		17,882	27,131	16,958	26,160
Other operating income	26	249,474	212,803	215,841	193,808
		267,356	239,934	232,799	219,968
Other operating expenses	27	(166,288)	(165,007)	(137,560)	(137,628)
Operating profit before allowances		101,068	74,927	95,239	82,340
Allowance write-back/(made) for impairment on loans, advances and other losses	29	37	(1,344)	37	(1,344)
Impairment losses on other assets	30	(4,798)	(35,840)	(10,898)	(35,840)
		96,307	37,743	84,378	45,156
Share of results of a joint venture	14	826	427	-	-
Profit before taxation		97,133	38,170	84,378	45,156
Taxation	31	(26,263)	(14,222)	(25,308)	(15,690)
Net profit for the financial year		70,870	23,948	59,070	29,466
Earnings per share (sen)					
- Basic	32	26.88	9.08	22.41	11.18

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 2012

	Note	Group		Bank	
		31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Net profit for the financial year		70,870	23,948	59,070	29,466
Other comprehensive (loss)/income:					
Currency translation differences		(1,121)	(440)	–	–
Financial investments available-for-sale (AFS):					
– unrealised net gain on revaluation		16,606	32,548	17,602	31,434
– net transfer to income statements on disposal or impairment		(20,742)	(23,050)	(20,623)	(23,050)
Income tax relating to components of other comprehensive income	33	1,043	(2,383)	755	(2,096)
Other comprehensive (loss)/income, net of tax		(4,214)	6,675	(2,266)	6,288
Total comprehensive income for the financial year		66,656	30,623	56,804	35,754

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

Statements of Changes In Equity¹

For The Financial Year Ended 31 December 2012

Group	Note	Attributable to equity holders of the Bank					Total RM'000
		Share capital RM'000	Statutory reserve RM'000	AFS reserve RM'000	Translation reserve RM'000	Retained profits RM'000	
Balance as at 1 January 2012							
– As previously reported		263,646	278,549	17,813	(5,394)	57,585	612,199
– Effect of full adoption of MFRS139	44	–	–	–	–	2,109	2,109
– As restated		263,646	278,549	17,813	(5,394)	59,694	614,308
Net profit for the financial year		–	–	–	–	70,870	70,870
Currency translation differences		–	–	–	(1,121)	–	(1,121)
Financial investments available-for-sale (AFS)							
– Unrealised net gain on revaluation		–	–	16,606	–	–	16,606
– Net transfer to income statements on disposal or impairment		–	–	(20,742)	–	–	(20,742)
Income tax relating to components of other comprehensive income	33	–	–	1,043	–	–	1,043
Total other comprehensive loss, net of tax		–	–	(3,093)	(1,121)	–	(4,214)
Total comprehensive income		–	–	(3,093)	(1,121)	70,870	66,656
Ordinary dividends	34	–	–	–	–	(29,265)	(29,265)
Balance as at 31 December 2012		263,646	278,549	14,720	(6,515)	101,299	651,699

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 2012

Group	Note	Attributable to equity holders of the Bank					Total RM'000
		Share capital RM'000	Statutory reserve RM'000	AFS reserve RM'000	Translation reserve RM'000	Retained profits RM'000	
Balance as at 1 January 2011							
– As previously reported		263,646	278,549	10,698	(4,954)	103,817	651,756
– Effect of full adoption of MFRS139	44	–	–	–	–	1,927	1,927
– As restated		263,646	278,549	10,698	(4,954)	105,744	653,683
Net profit for the financial year		–	–	–	–	23,948	23,948
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	33	–	–	(2,383)	–	–	(2,383)
Total other comprehensive income/(loss), net of tax		–	–	7,115	(440)	–	6,675
Total comprehensive income		–	–	7,115	(440)	23,948	30,623
Ordinary dividends	34	–	–	–	–	(69,998)	(69,998)
Balance as at 31 December 2011		263,646	278,549	17,813	(5,394)	59,694	614,308

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

Bank	Note	Share capital RM'000	Non distributable		Distributable	Total RM'000
			Statutory reserve RM'000	AFS reserve RM'000	Retained profits RM'000	
Balance as at 1 January 2012						
– As previously reported		263,646	278,549	16,986	53,198	612,379
– Effect of full adoption of MFRS139	44	–	–	–	2,109	2,109
– As restated		263,646	278,549	16,986	55,307	614,488
Net profit for the financial year		–	–	–	59,070	59,070
Financial investments AFS						
– Unrealised net gain on revaluation		–	–	17,602	–	17,602
– Net transfer to income statements on disposal or impairment		–	–	(20,623)	–	(20,623)
Income tax relating to components of other comprehensive income	33	–	–	755	–	755
Total other comprehensive loss, net of tax		–	–	(2,266)	–	(2,266)
Total comprehensive income		–	–	(2,266)	59,070	56,804
Ordinary dividends	34	–	–	–	(29,265)	(29,265)
Balance as at 31 December 2012		263,646	278,549	14,720	85,112	642,027

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 2012

Bank	Note	Share capital RM'000	Non distributable		Distributable	Total RM'000
			Statutory reserve RM'000	AFS reserve RM'000	Retained profits RM'000	
Balance as at 1 January 2011						
– As previously reported		263,646	278,549	10,698	93,912	646,805
– Effect of full adoption of MFRS139	44	–	–	–	1,927	1,927
– As restated		263,646	278,549	10,698	95,839	648,732
Net profit for the financial year		–	–	–	29,466	29,466
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	33	–	–	(2,096)	–	(2,096)
Total other comprehensive income, net of tax		–	–	6,288	–	6,288
Total comprehensive income		–	–	6,288	29,466	35,754
Ordinary dividends	34	–	–	–	(69,998)	(69,998)
Balance as at 31 December 2011		263,646	278,549	16,986	55,307	614,488

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 2012

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	97,133	38,170	84,378	45,156
Adjustments for:				
Allowance write-back for impairment on loans and advances	72	(113)	72	(113)
Allowance made for impairment on other losses Property, plant and equipment	(37)	1,581	(37)	1,581
– depreciation	3,499	2,672	3,161	2,402
– gain on transfer/disposal	(135)	(174)	(135)	(81)
Intangible Assets				
– amortization	1,379	1,499	1,150	1,260
Impairment loss on other assets	4,798	35,840	10,898	35,840
Bad debts written off	–	1	–	1
Interest income from:				
– Financial investments held-to-maturity	(24,516)	(14,477)	(24,516)	(14,477)
– Financial investments available-for-sale	(54,751)	(107,171)	(54,751)	(107,168)
Gain from early redemption/sales of:				
– Financial investments held-to-maturity	(1,175)	(3,692)	(1,175)	(3,692)
– Financial investments available-for-sale	(23,589)	(23,050)	(20,623)	(23,050)
Gross dividend income	(375)	(180)	(360)	(180)
Gross dividend income from a subsidiary	–	–	–	(6,609)
Share of results of a joint venture	(826)	(427)	–	–
Unrealised loss/(gain) on revaluation of:				
– Financial assets held-for-trading	334	6,010	334	6,010
– Derivatives	583	(768)	583	(768)
Operating profit/(loss) before working capital changes	2,394	(64,279)	(1,021)	(63,888)

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 2012

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)				
(Increase)/decrease in operating assets:				
Deposits and placements with banks and other financial institutions	(399,847)	48	(399,847)	48
Financial assets held-for-trading	(208,339)	227,436	(208,339)	227,436
Loans and advances	3,871	7,180	3,871	7,180
Clients' and brokers' balances	(64,037)	186,373	(64,037)	186,373
Other assets	(42,516)	4,364	(32,225)	(8,654)
Derivative assets	9,379	335	9,379	335
Statutory deposit with Bank Negara Malaysia	64,650	(81,000)	64,650	(81,000)
(Decrease)/increase in operating liabilities:				
Deposits from customers	(800,211)	(178,106)	(800,211)	(178,106)
Deposits and placements of banks and other financial institutions	(549,689)	(349,991)	(549,689)	(349,991)
Clients' and brokers' balances	48,669	(166,596)	48,669	(166,596)
Other liabilities	8,345	3,628	(2,094)	(5,596)
Derivative liabilities	(8,796)	(1,104)	(8,796)	(1,104)
Cash used in operations	(1,936,127)	(411,712)	(1,939,690)	(433,563)
Taxation paid	(20,814)	(19,882)	(19,458)	(17,603)
Taxation recovered	1	21	-	-
Net cash used in operating activities	(1,956,940)	(431,573)	(1,959,148)	(451,166)

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

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Financial instrument AFS and held-to-maturity:				
– purchase	(1,255,184)	(2,782,140)	(1,255,184)	(2,782,140)
– proceeds from disposal	2,591,173	3,225,024	2,573,419	3,225,728
Interest received from financial investments held-to-maturity	23,416	12,126	23,416	12,069
Interest received from financial investments available-for-sale	71,044	104,262	71,044	116,711
Property, plant and equipment:				
– purchase	(6,804)	(4,149)	(6,199)	(3,495)
– proceeds from transfer/disposal	135	174	135	81
Dividend income received	375	180	360	180
Dividend income from a subsidiary	–	–	–	5,000
Net cash generated from investing activities	1,424,155	555,477	1,406,991	574,134
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to shareholder	(29,265)	(69,998)	(29,265)	(69,998)
Net proceeds received from issuance of subordinated bonds	45,062	–	45,062	–
Net cash generated from/(used in) financing activities	15,797	(69,998)	15,797	(69,998)
Net (decrease)/increase in cash and short-term funds	(516,988)	53,906	(536,360)	52,970
Cash and cash equivalents at beginning of the financial year	1,754,771	1,700,350	1,687,816	1,634,846
Effect of currency translation	879	515	–	–
Cash and cash equivalents at end of the financial year	1,238,662	1,754,771	1,151,456	1,687,816

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 2012

(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 financial statements and transition from Financial Reporting Standards to Malaysian Financial Reporting Standards

The Malaysian Accounting Standards Board (MASB) announced on 19 November 2011 that Malaysian reporting entities are required to comply with the new International Financial Reporting Standards (IFRS) compliant framework, Malaysia Financial Reporting Standards (MFRS) for financial year commencing on or after 1 January 2012.

The financial statements of the Group and the Bank have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

The financial statements of the Group and the Bank for the year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1 'First-time adoption of MFRS'.

Subject to certain transition elections disclosed in Note 43 to the financial statements, the Group and the Bank have consistently applied the same accounting policies in its opening MFRS statement of financial position at 1 January 2011 (transition date) and throughout all years presented, as if these policies had always been in effect. Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. Note 43 discloses the impact of the transition to MFRS on the Group and the Bank's reported financial position, financial performance and cash flows.

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 MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires directors to exercise their judgement in the process of applying the Group's and the Bank's accounting policies. Although these estimates and 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of financial statements and transition from Financial Reporting Standards to Malaysian Financial Reporting Standards (continued)

(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 to the existing standards that are effective for the Group and the Bank's financial year beginning on or after 1 January 2012 are as follows:

- MFRS 1 'First-time Adoption of MFRS'
- MFRS 139 'Financial Instruments: Recognition and Measurement'
- Revised MFRS 124 'Related Party Disclosures'
- Amendment to MFRS 112 'Income Taxes'
- IC Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'
- Amendment to MFRS 1 'First Time Adoption on Fixed Dates and Hyperinflation'
- Amendment to MFRS 7 'Financial Instruments: Disclosures on Transfers of Financial Assets'
- Amendment to MFRS 101 'Presentation of Items of Other Comprehensive Income'
- FRSIC 18 'Monies Held in Trust by Participating Organisations of Bursa Malaysia Securities Berhad'

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 Bank, except for the adoption of MFRS 139 and FRSIC 18 as set out in Note 44.

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

The Group and the Bank will apply the new standards, amendments to standards and interpretations to existing standards in the following period:

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

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'.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of financial statements and transition from Financial Reporting Standards to Malaysian Financial Reporting Standards (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 2013 (continued)

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.

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.

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.

Amendment to MFRS 7 'Financial instruments: Disclosures' (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statements of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of financial statements and transition from Financial Reporting Standards to Malaysian Financial Reporting Standards (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 2014

Amendment to MFRS 132 'Financial instruments: Presentation' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

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.

(iii) Financial year beginning on/after 1 January 2015

MFRS 9 'Financial instruments – classification and measurement of financial assets and financial liabilities' (effective from 1 January 2015) 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 7 requires disclosures on transition from MFRS 139 to MFRS 9.

The adoption of the new standards, amendments to published standards are not expected to have a material impact on the financial results of the Group and the Bank except that the Group is in the process of reviewing the requirements of MFRS 9 and expects this process to be completed prior to the effective date on 1 January 2015.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Group applies the acquisition method to account for business combination. 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

Acquisition-related costs are expensed as incurred.

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

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

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is 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 5 on goodwill.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Basis of consolidation (continued)

(a) Subsidiaries (continued)

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.

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

The acquired entity's results, assets and liabilities are consolidated from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred. The corresponding amounts for the previous year are not restated.

(b) Transaction with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests, where such transaction occurred after control has already been obtained and they do not result in loss of control, as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is deducted from equity. For disposals to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recognised in equity.

(c) Jointly controlled entity

Jointly controlled entity is corporation or other entity 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 jointly controlled entities 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 jointly controlled entities 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 jointly controlled entities to ensure consistency of accounting policies with those of the Group.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Basis of consolidation (continued)

(d) 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 at the date control, joint control or significant influence ceased, with the change in carrying amount recognised in profit or loss.

This fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial assets. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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 18 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 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)

4 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 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 16) 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 non-interest income 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)

4 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 statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(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.

5 Goodwill and other intangible assets

(a) 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 18 on impairment of non-financial assets.

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

(b) Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are subsequent carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 5 years.

At the end of the reporting period, the Group and the Bank assess whether there is any indication of impairment on computer software licences. When an indication of impairment exist, the carrying amount of the assets is written down to its recoverable amount. Gain and losses arising from de-recognition of computer software licences are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss when the asset is de-recognised.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 statements. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6 Derivative financial instruments and hedge accounting (continued)

(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	20% to 33 $\frac{1}{3}$ %
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 18 on impairment of non-financial assets.

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 de-recognised 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8 Financial liabilities (continued)

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

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.

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowings measured at amortised cost are long terms and short terms borrowings from financial institution and subordinated obligations.

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 Financial guarantee contracts

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

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

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

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

12 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. However, contingent liabilities do not include financial guarantee contracts.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12 Contingent liabilities and contingent assets (continued)

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.

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

13 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.

14 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short term deposits maturing within one month.

15 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.

- (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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15 Revenue recognition (continued)

- (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 Bank 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.

16 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.

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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

Change in accounting policy

Previously, the Group and the Bank applied the Amendment to FRS 139 'Financial Instruments: Recognition and Measurement', which included an additional transitional arrangement for financial sectors, whereby Bank Negara Malaysia (BNM) prescribed the use of an alternative basis for collective assessment of impairments on loans, advances and financing. 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.

With effect from 1 January 2012, BNM removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and loan loss provisioning to comply with 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 loan loss allowance 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 financial impact arising on the adoption of MFRS 139 are set out in Note 44 to the financial statements.

(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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17 Employee benefits

(a) Short term employee benefits

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

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

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Bank 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.

18 Impairment of non-financial assets

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

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash 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.

19 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

19 Current and deferred income taxes (continued)

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

Deferred tax is recognised on temporary differences arising on 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.

20 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 accounting policy Note 4(c).

(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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20 Currency conversion and translation (continued)

(c) Group companies (continued)

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.

21 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 Group Management Committee as its chief operating decision-maker.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(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 to 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. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. Estimating the value in use requires the Group and the Bank to make an estimate of the expected future cash flow and apply a suitable discount rate in arriving at the present value of those cash flows. The detailed disclosure on the assessment of impairment of investment in a joint venture is disclosed in Note 14 to the financial statements.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2012

1 GENERAL INFORMATION

RHB Investment Bank Berhad is a public limited Bank, incorporated and domiciled in Malaysia.

The principal activities of the Bank include merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and 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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and balances with banks and other financial institutions	99,156	98,362	79,407
Money at call and deposit placements maturing within one month	1,139,506	1,656,409	1,620,943
	1,238,662	1,754,771	1,700,350

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and balances with banks and other financial institutions	45,119	66,824	58,104
Money at call and deposit placements maturing within one month	1,106,337	1,620,992	1,576,742
	1,151,456	1,687,816	1,634,846

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Licensed banks	650,074	150,192	200,235
Licensed investment banks	-	-	50,040
Licensed islamic bank	-	100,035	-
	650,074	250,227	250,275

4 FINANCIAL ASSETS HELD-FOR-TRADING

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value			
Money market instruments:			
Malaysian government investment issue	-	-	35,555
Malaysian government securities	71,103	21,119	-
BNM monetary notes	-	-	192,952
Negotiable instruments of deposits	-	-	51,502
<u>Unquoted securities:</u>			
In Malaysia			
Private debt securities	253,786	95,765	70,321
	324,889	116,884	350,330

In 2008, the Bank reclassified a portion of their financial assets held-for-trading into financial investments available-for-sale. The reclassifications have been accounted for in accordance with BNM's circular on "Reclassification of securities under specific circumstances" dated 17 October 2008, which is effective from 1 July 2008 until 31 December 2009.

► **Notes To The Financial Statements**
For The Financial Year Ended 31 December 2012

4 FINANCIAL ASSETS HELD-FOR-TRADING (CONTINUED)

The effect of reclassification on the income statements for the period from the date of reclassification to 31 December 2012 and the gains and losses relating to these assets recorded in income statements for the year ended 31 December 2012 were as follows:

	Carrying amount			Fair value		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group and Bank						
Reclassified from HFT to AFS – Debt Securities	111,191	381,964	441,337	110,549	360,158	436,233

	Group and Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Fair value loss that would have been recognised if the financial assets HFT had not been realised	(642)	(21,806)

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value			
Money market instruments:			
Malaysian government investment issue	363,134	942,089	774,379
Malaysian government securities	144,496	692,753	1,321,458
Khazanah bonds	13,100	12,638	11,984
Cagamas bonds	25,356	–	–
<u>Quoted securities:</u>			
In Malaysia			
Shares	–	744	23
Loan stocks	775	1,255	1,282
<u>Unquoted securities:</u>			
In Malaysia			
Shares	20,216	21,801	18,816
Private debt securities	443,430	704,601	1,109,082
Loan stocks	17,582	20,662	20,662
Redeemable convertible preference shares	–	15,130	13,980
Outside Malaysia			
Loan stocks	461	574	565
	1,028,550	2,412,247	3,272,231

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (CONTINUED)

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value			
Money market instruments:			
Malaysian government investment issue	363,134	942,089	774,379
Malaysian government securities	144,496	692,753	1,321,458
Khazanah bonds	13,100	12,638	11,984
Cagamas bonds	25,356	–	–
<u>Quoted securities:</u>			
In Malaysia			
Shares	–	85	23
Loan stocks	775	1,255	1,282
<u>Unquoted securities:</u>			
In Malaysia			
Shares	20,216	21,801	18,816
Private debt securities	443,430	704,601	1,109,082
Loan stocks	17,582	20,662	20,662
	1,028,089	2,395,884	3,257,686

As at 31 December 2012, 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 RM110,549,000 (2011: RM360,158,000) and RM18,016,000 (2011: RM19,601,000) respectively.

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At amortised cost			
Money market instruments:			
Malaysian government securities	45,892	45,864	45,298
Malaysian government investment issue	437,596	312,857	–
Cagamas bonds	50,802	51,171	–
Banker's acceptances	49,961	101,809	–
Unquoted securities:			
In Malaysia			
Bonds	23	23	23
Prasarana bonds	40,621	40,690	99,872
Private debt securities	149,843	156,481	133,485
	774,738	708,895	278,678
Accumulated impairment losses	(102,846)	(100,541)	(93,760)
	671,892	608,354	184,918
(a) Movements in allowance for impairment losses:			
Balance as at the beginning of the financial year	100,541	93,760	
Allowance made	3,305	6,781	
Amount written off	(1,000)	–	
Balance as at the end of the financial year	102,846	100,541	

7 LOANS AND ADVANCES

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
(i) By type			
At amortised cost			
Share margin financing	38,730	42,403	48,967
Staff loans	1,249	1,763	2,566
Gross loans and advances	39,979	44,166	51,533
Allowance for bad and doubtful debts – individual impairment allowance	(340)	(584)	(882)
Net loans and advances	39,639	43,582	50,651
(ii) By type of customer			
Domestic business enterprises			
– others	740	1,490	2,783
– individuals	39,109	42,505	47,476
– foreign entities	130	171	1,274
	39,979	44,166	51,533
(iii) By interest rate sensitivity			
Fixed rate			
– Other fixed rate loans	39,979	44,166	51,533
(iv) By purpose			
Purchase of securities	38,730	42,403	48,967
Purchase of transport vehicles	47	76	285
Purchase of landed property: – residential	1,202	1,687	2,281
	39,979	44,166	51,533
(v) By remaining contractual maturities			
Maturing within one year	38,769	42,411	49,085
One year to three years	42	82	186
Three years to five years	54	91	105
Over five years	1,114	1,582	2,157
	39,979	44,166	51,533

7 LOANS AND ADVANCES (CONTINUED)

	Note	Group and Bank	
		31.12.2012 RM'000	31.12.2011 RM'000
(vi) Impaired loans and advances			
(a) Movements in impaired loans and advances			
Balance as at the beginning of the financial year		619	918
Classified as impaired during the financial year		(25)	8
Amount recovered		(72)	(122)
Amount written off		(172)	(185)
Balance as at the end of the financial year		350	619
(b) By purpose			
– Purchase of securities		350	619
(c) Movements in allowance for impaired loans and advances			
<u>Individual impairment allowance</u>			
Balance as at the beginning of the financial year		584	882
Allowance made during the financial year		–	9
Amount recovered		(72)	(122)
Amount written off		(172)	(185)
Balance as at the end of the financial year		340	584
<u>Collective impairment allowance</u>			
Balance as at the beginning of the financial year			
– As previously reported		654	760
– Impact of fully adoption of MFRS139	44	(654)	(760)
– As restated		–	–
Net allowance written back		–	–
Balance as at the end of the financial year		–	–

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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Performing accounts	296,405	231,832	420,642
Impaired	11,070	11,824	9,388
	307,475	243,656	430,030
Less: Impairment allowances for bad and doubtful debts			
– individual impairment allowance	(1,376)	(1,532)	(1,456)
– collective impairment allowance	(5,906)	(5,859)	(4,569)
	300,193	236,265	424,005

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

	Note	Group and Bank	
		31.12.2012 RM'000	31.12.2011 RM'000
Individual impairment allowance			
Balance as at the beginning of the financial year			
– As previously reported		9,309	7,478
– Effect of full adoption of MFRS 139	44	(7,777)	(6,022)
– As restated		1,532	1,456
(Write back)/allowance made during the financial year		(156)	133
Amount recovered		–	(57)
Balance as at the end of the financial year		1,376	1,532
Collective impairment allowance			
Balance as at the beginning of the financial year			
– As previously reported		240	357
– Effect of full adoption of MFRS 139	44	5,619	4,212
– As restated		5,859	4,569
Allowance made during the financial year		47	1,290
Balance as at the end of the financial year		5,906	5,859

9 OTHER ASSETS

	Note	Group		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Amount due from holding company	(i)	987	1,877	–
Amounts due from related companies	(i)	3,890	1,591	2,198
Deposits		1,953	1,978	1,761
Prepayment		1,580	2,542	2,232
Other debtors	(ii)	48,046	22,120	22,906
		56,456	30,108	29,097

	Note	Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Amount due from holding company	(i)	987	1,877	–
Amounts due from subsidiaries	(i)	3,140	1,510	794
Amounts due from related companies	(i)	1,165	792	786
Deposits		1,336	1,361	1,262
Prepayment		1,550	2,255	2,201
Other debtors	(ii)	28,349	11,554	12,232
		36,527	19,349	17,275

- (i) Amounts due from holding company, subsidiaries and related companies are unsecured, interest free and receivable within the normal credit period.
- (ii) Other debtors of the Group and the Bank are stated net of allowance for impairment of RM1,679,000 (2011: 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 statements 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 statements of financial position are analysed below.

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Derivative assets	9,380	18,759	19,094
Derivative liabilities	(10,244)	(19,040)	(20,144)
	(864)	(281)	(1,050)

	Group and Bank		
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
31.12.2012			
Interest rate related contracts:			
– swaps	1,870,000	9,380	10,244
	1,870,000	9,380	10,244
31.12.2011			
Interest rate related contracts:			
– swaps	2,020,000	18,759	19,040
	2,020,000	18,759	19,040
1.1.2011			
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 statements of financial position:

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deferred tax assets	1,663	1,919	776
Deferred tax liabilities	(581)	(3,287)	(2,893)
	1,082	(1,368)	(2,117)
Deferred tax assets			
– Settled within 12 months	7,476	6,975	4,157
Deferred tax liabilities			
– Settled within 12 months	(5,204)	(6,990)	(4,398)
– Settled more than 12 months	(1,190)	(1,353)	(1,876)
	1,082	(1,368)	(2,117)

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deferred tax liabilities	(581)	(3,000)	(2,893)
Deferred tax assets			
– Settled within 12 months	5,598	5,017	3,215
Deferred tax liabilities			
– Settled within 12 months	(5,161)	(6,695)	(4,365)
– Settled more than 12 months	(1,018)	(1,322)	(1,743)
	(581)	(3,000)	(2,893)

11 DEFERRED TAX ASSETS/ (LIABILITIES) (CONTINUED)

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

Group	Note	Property, plant and equipment RM'000	Collective impairment allowance RM'000	Other liabilities RM'000	AFS reserve RM'000	Total RM'000
31.12.2012						
Balance as at the beginning of the year						
– As previously reported		(1,691)	–	6,975	(5,949)	(665)
– Effect of full adoption of MFRS139	44	–	(703)	–	–	(703)
– As restated		(1,691)	(703)	6,975	(5,949)	(1,368)
Transfer from income statements	31	203	703	501	–	1,407
Transferred to AFS reserve	33	–	–	–	1,043	1,043
Balance as at the end of the financial year		(1,488)	–	7,476	(4,906)	1,082
31.12.2011						
Balance as at the beginning of the year						
– As previously reported		(2,345)	279	4,157	(3,566)	(1,475)
– Effect of full adoption of MFRS139	44	–	(642)	–	–	(642)
– As restated		(2,345)	(363)	4,157	(3,566)	(2,117)
Transfer from/(to) income statements	31	654	(340)	2,818	–	3,132
Transferred to AFS reserve	33	–	–	–	(2,383)	(2,383)
Balance as at the end of the financial year		(1,691)	(703)	6,975	(5,949)	(1,368)

11 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

Bank	Note	Property, plant and equipment RM'000	Collective impairment allowance RM'000	Other liabilities RM'000	AFS reserve RM'000	Total RM'000
31.12.2012						
Balance as at the beginning of the year						
– As previously reported		(1,652)	–	5,017	(5,662)	(2,297)
– Effect of full adoption of MFRS139	44	–	(703)	–	–	(703)
– As restated		(1,652)	(703)	5,017	(5,662)	(3,000)
Transfer from income statements	31	379	703	582	–	1,664
Transferred to AFS reserve	33	–	–	–	755	755
Balance as at the end of the financial year		(1,273)	–	5,599	(4,907)	(581)
31.12.2011						
Balance as at the beginning of the year						
– As previously reported		(2,179)	279	3,215	(3,566)	(2,251)
– Effect of full adoption of MFRS139	44	–	(642)	–	–	(642)
– As restated		(2,179)	(363)	3,215	(3,566)	(2,893)
Transfer from/(to) income statements	31	527	(340)	1,802	–	1,989
Transferred to AFS reserve	33	–	–	–	(2,096)	(2,096)
Balance as at the end of the financial year		(1,652)	(703)	5,017	(5,662)	(3,000)

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.

13 INVESTMENTS IN SUBSIDIARIES

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Unquoted shares at cost	169,343	169,343	169,343
Less: Allowance for impairment loss	(84,373)	(84,373)	(84,373)
	84,970	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		Principal activities
			2012 %	2011 %	
RHB Investment Management Sdn Bhd	Malaysia	RM10,000,000	100	100	Investment management services, management of unit trust funds and private retirement schemes and provision of investment advisory services
RHB Islamic Asset Management Sdn Bhd	Malaysia	RM4,000,000	100	100	Islamic investment management services and management of Islamic unit trust funds
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

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest		Principal activities
			2012 %	2011 %	
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
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 ²	Malaysia	RM5,000,000	100	100	Dormant
RHB Progressive Sdn Bhd ²	Malaysia	RM13,500,000	100	100	Dormant
RHB Excel Sdn Bhd ²	Malaysia	RM200,000,000	100	100	Dormant

Notes:

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

² The Company has commenced members' voluntary winding up on 28 March 2012.

All subsidiaries are audited by PricewaterhouseCoopers, Malaysia.

14 INVESTMENT IN A JOINT VENTURE

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group			
Share of net assets of a joint venture	24,903	24,956	25,044
Less: Allowance for impairment loss	(5,936)	(5,936)	–
	18,967	19,020	25,044
Bank			
Unquoted shares, at cost	27,399	27,399	27,399
Less: Allowance for impairment loss	(12,036)	(5,936)	–
	15,363	21,463	27,399

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Share of net assets of a joint venture	11,578	11,266	12,564
Exchange differences	(879)	(514)	(1,724)
Share of net assets after exchange difference	10,699	10,752	10,840
Goodwill arising from acquisition	14,204	14,204	14,204
Net assets	24,903	24,956	25,044
Impairment loss	(5,936)	(5,936)	–
	18,967	19,020	25,044

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Income	1,714	1,529	1,593
Expenses	(623)	(970)	(765)
Tax expense	(265)	(132)	(36)
Net profit for the financial year	826	427	792
Non-current assets	14,467	14,377	14,423
Current assets	11,213	10,704	10,749
Current liabilities	(777)	(125)	(128)
Net assets	24,903	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 2012.

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		Principal activities
			2012 %	2011 %	
Vietnam Securities Corporation	Vietnam	VND135,000,000,000	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% (2011: 4%) 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 13.9% (2011: 17.6%) and reflect specific risks relating to the market.

An impairment charge of RM6,100,000 was recognised for the carrying value of the investment in the joint venture at the Bank level. 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 2012, the Group and the Bank would have recognised an additional impairment loss of approximately RM5,140,000 and RM1,536,000 respectively.

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 recognised an additional impairment loss of approximately RM4,096,000 and RM493,000 respectively.

15 PROPERTY, PLANT AND EQUIPMENT

Group	Note	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2012						
Cost						
Balance as at the beginning of the financial year						
– As previously reported		32,011	27,308	61,303	2,351	122,973
– Effect of reclassification of software to other intangible assets	44	–	–	(38,291)	–	(38,291)
– As restated		32,011	27,308	23,012	2,351	84,682
Additions		335	3,919	1,666	–	5,920
Disposal		–	–	–	(412)	(412)
Written off		(67)	–	(1,300)	–	(1,367)
Balance as at the end of the financial year		32,279	31,227	23,378	1,939	88,823
Accumulated depreciation						
Balance as at the beginning of the financial year						
– As previously reported		31,013	21,630	51,300	2,052	105,995
– Effect of reclassification of software to other intangible assets	44	–	–	(29,756)	–	(29,756)
– As restated		31,013	21,630	21,544	2,052	76,239
Charge for the financial year		489	1,031	1,901	78	3,499
Disposal		–	–	–	(412)	(412)
Written off		(67)	–	(1,300)	–	(1,367)
Balance as at the end of the financial year		31,435	22,661	22,145	1,718	77,959
Accumulated impairment loss						
Balance as at the beginning of the financial year						
– As previously reported		–	–	2,925	–	2,925
Effect of reclassification of software to other intangible assets	44	–	–	(2,925)	–	(2,925)
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		844	8,566	1,233	221	10,864

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Note	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2011						
Cost						
Balance as at the beginning of the financial year						
– As previously reported		31,855	25,599	59,792	3,304	120,550
– Effect of reclassification of software to other intangible assets	44	–	–	(37,717)	–	(37,717)
– As restated		31,855	25,599	22,075	3,304	82,833
Additions		163	1,709	1,683	–	3,555
Disposal		–	–	–	(953)	(953)
Written off		(7)	–	(746)	–	(753)
Balance as at the end of the financial year		32,011	27,308	23,012	2,351	84,682
Accumulated depreciation						
Balance as at the beginning of the financial year						
– As previously reported		30,583	21,301	48,805	2,861	103,550
– Effect of reclassification of software to other intangible assets	44	–	–	(28,277)	–	(28,277)
– As restated		30,583	21,301	20,528	2,861	75,273
Charge for the financial year		437	329	1,762	144	2,672
Disposal		–	–	–	(953)	(953)
Written off		(7)	–	(746)	–	(753)
Balance as at the end of the financial year		31,013	21,630	21,544	2,052	76,239
Accumulated impairment loss						
Balance as at the beginning of the financial year						
– As previously reported		–	–	2,925	–	2,925
Effect of reclassification of software to other intangible assets	44	–	–	(2,925)	–	(2,925)
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		998	5,678	1,468	299	8,443

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Note	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2012						
Cost						
Balance as at the beginning of the financial year						
– As previously reported		29,350	22,561	54,437	2,217	108,565
– Effect of reclassification of software to other intangible assets	44	–	–	(34,421)	–	(34,421)
– As restated		29,350	22,561	20,016	2,217	74,144
Additions		335	3,898	1,395	–	5,628
Disposal		–	–	–	(412)	(412)
Written off		(4)	–	(1,115)	–	(1,119)
Balance as at the end of the financial year		29,681	26,459	20,296	1,805	78,241
Accumulated depreciation						
Balance as at the beginning of the financial year						
– As previously reported		28,434	17,549	45,572	1,918	93,473
– Effect of reclassification of software to other intangible assets	44	–	–	(26,695)	–	(26,695)
– As restated		28,434	17,549	18,877	1,918	66,778
Charge for the financial year		453	933	1,697	78	3,161
Disposal		–	–	–	(412)	(412)
Written off		(4)	–	(1,115)	–	(1,119)
Balance as at the end of the financial year		28,883	18,482	19,459	1,584	68,408
Accumulated impairment loss						
Balance as at the beginning of the financial year						
– As previously reported		–	–	2,925	–	2,925
– Effect of reclassification of software to other intangible assets	44	–	–	(2,925)	–	(2,925)
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		798	7,977	837	221	9,833

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Note	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2011						
Cost						
Balance as at the beginning of the financial year						
– As previously reported		29,202	20,944	53,417	2,812	106,375
– Effect of reclassification of software to other intangible assets	44	–	–	(34,126)	–	(34,126)
– As restated		29,202	20,944	19,291	2,812	72,249
Additions		155	1,617	1,408	–	3,180
Disposal		–	–	–	(595)	(595)
Written off		(7)	–	(683)	–	(690)
Balance as at the end of the financial year		29,350	22,561	20,016	2,217	74,144
Accumulated depreciation						
Balance as at the beginning of the financial year						
– As previously reported		28,056	17,311	43,380	2,369	91,116
– Effect of reclassification of software to other intangible assets	44	–	–	(25,455)	–	(25,455)
– As restated		28,056	17,311	17,925	2,369	65,661
Charge for the financial year		385	238	1,635	144	2,402
Disposal		–	–	–	(595)	(595)
Written off		(7)	–	(683)	–	(690)
Balance as at the end of the financial year		28,434	17,549	18,877	1,918	66,778
Accumulated impairment loss						
Balance as at the beginning of the financial year						
– As previously reported		–	–	2,925	–	2,925
Effect of reclassification of software to other intangible assets	44	–	–	(2,925)	–	(2,925)
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		916	5,012	1,139	299	7,366

16 GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	Group		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Goodwill on consolidation	(a)	172,844	172,844	172,844
Other intangible assets:				
Computer software license	(b)	5,115	5,610	6,515
		177,959	178,454	179,359

	Note	Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Goodwill on consolidation	(a)	159,280	159,280	159,280
Other intangible assets:				
Computer software license	(b)	4,222	4,801	5,746
		163,502	164,081	165,026

(a) Goodwill on consolidation

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

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
CGUs			
Corporate investment banking	67,229	67,229	67,229
Treasury	105,615	105,615	105,615
	172,844	172,844	172,844

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
CGUs			
Corporate investment banking	53,665	53,665	53,665
Treasury	105,615	105,615	105,615
	159,280	159,280	159,280

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

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 (2011: four-year period). Cash flows beyond the four-year period are assumed to grow at 3.0% p.a. (2011: 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 9.37% (2011: 9.35%). 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.

(b) Computer software license

	Note	Group		Bank	
		31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
At cost					
Balance as at the beginning of the financial year					
– As previously reported		–	–	–	–
– Effects of reclassification from property, plant and equipment	44	38,291	37,717	34,421	34,126
– As restated		38,291	37,717	34,421	34,126
Additions		884	594	571	315
Written off		(888)	(20)	–	(20)
Balance as at the end of the financial year		38,287	38,291	34,992	34,421
Accumulated amortisation					
Balance as at the beginning of the financial year					
– As previously reported		–	–	–	–
– Effects of reclassification from property, plant and equipment	44	29,756	28,277	26,695	25,455
– As restated		29,756	28,277	26,695	25,455
Charge for the financial year		1,379	1,499	1,150	1,260
Written off		(888)	(20)	–	(20)
Balance as at the end of the financial year		30,247	29,756	27,845	26,695

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Computer software license (continued)

	Note	Group		Bank	
		31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Accumulated amortisation					
Balance as at the beginning of the financial year					
– As previously reported		–	–	–	–
– Effects of reclassification from property, plant and equipment	44	2,925	2,925	2,925	2,925
Balance as at the end of the financial year		2,925	2,925	2,925	2,925
Net book value as at the end of the financial year		5,115	5,610	4,222	4,801
Accumulated amortisation and impairment loss					
Balance as the beginning of the financial year		32,681	31,202	29,620	28,380
Balance as at the end of the financial year		33,172	32,681	30,770	29,620

17 DEPOSITS FROM CUSTOMERS

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
(i) By type of deposits:			
Fixed deposits	1,254,550	1,149,421	1,474,471
Short term deposits	413,554	1,318,894	1,171,950
	1,668,104	2,468,315	2,646,421
(ii) The maturity structure of total deposits are as follows:			
Due within six months	1,544,110	2,468,315	2,646,421
Six months to one year	123,994	–	–
	1,668,104	2,468,315	2,646,421
(iii) The deposits are sourced from the following customers:			
Federal Government and statutory bodies	242,369	219,327	219,750
Business enterprises	1,425,735	2,248,988	2,426,671
	1,668,104	2,468,315	2,646,421

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Licensed banks	100,108	100,320	80,012
Other financial institutions	1,486,093	2,035,570	2,405,869
	1,586,201	2,135,890	2,485,881

19 CLIENTS' AND BROKERS' BALANCES

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Amount due to:			
– Clients	228,096	204,623	404,603
– Brokers	58,580	33,384	–
	286,676	238,007	404,603

20 OTHER LIABILITIES

	Note	Group		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Amount due to holding company	(i)	477	380	498
Amounts due to related companies	(i)	9,395	15,190	13,306
Amount payable for creation of units due to funds		23,084	13,685	2,069
Amount payable for redemption units		–	548	3,056
Remisiers' trust deposits		8,908	9,198	8,490
Accrued personnel costs		20,425	15,692	17,103
Other accruals and payables		24,022	22,690	29,175
		86,311	77,383	73,697

20 OTHER LIABILITIES (CONTINUED)

	Note	Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Amount due to holding company	(i)	460	363	485
Amounts due to subsidiaries	(i)	2,134	2,002	855
Amounts due to related companies	(i)	7,390	13,788	11,924
Remisiers' trust deposits		8,908	9,198	8,490
Accrued personnel costs		15,103	11,133	12,168
Other accruals and payables		18,984	18,006	26,106
		52,979	54,490	60,028

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

21 SUBORDINATED OBLIGATIONS

	Note	Group and Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
5.3% RM200 million Tier II Subordinated Notes 2007/2017	(a)	–	200,581	200,639
5.5% RM45 million Tier II Subordinated Notes 2008/2018	(b)	45,481	45,488	45,488
4.4% RM245 million Tier II Subordinated Notes 2012/2022	(c)	245,650	–	–
		291,131	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.

21 SUBORDINATED OBLIGATIONS (CONTINUED)

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

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.

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.

The RM200,000,000 subordinated notes is fully redeemed during the current financial year.

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

On 21 April 2008, the Bank issued the remaining RM45 million nominal value of the Sub Notes at par which 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 the 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) 4.4% RM245 million Tier II Subordinated Notes 2012/2022

On 10 December 2012, the Bank issued RM245 million nominal value of the Subordinated Notes. The RM245 million in nominal value is as follows:

Tranche	Principal RM'million	Maturity Date	Interest Rate	Interest Payment
2012/2022	245	9 December 2022 (Callable on 2017)	4.4% per annum chargeable to 9 December 2022	Accrued and payable semi- annually in arrears

21 SUBORDINATED OBLIGATIONS (CONTINUED)

(d) Ratings by agency

In November 2012, RAM has reaffirmed the AA₃ long-term rating of the RM245 million Subordinated Notes Programme (2007/2017 and 2008/2018) and assigned a long-term rating of AA₃ to the Bank's new RM245 million Subordinated Notes (2012/2022).

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

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 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	1,000,000
Issued and fully paid:			
Balance as at the beginning/end of the financial year	263,646	263,646	263,646

23 RESERVES

	Note	Group		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Retained profits	(i)	101,299	59,694	105,744
Statutory reserve	(ii)	278,549	278,549	278,549
AFS reserve	(iii)	14,720	17,813	10,698
Translation reserve	(iv)	(6,515)	(5,394)	(4,954)
		388,053	350,662	390,037

	Note	Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Retained profits	(i)	85,112	55,307	95,839
Statutory reserve	(ii)	278,549	278,549	278,549
AFS reserve	(iii)	14,720	16,986	10,698
		378,381	350,842	385,086

- (i) A single tier Bank tax was introduced effective 1 January 2008. Under this single tier system, tax on a Bank'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 2012.

- (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	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Loans and advances	2,747	3,983	2,747	3,983
Money at call and deposit placements with banks and other financial institutions	38,783	46,173	37,859	45,205
Financial assets held-for-trading	13,179	10,666	13,179	10,666
Financial investments available-for-sale	54,751	107,171	54,751	107,168
Financial investments held-to-maturity	24,516	14,477	24,516	14,477
Others	2,257	4,383	2,257	4,383
	136,233	186,853	135,309	185,882

25 INTEREST EXPENSE

	Group and Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Deposits and placements of banks and other financial institutions	51,077	72,536
Deposits from customers	54,152	74,111
Subordinated obligations	13,122	13,075
	118,351	159,722

26 OTHER OPERATING INCOME

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Fee income:				
Arrangement fees	32,500	10,124	32,500	10,124
Brokerage	74,209	87,796	74,209	87,796
Corporate advisory fees	16,535	15,170	16,535	15,170
Fees on loans and advances	3,907	2,532	3,907	2,532
Fund management fees	23,554	22,000	–	–
Underwriting fees	7,095	4,435	7,095	4,435
Unit trust fee income	6,896	3,196	–	–
Other fee income	52,029	26,974	52,146	26,774
	216,725	172,227	186,392	146,831
Net gain arising from financial assets held-for-trading				
– net gain on revaluation	6,951	10,914	6,951	10,914
	6,951	10,914	6,951	10,914
Net (loss)/gain on revaluation of derivatives	(698)	56	(698)	56
Net gain arising from financial investments available-for-sale				
– net gain on disposal	23,589	23,050	20,623	23,050
– gross dividend income	375	180	360	180
	23,964	23,230	20,983	23,230
Net gain arising from financial investments held-to-maturity				
– net gain on redemption	1,175	3,692	1,175	3,692
	1,175	3,692	1,175	3,692
Other income:				
Foreign exchange gain				
– realised	496	1,811	496	1,819
– unrealised	305	39	–	–
Gross dividend from a subsidiary	–	–	–	6,609
Gain on transfer or disposal of property, plant and equipment	135	174	135	81
Others	421	660	407	576
	1,357	2,684	1,038	9,085
Total other operating income	249,474	212,803	215,841	193,808

27 OTHER OPERATING EXPENSES

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Personnel costs				
Salaries, allowances and bonus	80,478	77,097	61,487	57,651
Defined contribution plans	12,611	12,275	9,638	9,176
Other staff costs	8,741	10,552	7,791	9,320
	101,830	99,924	78,916	76,147
Establishment costs				
Property, plant and equipment – depreciation	3,499	2,672	3,161	2,402
Amortisation of computer software licence	1,379	1,499	1,150	1,260
Rental of premises	7,566	7,340	6,416	6,203
Information technology expenses	5,543	6,055	4,957	5,937
Others	6,825	9,123	6,569	8,891
	24,812	26,689	22,253	24,693
Marketing expenses				
Sales commission	6,513	2,779	–	–
Advertising and publicity	7,073	8,556	6,888	8,233
Others	6,670	6,911	5,760	5,406
	20,256	18,246	12,648	13,639
Administration and general expenses				
Auditors' remuneration – statutory audit fees	319	276	210	170
– non-audit fee	87	27	73	13
Communication expenses	7,233	7,105	6,554	6,259
Legal and professional fees	3,330	613	1,566	449
Others	8,421	12,127	15,340	16,258
	19,390	20,148	23,743	23,149
Total other operating expenses	166,288	165,007	137,560	137,628

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 RM Nil (2011: RM2,900,000) 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 RM1,153,000 (2011: RM1,364,000) and RM826,000 (2011: RM996,000) respectively, as disclosed in Note 28.

28 DIRECTORS' REMUNERATION

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

Tan Sri Ong Leong Huat @ Wong Joo Hwa (Chairman)*

Tan Sri Azlan Zainol

Dato' Mohamed Khadar Merican

Lew Foon Keong

Patrick Chin Yoke Chung

Dato' Saw Choo Boon

Abdul Aziz Peru Mohamed

Akira Miyama

(Ceased on 25 February 2012)

* Appointed as Director and Chairman on 20 November 2012 and 23 January 2013, respectively.

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

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Former Managing Director				
– Salary and other remuneration	–	900	–	900
– Bonus	–	2,000	–	2,000
– Benefits-in-kind (based on an estimated money value)	–	13	–	13
	–	2,913	–	2,913
Non-Executive Directors				
– Fees	761	861	521	611
– Allowances	368	483	305	385
– Others	24	20	–	–
	1,153	4,277	826	3,909

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 31.12.2012	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
Non-executive Directors				
Dato' Mohamed Khadar Merican (<i>Chairman</i>)	100	65	-	165
Tan Sri Azlan Zainol	80	15	-	95
Akira Miyama	12	-	-	12
Lew Foon Keong	80	16	-	96
Patrick Chin Yoke Chung	240	108	24	372
Dato' Saw Choo Boon	80	90	-	170
Abdul Aziz Peru Mohamed	160	71	-	231
Tan Sri Ong Leong Huat @ Wong Joo Hwa	9	3	-	12
	761	368	24	1,153

Bank 31.12.2012	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
Non-executive Directors				
Dato' Mohamed Khadar Merican (<i>Chairman</i>)	100	65	-	165
Tan Sri Azlan Zainol	80	15	-	95
Akira Miyama	12	-	-	12
Lew Foon Keong	80	16	-	96
Patrick Chin Yoke Chung	80	64	-	144
Dato' Saw Choo Boon	80	90	-	170
Abdul Aziz Peru Mohamed	80	52	-	132
Tan Sri Ong Leong Huat @ Wong Joo Hwa	9	3	-	12
	521	305	-	826

28 DIRECTORS' REMUNERATION (CONTINUED)

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

	Group and Bank			Total RM'000
	Salary and other remuneration RM'000	Bonus RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	
31.12.2011				
Managing Director				
Chay Wai Leong	900	2,000	13	2,913

	Group			Total RM'000
	Fees RM'000	Allowances RM'000	Others RM'000	
31.12.2011				
Non-executive Directors				
Dato' Mohamed Khadar Merican (<i>Chairman</i>)	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

28 DIRECTORS' REMUNERATION (CONTINUED)

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

	Bank			
	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
31.12.2011				
Non-executive Directors				
Dato' Mohamed Khadar Merican (<i>Chairman</i>)	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

29 ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND OTHER LOSSES

	Group and Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Allowance written back for impaired loans and advances:		
– Individual impairment allowance	(72)	(113)
(Write-back)/Allowance for losses on clients' and brokers' balances:		
– Individual impairment allowance	(156)	76
– Collective impairment allowance	47	1,290
– Bad debts recovered	(1)	(125)
– Bad debts written off	–	1
Allowance for impairment – other debtors	145	215
	(37)	1,344

30 IMPAIRMENT LOSSES ON OTHER ASSETS

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Charge/(written back) for the financial year				
– Financial investments available-for-sale	1,534	23,175	1,534	23,175
– Financial investments held-to-maturity	3,305	6,782	3,305	6,781
– Investment in a joint venture	–	5,936	6,100	5,936
– Other assets	(41)	(53)	(41)	(52)
	4,798	35,840	10,898	35,840

31 TAXATION

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Income tax based on profit for the financial year				
– Malaysian income tax	27,946	14,763	27,284	15,212
Deferred tax (Note 11)	(1,407)	(3,132)	(1,664)	(1,989)
(Over)/Under provision in respect of prior years	(276)	2,591	(312)	2,467
Tax expense	26,263	14,222	25,308	15,690

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	
	31.12.2012 %	31.12.2011 %	31.12.2012 %	31.12.2011 %
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	0.3	0.7	–	–
Non allowable expenses	5.0	8.5	5.2	8.3
Income not subject to tax	(0.6)	(0.8)	(0.2)	(0.3)
Other temporary differences not recognised in prior years	(0.3)	(3.8)	0.3	(3.7)
(Over)/under provision in respect of prior years	(0.3)	5.7	(0.4)	5.5
Effective tax rate	29.1	35.3	29.9	34.8

► **Notes To The Financial Statements**
For The Financial Year Ended 31 December 2012

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 RM70,870,000 (2011: RM23,948,000) and RM59,070,000 (2011: RM29,466,000) by the weighted average number of ordinary shares in issue during the financial year of 263,646,000 (2011: 263,646,000).

33 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	31.12.2012			31.12.2011		
	Before tax amount RM'000	Tax benefit RM'000	Net-of-tax amount RM'000	Before tax amount RM'000	Tax expense RM'000	Net-of-tax amount RM'000
Group						
Financial instrument AFS – Fair value gains on revaluation, net of transfer to income statements	(4,136)	1,043	(3,093)	9,498	(2,383)	7,115

	31.12.2012			31.12.2011		
	Before tax amount RM'000	Tax benefit RM'000	Net-of-tax amount RM'000	Before tax amount RM'000	Tax expense RM'000	Net-of-tax amount RM'000
Bank						
Financial instrument AFS – Fair value gains on revaluation, net of transfer to income statements	(3,021)	755	(2,266)	8,384	(2,096)	6,288

34 ORDINARY DIVIDENDS

Dividends declared or proposed are as follows:

	Group and Bank			
	31.12.2012		31.12.2011	
	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 – 2012/2011	8.60	17,005	–	–
Proposed final dividend – 2011/2010	–	–	14.80	29,265
	8.60	17,005	14.80	29,265

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 8.60 sen less 25% tax amounting to RM17,005,167 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 2013 when approved by the shareholder.

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

	Group and Bank			
	31.12.2012		31.12.2011	
	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 – 2011/2010	14.80	29,265	–	–
Final dividend – 2010/2009	–	–	18.05	35,700
Special final dividend – 2010/2009	–	–	17.35	34,298
	14.80	29,265	35.40	69,998

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
Employee Provident Fund (EPF)	Major shareholder, a fund body that is significantly influenced by government
Subsidiaries and associates of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Subsidiaries of the Bank as disclosed in Note 13	Subsidiaries
Key management personnel	The key management personnel of the Group and the Bank consist of: – All directors of the Bank, its key subsidiaries and RHB Capital Berhad – The Bank's 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.

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(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.

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

Group 31.12.2012	EPF and EPF Group of companies RM'000	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Income				
Interest on deposits	-	-	-	12,241
Fee income	-	6,800	-	13,460
Brokerage fees	15,539	-	-	-
Fund management fees	-	-	-	2,331
Revaluation of interest rate swap	-	-	-	(1,873)
	15,539	6,800	-	26,159
Expenditure				
Insurance premium	-	-	-	1,733
Interest expense on deposits and placements	-	-	-	402
Rental of premises	-	-	-	7,314
Personnel expenses	-	-	-	475
Establishment expenses	-	-	-	180
Marketing expenses	-	-	-	1,725
Administration and general expenses	-	-	-	156
	-	-	-	11,985
Amount due from				
Cash and short term funds	-	-	-	552,268
Deposits and placements with banks and other financial institution	-	-	-	650,074
Clients' and brokers' balances	10,908	-	-	-
Derivative financial assets	-	-	-	2,387
Other assets	-	987	-	3,890
	10,908	987	-	1,208,619
Amount due to				
Clients' and brokers' balances	4	-	-	-
Derivative financial liabilities	-	-	-	1,659
Other liabilities	-	477	-	9,395
	4	477	-	11,054

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Group 31.12.2011	EPF and EPF Group of companies RM'000	Holding company RM'000	Key management personnel RM'000	Other related parties RM'000
Income				
Interest on deposits	-	-	-	7,213
Fee income	-	2,965	-	3,323
Brokerage fees	14,906	-	1	-
Fund management fees	-	-	-	1,873
Revaluation of interest rate swap	-	-	-	971
	14,906	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
Amount due from				
Cash and short term funds	-	-	-	114,812
Deposits and placements with banks and other financial institution	-	-	-	100,035
Clients' and brokers' balances	31,729	-	-	-
Derivative financial assets	-	-	-	4,879
Other assets	-	1,877	-	1,591
	31,729	1,877	-	221,317
Amount due to				
Clients' and brokers' balances	4	-	3	-
Derivative financial liabilities	-	-	-	3,035
Other liabilities	-	380	-	15,190
	4	380	3	18,225

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Bank 31.12.2012	EPF and EPF Group of companies RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related parties RM'000
Income					
Interest on deposits	-	-	-	-	11,317
Fee income	-	6,800	1,639	-	12,416
Brokerage fees	15,539	-	-	-	-
Revaluation of interest rate swap	-	-	-	-	(1,873)
	15,539	6,800	1,639	-	21,860
Expenditure					
Insurance premium	-	-	-	-	1,273
Interest expense on deposits and placements	-	-	-	-	402
Rental of premises	-	-	-	-	6,195
Personnel expenses	-	-	-	-	423
Establishment expenses	-	-	-	-	180
Administration and general expenses	-	-	10,075	-	117
	-	-	10,075	-	8,590
Amount due from					
Cash and short term funds	-	-	-	-	484,398
Deposits and placements with banks and other financial institution	-	-	-	-	650,074
Clients' and brokers' balances	10,908	-	-	-	-
Derivative financial assets	-	-	-	-	2,387
Other assets	-	987	3,140	-	1,165
	10,908	987	3,140	-	1,138,024
Amount due to					
Clients' and brokers' balances	4	-	-	-	-
Derivative financial liabilities	-	-	-	-	1,659
Other liabilities	-	460	2,134	-	7,390
	4	460	2,134	-	9,049

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Bank 31.12.2011	EPF and EPF Group of companies RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related parties RM'000
Income					
Interest on deposits	-	-	-	-	6,292
Fee income	-	2,965	1,220	-	2,163
Brokerage fee	14,906	-	-	1	-
Revaluation of interest rate swap	-	-	-	-	971
	14,906	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
Amount due from					
Cash and short term funds	-	-	-	-	64,501
Deposits and placements with banks and other financial institution	-	-	-	-	100,035
Clients' and brokers' balances	31,729	-	-	-	-
Derivative financial assets	-	-	-	-	4,879
Other assets	-	1,877	1,510	-	792
	31,729	1,877	1,510	-	170,207
Amount due to					
Clients' and brokers' balances	4	-	-	3	-
Derivative financial liabilities	-	-	-	-	3,035
Other liabilities	-	363	2,002	-	13,788
	4	363	2,002	3	16,823

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Short-term employee benefits				
– Fees	761	861	521	611
– Salary and other remuneration	11,333	6,683	7,906	3,285
– Benefits-in-kind	24	38	–	13
	12,118	7,582	8,427	3,909

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	
	31.12.2012 RM'000	31.12.2011 RM'000
Outstanding exposure with connected parties (RM'000)	–	–
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposure	–	–
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.

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		
	Principal amount RM'000	Credit equivalent amount [^] RM'000	Risk weighted amount RM'000
31.12.2012	1,000	1,000	1,000
Direct credit substitutes [®]			
Transaction related contingent items [®]	1,053	527	159
Obligations under an on-going underwriting agreements	40,000	20,000	10,000
Interest rate related contracts [#] :			
– less than one year	1,055,000	5,846	1,169
– one to less than five years	800,000	21,488	4,298
– five years and above	15,000	2,290	458
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	22	11	16
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	79,886	15,977	14,674
Total	1,991,961	67,139	31,774

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

[#] These derivatives are revalued on gross position basis and the unrealised gains or losses are reflected in Note 10 Derivatives assets/(liabilities).

[®] Included in direct credit substitutes, transaction-related contingent items and short term self liquidating trade-related contingencies are financial guarantee contract of RM2,053,000 of which fair value at the time of issuance is zero.

36 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 (continued).

	Group and Bank		
	Principal amount RM'000	Credit equivalent amount [^] RM'000	Risk weighted amount RM'000
31.12.2011			
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
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.

[#] These derivatives are revalued on gross position basis and the unrealised gains or losses are reflected in Note 10 Derivatives assets/(liabilities).

[@] Included in direct credit substitutes, transaction-related contingent items and short term self liquidating trade-related contingencies are financial guarantee contract of RM2,093,000 of which fair value at the time of issuance is zero.

36 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 (continued).

	Group and Bank		
	Principal amount RM'000	Credit equivalent amount [^] RM'000	Risk weighted amount RM'000
1.1.2011			
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 2012.

[#] These derivatives are revalued on gross position basis and the unrealised gains or losses are reflected in Note 10 Derivatives assets/(liabilities).

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	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Future minimum lease payments:				
Not later than one year	5,952	7,205	4,913	6,145
Over one year to five years	–	556	–	556
	5,952	7,761	4,913	6,701

38 CAPITAL COMMITMENTS

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Capital expenditure for property, plant and equipment:				
– authorised and not contracted for	8	1,441	7	1,441
	8	1,441	7	1,441

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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Tier I Capital			
Paid-up share capital	263,646	263,646	263,646
Other reserve (exclude AFS Reserve)	272,034	273,155	273,595
Retained profits	101,299	59,694	105,744
	636,979	596,495	642,985
Less: Deferred tax assets/liabilities	(5,988)	(4,581)	(1,449)
Goodwill	(172,844)	(172,844)	(172,844)
Total Tier I Capital	458,147	419,070	468,692
Tier II Capital			
Subordinated obligations	229,074	209,535	234,346
Collective impairment allowance	34	14	62
Total Tier II capital	229,108	209,549	234,408
Less: Investments in subsidiaries	-	-	-
Investments in a joint venture	(18,967)	(19,020)	(25,044)
Securitisation exposures subject to deductions	(4,879)	(7,781)	(1,086)
Other deductions*	(782)	(440)	(344)
Eligible Tier II Capital	204,480	182,308	207,934
Total capital base	662,627	601,378	676,626
Capital ratios			
Before deducting proposed dividends:			
Core capital ratio	29.45%	32.65%	30.07%
Risk-weighted capital adequacy ratio	42.59%	46.86%	43.41%
After deducting proposed dividends:			
Core capital ratio	28.35%	30.37%	25.58%
Risk-weighted capital adequacy ratio	40.95%	43.44%	36.68%

* 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)

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

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Tier I Capital			
Paid-up share capital	263,646	263,646	263,646
Other reserve (exclude AFS Reserve)	278,549	278,549	278,549
Retained profits	85,112	55,307	95,839
	627,307	597,502	638,034
Less: Deferred tax assets/liabilities	(4,325)	(2,662)	(673)
Goodwill	(159,280)	(159,280)	(159,280)
Total Tier I Capital	463,702	435,560	478,081
Tier II Capital			
Subordinated obligations	231,851	217,780	239,041
Collective impairment allowance	34	14	62
Total Tier II capital	231,885	217,794	239,103
Less: Investments in subsidiaries	(84,970)	(84,970)	(84,970)
Investments in a joint venture	(15,363)	(21,463)	(27,399)
Securitisation exposures subject to deductions	(4,879)	(7,781)	(1,086)
Other deductions *	(782)	(440)	(336)
Eligible Tier II Capital	125,891	103,140	125,312
Total capital base	589,593	538,700	603,393
Capital ratios			
Before deducting proposed dividends:			
Core capital ratio	31.40%	36.67%	32.56%
Risk-weighted capital adequacy ratio	39.93%	45.35%	41.09%
After deducting proposed dividends:			
Core capital ratio	30.25%	34.20%	27.79%
Risk-weighted capital adequacy ratio	38.20%	41.66%	33.94%

* 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)

The breakdown of risk-weighted assets by various categories of risk-weights are as follows:

	Group	Bank
	Risk Weighted Asset RM'000	Risk Weighted Asset RM'000
31.12.2012		
(i) Credit risk	911,953	885,313
(ii) Market risk	204,925	204,925
(iii) Operational risk	438,993	386,394
Total risk-weighted assets	1,555,871	1,476,632
31.12.2011		
(i) Credit risk	702,889	658,003
(ii) Market risk	126,884	126,884
(iii) Operational risk	453,579	402,937
Total risk-weighted assets	1,283,352	1,187,824
1.1.2011		
(i) Credit risk	927,240	891,581
(ii) Market risk	161,901	161,901
(iii) Operational risk	469,394	414,976
Total risk-weighted assets	1,558,535	1,468,458

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 on going process to continuously manage the Bank's risks actively.

The GRMC provides oversight and management of all risks. The GRM function is independent of the origination and sales function, and assists the GRMC and Board in formulating risk related policies.

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; and
- (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 controls 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.

Major areas of risk

As a banking institution with key activities covering corporate banking and advisory services, treasury products and services, and securities and futures related 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.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

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.

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 statements of financial 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.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Investment Banking (continued)

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.

A risk rating system is used to categorise 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 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 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 control measures; and continually conduct internal reviews, compliance monitoring, and audits to prevent and minimise unexpected losses.

Capital Management Policy

Capital

The purpose of capital management is to ensure adequate capital at the Group and/or its entity in order to maintain confidence in its financial stability, while achieving returns on capital that are adequate to satisfy the expectations of stakeholders. Capital management involves capital strategy, capital planning, capital structuring, capital optimisation and dividend payout.

Capital Strategy

Capital strategy includes the determination of target capital under both normal and stress market conditions after taking into consideration capital contingency plans. The Group conducts a comprehensive capital adequacy assessment on, at least, an annual basis in order to ensure that the target capital level is appropriate.

Capital Planning

Capital planning includes capital budgeting and forecasting. Based on strategic directions and regulatory requirements, the Group and its entities formulate a capital plan, which describes actions required to raise capital in a timely manner in both normal and stress conditions as assumed in the stress scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Group and/or its entity maintain adequate capital on a forward-looking basis. The Group also has a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer and deliberated at the Group Capital and Strategic Risk Management Committee for endorsement, and submitted to Group Risk Management Committee and the Board for approval.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

A Financial risk management objectives and policies (continued)

Capital Management Policy (continued)

Capital Structuring

Capital structuring affects the Group through its impact on cash flow and cost of capital. The Group adopts an effective capital structuring that maximises value and minimises overall cost of capital. In order to achieve an optimum capital structure, the Group determines the levels, mix and structure of internal and regulatory capital in line with its current and planned levels of business activities, risk appetite and desired level of capital adequacy.

Capital Optimisation

The Group establishes the optimal level of capital by optimising its risk profile and balance sheet through risk-based strategic and financial planning, capital allocation and sound management of capital buffers.

Dividend Pay-Out

The Group aims to achieve a balance between dividend payout and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

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. 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 and the Capital Adequacy Framework for Islamic Banks (CAFIB) issued by BNM. The B2SC has since been dissolved in November 2011, and the discretionary powers and responsibilities of the B2SC are now vested to the Group Capital and Strategic Risk Management Committee.

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	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2012					
Assets as per statement of financial position					
Cash and short-term funds	1,238,662	-	-	-	1,238,662
Deposits and placements with banks and other financial institutions	650,074	-	-	-	650,074
Financial assets held-for-trading	-	324,889	-	-	324,889
Financial investments available-for-sale	-	-	1,028,550	-	1,028,550
Financial investments held-to-maturity	-	-	-	671,892	671,892
Loans and advances	39,639	-	-	-	39,639
Clients' and brokers' balances	300,193	-	-	-	300,193
Other financial assets	54,876	-	-	-	54,876
Derivatives assets	-	9,380	-	-	9,380
Total	2,283,444	334,269	1,028,550	671,892	4,318,155

Group	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
31.12.2012			
Liabilities as per statement of financial position			
Deposits from customers	-	1,668,104	1,668,104
Deposits and placements of banks and other financial institutions	-	1,586,201	1,586,201
Clients' and brokers' balances	-	286,676	286,676
Other financial liabilities	-	76,179	76,179
Derivative liabilities	10,244	-	10,244
Subordinated obligations	-	291,131	291,131
Total	10,244	3,908,291	3,918,535

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued)

Group	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2011					
Assets as per statement of financial position					
Cash and short-term funds	1,754,771	–	–	–	1,754,771
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	43,582	–	–	–	43,582
Clients' and brokers' balances	236,265	–	–	–	236,265
Other financial assets	27,567	–	–	–	27,567
Derivatives assets	–	18,759	–	–	18,759
Total	2,312,412	135,643	2,412,247	608,354	5,468,656

Group	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
31.12.2011			
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	–	238,007	238,007
Other financial liabilities	–	61,436	61,436
Derivative liabilities	19,040	–	19,040
Subordinated obligations	–	246,069	246,069
Total	19,040	5,149,717	5,168,757

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued)

Group	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
1.1.2011					
Assets as per statement of financial position					
Cash and short-term funds	1,700,350	–	–	–	1,700,350
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	50,651	–	–	–	50,651
Clients' and brokers' balances	424,005	–	–	–	424,005
Other financial assets	26,865	–	–	–	26,865
Derivatives assets	–	19,094	–	–	19,094
Total	2,452,146	369,424	3,272,231	184,918	6,278,719

Group	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
1.1.2011			
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	–	404,603	404,603
Other financial liabilities	–	69,560	69,560
Derivative liabilities	20,144	–	20,144
Subordinated obligations	–	246,127	246,127
Total	20,144	5,852,592	5,872,736

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued)

Bank	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2012					
Assets as per statement of financial position					
Cash and short-term funds	1,151,456	-	-	-	1,151,456
Deposits and placements with banks and other financial institutions	650,074	-	-	-	650,074
Financial assets held-for-trading	-	324,889	-	-	324,889
Financial investments available-for-sale	-	-	1,028,089	-	1,028,089
Financial investments held-to-maturity	-	-	-	671,892	671,892
Loans and advances	39,639	-	-	-	39,639
Clients' and brokers' balances	300,193	-	-	-	300,193
Other financial assets	34,977	-	-	-	34,977
Derivatives assets	-	9,380	-	-	9,380
Total	2,176,339	334,269	1,028,089	671,892	4,210,589

Bank	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
31.12.2012			
Liabilities as per statement of financial position			
Deposits from customers	-	1,668,104	1,668,104
Deposits and placements of banks and other financial institutions	-	1,586,201	1,586,201
Clients' and brokers' balances	-	286,676	286,676
Other financial liabilities	-	42,732	42,732
Derivative liabilities	10,244	-	10,244
Subordinated obligations	-	291,131	291,131
Total	10,244	3,874,844	3,885,088

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued)

Bank	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2011					
Assets as per statement of financial position					
Cash and short-term funds	1,687,816	–	–	–	1,687,816
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	43,582	–	–	–	43,582
Clients' and brokers' balances	236,265	–	–	–	236,265
Other financial assets	17,095	–	–	–	17,095
Derivatives assets	–	18,759	–	–	18,759
Total	2,234,985	135,643	2,395,884	608,354	5,374,866

Bank	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
31.12.2011			
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	–	238,007	238,007
Other financial liabilities	–	38,347	38,347
Derivative liabilities	19,040	–	19,040
Subordinated obligations	–	246,069	246,069
Total	19,040	5,126,628	5,145,668

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

B Financial instruments by category (continued)

Bank	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
1.1.2011					
Assets as per statement of financial position					
Cash and short-term funds	1,634,846	–	–	–	1,634,846
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	50,651	–	–	–	50,651
Clients' and brokers' balances	424,005	–	–	–	424,005
Other financial assets	15,075	–	–	–	15,075
Derivatives assets	–	19,094	–	–	19,094
Total	2,374,852	369,424	3,257,686	184,918	6,186,880

Bank	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities RM'000	Total RM'000
1.1.2011			
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	–	404,603	404,603
Other financial liabilities	–	59,119	59,119
Derivative liabilities	20,144	–	20,144
Subordinated obligations	–	246,127	246,127
Total	20,144	5,842,151	5,862,295

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 2012.

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) (2011: +/-100 bps) parallel shift in the interest rate.

	Group and Bank	
	Impact on profit after tax RM'000	Impact on equity RM'000
31.12.2012		
+100 bps	(19,031)	(32,589)
-100 bps	19,757	34,736
31.12.2011		
+100 bps	(24,313)	(88,494)
-100 bps	24,548	95,207
1.1.2011		
+50 bps	(11,227)	(54,120)
-50 bps	11,242	55,936

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

C Market risk (continued)

(i) Interest rate sensitivity analysis (continued)

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 fixed 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		
	31.12.2012	31.12.2011	1.1.2011
	Impact on profit after tax RM'000	Impact on profit after tax RM'000	Impact on profit after tax RM'000
+5%	198	1,036	771
-5%	(198)	(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:

Group	Non-trading book							Trading book RM'000	Total RM'000
	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		
31.12.2012									
Cash and short term funds	1,137,660	-	-	-	-	-	101,002	-	1,238,662
Deposits and placements with banks and other financial institutions	-	650,000	-	-	-	-	74	-	650,074
Financial assets held-for-trading	-	-	-	-	-	-	-	324,889	324,889
Financial investments AFS	4,879	-	20,063	40,130	141,211	771,955	50,312	-	1,028,550
Financial investments held-to-maturity	49,961	24,985	-	-	199,427	492,622	(95,103)	-	671,892
Loans and advances	38,730	-	3	35	42	1,169	(340)	-	39,639
Clients' and brokers' balances	62,826	-	-	-	-	-	237,367	-	300,193
Other assets	-	-	-	-	-	94	56,362	-	56,456
Derivative assets	-	-	-	-	-	-	-	9,380	9,380
Tax recoverable	-	-	-	-	-	-	4,042	-	4,042
Deferred tax assets	-	-	-	-	-	-	1,663	-	1,663
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	49,600	-	49,600
Investment in a joint venture	-	-	-	-	-	-	18,967	-	18,967
Property, plant and equipment	-	-	-	-	-	-	10,864	-	10,864
Goodwill and other intangible assets	-	-	-	-	-	-	177,959	-	177,959
Total assets	1,294,056	674,985	20,066	40,165	340,680	1,265,840	612,769	334,269	4,582,830

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	Non-trading book							Trading book RM'000	Total RM'000
	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		
31.12.2012									
Deposits from customers	1,072,295	469,356	-	123,900	-	-	2,553	-	1,668,104
Deposits and placements of banks and other financial institutions	811,882	439,144	278,558	22,000	32,000	-	2,617	-	1,586,201
Clients' and brokers' balances	-	-	-	-	-	-	286,676	-	286,676
Other liabilities	-	-	-	-	-	-	86,311	-	86,311
Derivative liabilities	-	-	-	-	-	-	-	10,244	10,244
Subordinated obligations	-	-	45,000	-	-	245,000	1,131	-	291,131
Taxation	-	-	-	-	-	-	1,883	-	1,883
Deferred tax liabilities	-	-	-	-	-	-	581	-	581
Total liabilities	1,884,177	908,500	323,558	145,900	32,000	245,000	381,752	10,244	3,931,131
Total equity	-	-	-	-	-	-	651,699	-	651,699
Total liabilities and equity	1,884,177	908,500	323,558	145,900	32,000	245,000	1,033,451	10,244	4,582,830
On-balance sheet interest sensitivity gap	(590,121)	(233,515)	(303,492)	(105,735)	308,680	1,020,840	-	-	-
Off-balance sheet interest sensitivity gap	265,000	(105,000)	100,000	55,000	(290,000)	(25,000)	-	-	-
Total interest-sensitivity gap	(325,121)	(338,515)	(203,492)	(50,735)	18,680	995,840	-	-	-

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	Non-trading book							Trading book RM'000	Total RM'000
	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		
31.12.2011									
Cash and short term funds	1,655,281	-	-	-	-	-	99,490	-	1,754,771
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	42,403	-	2	6	83	1,672	(584)	-	43,582
Clients' and brokers' balances	78,346	-	-	-	-	-	157,919	-	236,265
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	-	-	-	-	-	-	8,443	-	8,443
Goodwill and other intangible assets	-	-	-	-	-	-	178,454	-	178,454
Total assets	1,887,053	313,401	119,241	38,741	336,606	2,412,631	561,029	135,643	5,804,345

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	Non-trading book							Trading book RM'000	Total RM'000
	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		
31.12.2011									
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	-	-	-	-	-	-	238,007	-	238,007
Other liabilities	-	-	-	-	-	-	77,383	-	77,383
Derivative liabilities	-	-	-	-	-	-	-	19,040	19,040
Subordinated obligations	-	-	-	200,000	45,000	-	1,069	-	246,069
Taxation	-	-	-	-	-	-	2,046	-	2,046
Deferred tax liabilities	-	-	-	-	-	-	3,287	-	3,287
Total liabilities	3,874,765	628,718	37,373	253,500	45,000	-	331,641	19,040	5,190,037
Total equity	-	-	-	-	-	-	614,308	-	614,308
Total liabilities and equity	3,874,765	628,718	37,373	253,500	45,000	-	945,949	19,040	5,804,345
On-balance sheet interest sensitivity gap	(1,987,712)	(315,317)	81,868	(214,759)	291,606	2,412,631	-	-	-
Off-balance sheet interest sensitivity gap	-	-	(50,000)	(70,000)	165,000	(45,000)	-	-	-
Total interest-sensitivity gap	(1,987,712)	(315,317)	31,868	(284,759)	456,606	2,367,631	-	-	-

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	Non-trading book								Trading book RM'000	Total RM'000
	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			
1.1.2011										
Cash and short term funds	1,615,397	-	-	-	-	-	-	84,953	-	1,700,350
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	(882)	-	-	50,651
Clients' and brokers' balances	70,241	-	-	-	-	-	353,764	-	-	424,005
Other assets	-	-	-	31	67	324	28,675	-	-	29,097
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	-	-	-	-	-	-	-	7,560	-	7,560
Goodwill and other intangible assets	-	-	-	-	-	-	-	179,359	-	179,359
Total assets	1,734,611	255,011	55,303	141,253	641,322	2,641,606	696,952	369,424		6,535,482

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	Non-trading book							Trading book RM'000	Total RM'000
	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		
1.1.2011									
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	-	-	-	-	-	-	404,603	-	404,603
Other liabilities	-	-	-	-	-	-	73,697	-	73,697
Derivative liabilities	-	-	-	-	-	-	-	20,144	20,144
Subordinated obligations	-	-	-	-	245,000	-	1,127	-	246,127
Taxation	-	-	-	-	-	-	2,033	-	2,033
Deferred tax liabilities	-	-	-	-	-	-	2,893	-	2,893
Total liabilities	3,290,797	1,649,513	169,643	11,908	245,000	-	494,794	20,144	5,881,799
Total equity	-	-	-	-	-	-	653,683	-	653,683
Total liabilities and equity	3,290,797	1,649,513	169,643	11,908	245,000	-	1,148,477	20,144	6,535,482
On-balance sheet interest sensitivity gap	(1,556,186)	(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	(1,661,186)	(1,349,392)	(134,450)	229,375	401,292	2,616,606	-	-	-

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							Trading book RM'000	Total RM'000
	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		
Bank									
31.12.2012									
Cash and short term funds	1,104,491	-	-	-	-	-	46,965	-	1,151,456
Deposits and placements with banks and other financial institutions	-	650,000	-	-	-	-	74	-	650,074
Financial assets held-for-trading	-	-	-	-	-	-	-	324,889	324,889
Financial investments AFS	4,879	-	20,063	40,130	141,211	771,955	49,851	-	1,028,089
Financial investments held-to-maturity	49,961	24,985	-	-	199,427	492,622	(95,103)	-	671,892
Loans and advances	38,730	-	3	35	42	1,169	(340)	-	39,639
Clients' and brokers' balances	62,826	-	-	-	-	-	237,367	-	300,193
Other assets	-	-	-	-	-	-	36,527	-	36,527
Derivative assets	-	-	-	-	-	-	-	9,380	9,380
Tax recoverable	-	-	-	-	-	-	2,536	-	2,536
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	49,600	-	49,600
Investments in subsidiaries	-	-	-	-	-	-	84,970	-	84,970
Investment in a joint controlled entity	-	-	-	-	-	-	15,363	-	15,363
Property, plant and equipment	-	-	-	-	-	-	9,833	-	9,833
Goodwill and other intangible assets	-	-	-	-	-	-	163,502	-	163,502
Total assets	1,260,887	674,985	20,066	40,165	340,680	1,265,746	601,145	334,269	4,537,943

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							Trading book RM'000	Total RM'000
	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		
Bank									
31.12.2012									
Deposits from customers	1,072,295	469,356	-	123,900	-	-	2,553	-	1,668,104
Deposits and placements of banks and other financial institutions	811,882	439,144	278,558	22,000	32,000	-	2,617	-	1,586,201
Clients' and brokers' balances	-	-	-	-	-	-	286,676	-	286,676
Other liabilities	-	-	-	-	-	-	52,979	-	52,979
Derivative liabilities	-	-	-	-	-	-	-	10,244	10,244
Subordinated obligations	-	-	45,000	-	-	245,000	1,131	-	291,131
Deferred tax liabilities	-	-	-	-	-	-	581	-	581
Total liabilities	1,884,177	908,500	323,558	145,900	32,000	245,000	346,537	10,244	3,895,916
Total equity	-	-	-	-	-	-	642,027	-	642,027
Total liabilities and equity	1,884,177	908,500	323,558	145,900	32,000	245,000	988,564	10,244	4,537,943
On-balance sheet interest sensitivity gap	(623,290)	(233,515)	(303,492)	(105,735)	308,680	1,020,746	-	-	-
Off-balance sheet interest sensitivity gap	265,000	(105,000)	100,000	55,000	(290,000)	(25,000)	-	-	-
Total interest-sensitivity gap	(358,290)	(338,515)	(203,492)	(50,735)	18,680	995,746	-	-	-

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							Trading book RM'000	Total RM'000
	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		
Bank									
31.12.2011									
Cash and short term funds	1,619,864	-	-	-	-	-	67,952	-	1,687,816
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	42,403	-	2	6	83	1,672	(584)	-	43,582
Clients' and brokers' balances	78,346	-	-	-	-	-	157,919	-	236,265
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 controlled entity	-	-	-	-	-	-	21,463	-	21,463
Property, plant and equipment	-	-	-	-	-	-	7,366	-	7,366
Goodwill and other intangible assets	-	-	-	-	-	-	164,081	-	164,081
Total assets	1,851,636	313,401	119,241	38,741	336,606	2,412,529	571,502	135,643	5,779,299

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						Trading book RM'000	Total RM'000
	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		
Bank								
31.12.2011								
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	-	-	-	-	-	-	238,007	238,007
Other liabilities	-	-	-	-	-	-	54,490	54,490
Derivative liabilities	-	-	-	-	-	-	-	19,040
Subordinated obligations	-	-	-	200,000	45,000	-	1,069	246,069
Deferred tax liabilities	-	-	-	-	-	-	3,000	3,000
Total liabilities	3,874,765	628,718	37,373	253,500	45,000	-	306,415	5,164,811
Total equity	-	-	-	-	-	-	614,488	614,488
Total liabilities and equity	3,874,765	628,718	37,373	253,500	45,000	-	920,903	5,779,299
On-balance sheet interest sensitivity gap	(2,023,129)	(315,317)	81,868	(214,759)	291,607	2,412,528	-	-
Off-balance sheet interest sensitivity gap	-	-	(50,000)	(70,000)	165,000	(45,000)	-	-
Total interest-sensitivity gap	(2,023,129)	(315,317)	31,868	(284,759)	456,607	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):

	Non-trading book							Trading book RM'000	Total RM'000
	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		
Bank									
1.1.2011									
Cash and short term funds	1,575,197	-	-	-	-	-	59,649	-	1,634,846
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	(882)	-	50,651
Clients' and brokers' balances	70,241	-	-	-	-	-	353,764	-	424,005
Other assets	-	-	-	-	-	-	17,275	-	17,275
Derivative assets	-	-	-	-	-	-	-	19,094	19,094
Tax recoverable	-	-	-	-	-	-	-	-	8,516
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	-	33,250
Investments in subsidiaries	-	-	-	-	-	-	-	-	84,970
Investment in a joint controlled entity	-	-	-	-	-	-	-	-	27,399
Property, plant and equipment	-	-	-	-	-	-	-	-	6,588
Goodwill and other intangible assets	-	-	-	-	-	-	-	-	165,026
Total assets	1,694,411	255,011	55,303	141,222	641,255	2,641,282	716,921	369,424	6,514,829

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							Trading book RM'000	Total RM'000
	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		
Bank									
1.1.2011									
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	-	-	-	-	-	-	404,603	-	404,603
Other liabilities	-	-	-	-	-	-	60,028	-	60,028
Derivative liabilities	-	-	-	-	-	-	-	20,144	20,144
Subordinated obligations	-	-	-	-	245,000	-	1,127	-	246,127
Deferred tax liabilities	-	-	-	-	-	-	2,893	-	2,893
Total liabilities	3,290,797	1,649,513	169,643	11,908	245,000	-	479,092	20,144	5,866,097
Total equity	-	-	-	-	-	-	648,732	-	648,732
Total liabilities and equity	3,290,797	1,649,513	169,643	11,908	245,000	-	1,127,824	20,144	6,514,829
On-balance sheet interest sensitivity gap	(1,596,387)	(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	(1,701,387)	(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) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8:

Group	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
31.12.2012								
ASSETS								
Cash and short term funds	1,020,980	217,682	-	-	-	-	-	1,238,662
Deposits and placements with banks and other financial institutions	-	-	650,074	-	-	-	-	650,074
Financial assets held-for-trading	1,845	26,104	16,614	198	366	279,762	-	324,889
Financial investments AFS	-	3,779	6,803	20,759	40,130	957,079	-	1,028,550
Financial investments held-to-maturity	-	50,760	27,855	745	-	592,532	-	671,892
Loans and advances	26,873	11,517	-	3	35	1,211	-	39,639
Clients' and brokers' balances	210,135	90,058	-	-	-	-	-	300,193
Other assets	5,459	1,590	8,032	3,841	10,474	128	26,932	56,456
Derivative assets	-	-	-	2,147	1,706	5,527	-	9,380
Tax recoverable	-	-	-	-	-	-	4,042	4,042
Deferred tax assets	-	-	-	-	-	-	1,663	1,663
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	49,600	49,600
Investment in a joint venture	-	-	-	-	-	-	18,967	18,967
Property, plant and equipment	-	-	-	-	-	-	10,864	10,864
Goodwill and other intangible assets	-	-	-	-	-	-	177,959	177,959
Total assets	1,265,292	401,490	709,378	27,693	52,711	1,836,239	290,027	4,582,830

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group	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
31.12.2012								
LIABILITIES								
Deposits from customers	342,404	732,036	469,670	-	123,994	-	-	1,668,104
Deposits and placements of banks and other financial institutions	284,008	529,756	439,509	278,765	22,108	32,055	-	1,586,201
Clients' and brokers' balances	200,673	86,003	-	-	-	-	-	286,676
Other liabilities	23,084	25,219	11,855	6,525	393	9,018	10,217	86,311
Derivative liabilities	-	-	-	731	2,198	7,315	-	10,244
Taxation	-	-	-	-	-	-	1,883	1,883
Deferred tax liabilities	-	-	-	-	-	-	581	581
Subordinated obligations	-	-	-	46,131	-	245,000	-	291,131
Total liabilities	850,169	1,373,014	921,034	332,152	148,693	293,388	12,681	3,931,131

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group	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
31.12.2011								
ASSETS								
Cash and short term funds	1,585,005	169,766	-	-	-	-	-	1,754,771
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 and advances	29,273	12,546	-	2	6	1,755	-	43,582
Clients' and brokers' balances	165,385	70,880	-	-	-	-	-	236,265
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	-	-	-	-	-	-	8,443	8,443
Goodwill and other intangible assets	-	-	-	-	-	-	178,454	178,454
Total assets	1,806,868	317,402	365,582	129,384	39,077	2,801,556	344,476	5,804,345

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group	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
31.12.2011								
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	166,605	71,402	-	-	-	-	-	238,007
Other liabilities	14,233	19,560	9,729	8,039	473	9,306	16,043	77,383
Derivative liabilities	-	69	-	224	546	18,201	-	19,040
Taxation	-	-	-	-	-	-	2,046	2,046
Deferred tax liabilities	-	-	-	-	-	-	3,287	3,287
Subordinated obligations	-	-	-	1,069	200,000	45,000	-	246,069
Total liabilities	1,913,315	2,240,197	640,332	47,302	255,008	72,507	21,376	5,190,037

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group	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
1.1.2011								
ASSETS								
Cash and short term funds	989,508	710,842	-	-	-	-	-	1,700,350
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	3,121,744	13,981	3,272,231
Financial investments held-to-maturity	-	-	526	341	19,974	164,077	-	184,918
Loans and advances	33,660	14,431	-	17	95	2,448	-	50,651
Clients' and brokers' balances	296,803	127,202	-	-	-	-	-	424,005
Other assets	3,076	2,737	6,163	1,785	24	457	14,855	29,097
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	-	-	-	-	-	-	7,560	7,560
Goodwill and other intangible assets	-	-	-	-	-	-	179,359	179,359
Total assets	1,323,704	943,666	379,100	98,991	160,300	3,346,354	283,367	6,535,482

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group	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
1.1.2011								
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	283,222	121,381	-	-	-	-	-	404,603
Other liabilities	5,127	18,091	17,822	7,020	-	10,230	15,407	73,697
Derivative liabilities	-	-	111	914	89	19,030	-	20,144
Taxation	-	-	-	-	-	-	2,033	2,033
Deferred tax liabilities	-	-	-	-	-	-	2,893	2,893
Subordinated obligations	-	-	-	1,127	-	245,000	-	246,127
Total liabilities	1,570,874	2,153,751	1,671,104	179,476	12,001	274,260	20,333	5,881,799

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank	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
31.12.2012								
ASSETS								
Cash and short term funds	941,288	210,168	-	-	-	-	-	1,151,456
Deposits and placements with banks and other financial institutions	-	-	650,074	-	-	-	-	650,074
Financial assets held-for-trading	1,845	26,104	16,614	198	366	279,762	-	324,889
Financial investments AFS	-	3,779	6,803	20,759	40,130	956,618	-	1,028,089
Financial investments held-to-maturity	-	50,760	27,855	745	-	592,532	-	671,892
Loans and advances	26,873	11,517	-	3	35	1,211	-	39,639
Clients' and brokers' balances	210,135	90,058	-	-	-	-	-	300,193
Other assets	-	-	7,615	-	-	-	28,912	36,527
Derivative assets	-	-	-	2,147	1,706	5,527	-	9,380
Tax recoverable	-	-	-	-	-	-	2,536	2,536
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	49,600	49,600
Investment in a joint venture	-	-	-	-	-	-	15,363	15,363
Investment in subsidiaries	-	-	-	-	-	-	84,970	84,970
Property, plant and equipment	-	-	-	-	-	-	9,833	9,833
Goodwill and other intangible assets	-	-	-	-	-	-	163,502	163,502
Total assets	1,180,141	392,386	708,961	23,852	42,237	1,835,650	354,716	4,537,943

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

	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
Bank								
31.12.2012								
LIABILITIES								
Deposits from customers	342,404	732,036	469,670	-	123,994	-	-	1,668,104
Deposits and placements of banks and other financial institutions	284,008	529,756	439,509	278,765	22,108	32,055	-	1,586,201
Clients' and brokers' balances	200,673	86,003	-	-	-	-	-	286,676
Other liabilities	-	15,848	11,528	6,339	-	9,018	10,246	52,979
Derivative liabilities	-	-	-	731	2,198	7,315	-	10,244
Deferred tax liabilities	-	-	-	-	-	-	581	581
Subordinated obligations	-	-	-	46,131	-	245,000	-	291,131
Total liabilities	827,085	1,363,643	920,707	331,966	148,300	293,388	10,827	3,895,916

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank	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
31.12.2011								
ASSETS								
Cash and short term funds	1,527,563	160,253	-	-	-	-	-	1,687,816
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	-	23,270	17,669	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 and advances	29,273	12,546	-	2	6	1,755	-	43,582
Clients' and brokers' balances	165,385	70,880	-	-	-	-	-	236,265
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
Investment in a joint venture	-	-	-	-	-	-	21,463	21,463
Investment in subsidiaries	-	-	-	-	-	-	84,970	84,970
Property, plant and equipment	-	-	-	-	-	-	7,366	7,366
Goodwill and other intangible assets	-	-	-	-	-	-	164,081	164,081
Total assets	1,742,007	306,744	363,240	129,198	39,077	2,785,091	413,942	5,779,299

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

	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
Bank								
31.12.2011								
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	166,605	71,402	-	-	-	-	-	238,007
Other liabilities	-	11,823	9,183	7,939	-	9,306	16,239	54,490
Derivative liabilities	-	69	-	224	546	18,201	-	19,040
Deferred tax liabilities	-	-	-	-	-	-	3,000	3,000
Subordinated obligations	-	-	-	1,069	200,000	45,000	-	246,069
Total liabilities	1,899,082	2,232,460	639,786	47,202	254,535	72,507	19,239	5,164,811

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank	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
1.1.2011								
ASSETS								
Cash and short term funds	933,904	700,942	-	-	-	-	-	1,634,846
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	26,722	60,153	38,535	3,121,179	-	3,257,686
Financial investments held-to-maturity	-	-	525	341	19,974	164,078	-	184,918
Loans and advances	33,660	14,431	-	16	95	2,449	-	50,651
Clients' and brokers' balances	296,803	127,202	-	-	-	-	-	424,005
Other assets	-	-	6,155	-	-	-	11,120	17,275
Derivative assets	-	-	-	-	1,178	17,916	-	19,094
Tax recoverable	-	-	-	-	-	-	8,516	8,516
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	33,250	33,250
Investment in a joint venture	-	-	-	-	-	-	27,399	27,399
Investment in subsidiaries	-	-	-	-	-	-	84,970	84,970
Property, plant and equipment	-	-	-	-	-	-	6,588	6,588
Goodwill and other intangible assets	-	-	-	-	-	-	165,026	165,026
Total assets	1,265,024	931,029	379,092	97,205	160,276	3,345,334	336,869	6,514,829

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

D Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank	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
1.1.2011								
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	283,222	121,381	-	-	-	-	-	404,603
Other liabilities	-	12,866	17,165	6,662	-	10,016	13,319	60,028
Derivative liabilities	-	-	111	914	89	19,030	-	20,144
Deferred tax liabilities	-	-	-	-	-	-	2,893	2,893
Subordinated obligations	-	-	-	1,127	-	245,000	-	246,127
Total liabilities	1,565,747	2,148,526	1,670,447	179,118	12,001	274,046	16,212	5,866,097

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	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
31.12.2012							
LIABILITIES							
Deposits from customers	1,075,664	473,075	126,769	-	-	-	1,675,508
Deposits and placements of banks and other financial institutions	814,847	725,209	22,746	33,272	-	-	1,596,074
Clients' and brokers' balances	286,676	-	-	-	-	-	286,676
Other liabilities	15,848	50,422	892	-	-	9,017	76,179
Derivative liabilities							
- Net settled derivatives	627	3,006	2,436	3,887	1,343	-	11,299
Subordinated obligations	-	51,628	5,390	21,560	266,560	-	345,138
Total financial liabilities	2,193,662	1,303,340	158,233	58,719	267,903	9,017	3,990,874
31.12.2011							
LIABILITIES							
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	238,007	-	-	-	-	-	238,007
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	4,158,301	692,273	274,094	54,748	2,496	9,567	5,191,479
1.1.2011							
LIABILITIES							
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	404,603	-	-	-	-	-	404,603
Other liabilities	18,091	18,310	6,532	-	-	26,627	69,560
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	3,723,784	1,862,988	29,934	273,314	3,627	27,906	5,921,553

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	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
31.12.2012							
LIABILITIES							
Deposits from customers	1,075,664	473,075	126,769	-	-	-	1,675,508
Deposits and placements of banks and other financial institutions	814,847	725,209	22,746	33,272	-	-	1,596,074
Clients' and brokers' balances	286,676	-	-	-	-	-	286,676
Other liabilities	15,848	17,867	-	-	-	9,017	42,732
Derivative liabilities							
- Net settled derivatives	627	3,006	2,436	3,887	1,343	-	11,299
Subordinated obligations	-	51,628	5,390	21,560	266,560	-	345,138
Total financial liabilities	2,193,662	1,270,785	157,341	58,719	267,903	9,017	3,957,427
31.12.2011							
LIABILITIES							
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	238,007	-	-	-	-	-	238,007
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	4,136,331	691,627	273,621	54,748	2,496	9,567	5,168,390
1.1.2011							
LIABILITIES							
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	404,603	-	-	-	-	-	404,603
Other liabilities	12,866	17,295	6,532	-	-	22,426	59,119
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	3,718,559	1,861,973	29,934	273,314	3,627	23,705	5,911,112

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:

	31.12.2012			31.12.2011		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Group and Bank						
Obligations under an on-going underwriting agreements	40,000	–	40,000	–	121,000	121,000
Direct credit substitutes	1,000	–	1,000	1,000	–	1,000
Transaction related contingencies	1,053	–	1,053	1,093	–	1,093
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	79,908	–	79,908	80,860	–	80,860
Commitments and contingencies	121,961	–	121,961	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)

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 commitments and contingencies, 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	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Credit risk exposure:			
Short term funds	1,238,653	1,754,762	1,700,343
Deposits and placements with banks and other financial institutions	650,074	250,227	250,275
Financial assets and investments portfolio (exclude shares):			
– Financial assets held-for-trading	324,889	116,884	350,330
– Financial investments available-for-sale	1,008,334	2,374,572	3,239,412
– Financial investments held-to-maturity	671,892	608,354	184,918
Loans and advances	39,639	43,582	50,651
Clients' and brokers' balances	300,193	236,265	424,005
Other financial assets	54,876	27,567	26,865
Derivative assets	9,380	18,759	19,094
	4,297,930	5,430,972	6,245,893
Commitments and contingencies	121,961	203,953	259,080
Total maximum credit risk exposure	4,419,891	5,634,925	6,504,973

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

Bank	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Credit risk exposure:			
Short term funds	1,151,447	1,687,807	1,634,837
Deposits and placements with banks and other financial institutions	650,074	250,227	250,275
Financial assets and investments portfolio (exclude shares):			
– Financial assets held-for-trading	324,889	116,884	350,330
– Financial investments available-for-sale	1,007,873	2,373,998	3,238,847
– Financial investments held-to-maturity	671,892	608,354	184,918
Loans and advances	39,639	43,582	50,650
Clients' and brokers' balances	300,193	236,265	424,005
Other financial assets	34,977	17,095	15,075
Derivative assets	9,380	18,759	19,094
	4,190,364	5,352,971	6,168,031
Commitments and contingencies	121,961	203,953	259,080
Total maximum credit risk exposure	4,312,325	5,556,924	6,427,111

(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 2012 for the Group and the Bank are 94.3% (2011: 94.0%) and 89.4% (2011: 89.0%) 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 are analysed 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
31.12.2012						
Neither past due nor impaired	1,888,727	324,889	985,873	655,175	9,380	54,403
Impaired	-	-	22,461	119,563	-	2,152
	1,888,727	324,889	1,008,334	774,738	9,380	56,555
Less: Allowance for impairment	-	-	-	(102,846)	-	(1,679)
	1,888,727	324,889	1,008,334	671,892	9,380	54,876
31.12.2011						
Neither past due nor impaired	2,004,989	116,884	2,345,632	586,240	18,759	27,309
Impaired	-	-	28,940	122,655	-	1,791
	2,004,989	116,884	2,374,572	708,895	18,759	29,100
Less: Allowance for impairment	-	-	-	(100,541)	-	(1,533)
	2,004,989	116,884	2,374,572	608,354	18,759	27,567
1.1.2011						
Neither past due nor impaired	1,950,618	350,330	3,180,977	148,699	19,094	26,675
Impaired	-	-	58,435	129,979	-	1,756
	1,950,618	350,330	3,239,412	278,678	19,094	28,431
Less: Allowance for impairment	-	-	-	(93,760)	-	(1,566)
	1,950,618	350,330	3,239,412	184,918	19,094	26,865

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 are analysed 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
31.12.2012						
Neither past due nor impaired	1,801,521	324,889	985,412	655,175	9,380	34,504
Impaired	-	-	22,461	119,563	-	2,152
	1,801,521	324,889	1,007,873	774,738	9,380	36,656
Less: Allowance for impairment	-	-	-	(102,846)	-	(1,679)
	1,801,521	324,889	1,007,873	671,892	9,380	34,977
31.12.2011						
Neither past due nor impaired	1,938,034	116,884	2,345,632	586,240	18,759	16,837
Impaired	-	-	28,366	122,655	-	1,791
	1,938,034	116,884	2,373,998	708,895	18,759	18,628
Less: Allowance for impairment	-	-	-	(100,541)	-	(1,533)
	1,938,034	116,884	2,373,998	608,354	18,759	17,095
1.1.2011						
Neither past due nor impaired	1,885,112	350,330	3,180,977	148,699	19,094	14,885
Impaired	-	-	57,870	129,978	-	1,756
	1,885,112	350,330	3,238,847	278,677	19,094	16,641
Less: Allowance for impairment	-	-	-	(93,759)	-	(1,566)
	1,885,112	350,330	3,238,847	184,918	19,094	15,075

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 are 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
31.12.2012						
Aaa to Aa	-	212,063	321,533	91,424	659	-
A1 to A3	-	-	31,188	-	7,124	-
Baa1 to Ba3	-	-	-	-	665	-
P1 to P3	1,545,421	41,722	-	49,961	-	-
Unrated	343,306	71,104	633,152	513,790	932	54,403
Of which:						
- Bank Negara Malaysia	233,297	-	144,496	45,892	-	-
- Malaysian Government Securities	-	71,104	363,134	437,596	-	-
- Malaysian Government Investment Issues	-	-	-	-	-	-
- Khazanah Bonds	-	-	13,100	-	-	-
- Private Debt Securities	-	-	111,187	30,279	-	-
- Others	110,009	-	1,235	23	932	54,403
	1,888,727	324,889	985,873	655,175	9,380	54,403

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 are as follows (continued):

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
31.12.2011						
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	290,525	45,255	–	–	–	–
Unrated	1,714,464	21,119	1,776,770	392,570	–	27,309
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	–	27,309
	2,004,989	116,884	2,345,632	586,240	18,759	27,309

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 are as follows (continued):

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
1.1.2011						
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	728,825	65,600	–	–	–	–
Unrated	1,221,793	228,507	2,236,668	48,827	–	26,675
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	110,082	–	1,282	23	–	26,675
	1,950,618	350,330	3,180,977	148,699	19,094	26,675

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 are 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
31.12.2012						
Aaa to Aa	-	212,063	321,533	91,424	659	-
A1 to A3	-	-	31,188	-	7,124	-
Baa1 to Ba3	-	-	-	-	665	-
P1 to P3	1,458,215	41,722	-	49,961	-	-
Unrated	343,306	71,104	632,691	513,790	932	34,504
Of which:						
- Bank Negara Malaysia	233,297	-	144,496	45,892	-	-
- Malaysian Government Securities	-	71,104	363,134	437,596	-	-
- Malaysian Government Investment Issues	-	-	-	-	-	-
- Private Debt Securities	-	-	111,187	30,279	-	-
- Khazanah Bonds	-	-	13,100	-	-	-
- Others	110,009	-	774	23	932	34,504
	1,801,521	324,889	985,412	655,175	9,380	34,504

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 are 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
31.12.2011						
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	223,570	45,255	–	–	–	–
Unrated	1,714,464	21,119	1,776,770	392,570	–	16,837
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	–	16,837
	1,938,034	116,884	2,345,632	586,240	18,759	16,837

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 are 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
1.1.2011						
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	663,319	65,600	–	–	–	–
Unrated	1,221,793	228,507	2,236,668	48,827	–	14,885
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	110,082	–	1,282	23	–	14,885
	1,885,112	350,330	3,180,977	148,699	19,094	14,885

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

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	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Neither past due nor impaired	39,629	43,547	50,615
Impaired	350	619	918
Gross loans and advances	39,979	44,166	51,533
Less: Individual impairment allowance	(340)	(584)	(882)
Net loans and advances	39,639	43,582	50,651

Analysis of loans and advances that are neither past due nor impaired are as follows:

Group and Bank	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Share margin financing	38,380	41,784	48,049
Staff loans	1,249	1,763	2,566
	39,629	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	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Neither past due nor impaired	296,405	231,832	420,642
Impaired	11,070	11,824	9,388
Gross clients' and brokers' balances	307,475	243,656	430,030
Less: Individual impairment allowance	(1,376)	(1,532)	(1,456)
Collective impairment allowance	(5,906)	(5,859)	(4,569)
Net clients' and brokers' balances	300,193	236,265	424,005

Analysis of clients' and brokers' balances that are neither past due nor impaired are as follows:

Group and Bank	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Brokers' balances	4,938	–	176,660
Clients' balances:			
– outstanding purchases	261,171	186,612	203,717
– contra losses	435	908	1,165
Margin placed with Clearing House (MDCH)	29,861	44,312	39,100
	296,405	231,832	420,642

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) Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitment and contingencies, are set out below:

	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	Commitments and contingencies RM'000
31.12.2012							
Agricultural	-	45,284	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-
Manufacturing	-	41,722	138,094	16,717	-	-	40,000
Electricity, gas and water	-	-	122,812	30,279	-	-	-
Construction	-	70,743	10,240	-	-	-	-
Real estate	-	-	17,582	-	-	-	-
General commerce	-	-	15,490	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	10,112	-	-	-	-	-
Transport, storage and communication	-	85,925	26,233	40,622	-	-	353
Finance, insurance and business services	1,655,430	-	131,336	49,984	-	9,380	1,700
Government and government agencies	233,297	71,103	546,086	534,290	-	-	-
Purchase of securities	-	-	-	-	38,390	306,099	-
Others	-	-	461	-	1,249	54,876	79,908
Total	1,888,727	324,889	1,008,334	671,892	39,639	370,355	121,961

* Excludes equity instruments amounting to RM20,216,000.

® Clients' and brokers' balances exclude collective impairment of RM5,906,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitment and contingencies, are set out below (continued):

Group	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	Commitments and contingencies RM'000
31.12.2011							
Manufacturing	-	45,255	147,729	25,620	-	-	111,000
Electricity, gas and water	-	30,200	191,677	30,320	-	-	-
Construction	-	-	20,498	-	-	-	-
Real estate	-	-	40,969	-	-	-	-
General commerce	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	20,310	15,570	-	-	-	10,000
Transport, storage and communication	-	-	15,264	40,690	-	-	353
Finance, insurance and business services	500,922	-	294,810	153,003	-	23,193	1,740
Government and government agencies	1,504,067	21,119	1,647,480	358,721	-	-	-
Purchase of securities	-	-	-	-	41,819	242,124	-
Others	-	-	575	-	1,763	23,133	80,860
Total	2,004,989	116,884	2,374,572	608,354	43,582	288,450	203,953

* Excludes equity instruments amounting to RM37,675,000.

® Clients' and brokers' balances exclude collective impairment of RM5,859,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) Credit risk exposure analysed by industry in respect of the Group's financial assets, including commitment and contingencies, are set out below (continued):

Group	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	Commitments and contingencies RM'000
1.1.2011							
Manufacturing	-	38,727	152,120	39,726	-	-	157,100
Electricity, gas and water	-	24,906	109,186	-	-	-	-
Construction	-	4,721	37,822	-	-	-	-
Real estate	-	-	20,662	-	-	-	-
General commerce	-	1,967	18,954	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	-	5,192	-	-	-	460
Transport, storage and communication	-	-	117,467	99,872	-	-	-
Finance, insurance and business services	839,235	51,502	669,624	23	-	21,671	-
Government and government agencies	1,111,383	228,507	2,107,821	45,297	-	-	-
Purchase of securities	-	-	-	-	48,085	428,573	-
Others	-	-	565	-	2,566	24,289	101,520
Total	1,950,618	350,330	3,239,413	184,918	50,651	474,533	259,080

* Excludes equity instruments amounting to RM32,819,000.

® Clients' and brokers' balances exclude collective impairment of RM4,569,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitment and contingencies, are set out below (continued):

Bank	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	Commitments and contingencies RM'000
31.12.2012							
Agricultural	-	45,284	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-
Manufacturing	-	41,722	138,094	16,717	-	-	40,000
Electricity, gas and water	-	-	122,812	30,279	-	-	-
Construction	-	70,743	10,240	-	-	-	-
Real estate	-	-	17,582	-	-	-	-
General commerce	-	-	15,490	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	10,112	-	-	-	-	-
Transport, storage and communication	-	85,925	26,233	40,622	-	-	353
Finance, insurance and business services	1,568,224	-	131,336	49,984	-	12,565	1,700
Government and government agencies	233,297	71,103	546,086	534,290	-	-	-
Purchase of landed property	-	-	-	-	38,390	-	-
Purchase of securities	-	-	-	-	1,249	31,792	79,908
Others	-	-	-	-	-	-	-
Total	1,801,521	324,889	1,007,873	674,892	39,639	350,456	121,961

* Excludes equity instruments amounting to RM20,216,000.

© Clients' and brokers' balances exclude collective impairment of RM5,906,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitment and contingencies, are set out below (continued):

	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' balances and other financial assets [®] RM'000	Commitments and contingencies RM'000
31.12.2011							
Manufacturing	-	45,255	147,729	25,620	-	-	111,000
Electricity, gas and water	-	30,200	191,678	30,320	-	-	-
Construction	-	-	20,498	-	-	-	-
Real estate	-	-	40,969	-	-	-	-
General commerce	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	20,310	15,570	-	-	-	10,000
Transport, storage and communication	-	-	15,264	40,690	-	-	353
Finance, insurance and business services	433,967	-	294,810	153,003	-	20,319	1,740
Government and government agencies	1,504,067	21,119	1,647,480	358,721	-	-	-
Purchase of landed property	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	41,819	242,124	-
Others	-	-	-	-	1,763	15,535	80,860
Total	1,938,034	116,884	2,373,998	608,354	43,582	277,978	203,953

* Excludes equity instruments amounting to RM21,886,000.

® Clients' balances exclude collective impairment of RM5,859,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

E Credit risk (continued)

(e) Credit risk exposure analysed by industry in respect of the Bank's financial assets, including commitment and contingencies, are set out below (continued):

Bank	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	Commitments and contingencies RM'000
1.1.2011							
Manufacturing	-	38,727	152,120	39,726	-	-	157,100
Electricity, gas and water	-	24,906	109,186	-	-	-	-
Construction	-	4,721	37,822	-	-	-	-
Real estate	-	-	20,662	-	-	-	-
General commerce	-	1,967	18,954	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	-	5,192	-	-	-	460
Transport, storage and communication	-	-	117,467	99,872	-	-	-
Finance, insurance and business services	773,729	51,502	669,623	23	-	19,927	-
Government and government agencies	1,111,383	228,507	2,107,821	45,297	-	-	-
Purchase of landed property	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	48,085	428,573	-
Others	-	-	-	-	2,566	14,243	101,520
Total	1,885,112	350,330	3,238,847	184,918	50,651	462,743	259,080

* Excludes equity instruments amounting to RM18,839,000.

® Clients' and brokers' balances exclude collective impairment of RM4,569,000; other financial assets comprises of other receivables.

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value measurement

The Group and 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	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2012				
Financial assets				
Financial assets held-for-trading:				
– Money market instruments	–	71,103	–	71,103
– Unquoted securities	–	251,941	1,845	253,786
Financial investments available-for-sale:				
– Money market instruments	–	546,086	–	546,086
– Quoted securities	775	–	–	775
– Unquoted securities	–	438,552	43,137	481,689
Derivative assets:	–	9,380	–	9,380
	775	1,317,062	44,982	1,362,819
Financial liabilities				
Derivative liabilities	–	10,244	–	10,244

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value measurement (continued)

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2011				
Financial assets				
Financial assets held-for-trading				
– Money market instruments	–	21,119	–	21,119
– Unquoted securities	–	95,765	–	95,765
Financial investments available-for-sale				
– Money market instruments	–	1,647,480	–	1,647,480
– Quoted securities	1,999	–	–	1,999
– Unquoted securities	–	704,602	58,166	762,768
Derivative assets	–	18,759	–	18,759
	1,999	2,487,725	58,166	2,547,890
Financial liabilities				
Derivative liabilities				
– Unquoted securities	–	19,040	–	19,040
1.1.2011				
Financial assets				
Financial assets held-for-trading				
– Money market instruments	–	280,009	–	280,009
– Unquoted securities	–	70,321	–	70,321
Financial investments available-for-sale				
– Money market instruments	–	2,107,821	–	2,107,821
– Quoted securities	1,305	–	–	1,305
– Unquoted securities	–	1,091,808	71,297	1,163,105
Derivative assets	–	19,094	–	19,094
	1,305	3,569,053	71,297	3,641,655
Financial liabilities				
Derivative liabilities	–	20,144	–	20,144

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

F Fair value measurement (continued)

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2012				
Financial assets				
Financial assets held-for-trading				
– Money market instruments	–	71,103	–	71,103
– Unquoted securities	–	251,941	1,845	253,786
Financial investments available-for-sale				
– Money market instruments	–	546,086	–	546,086
– Quoted securities	775	–	–	775
– Unquoted securities	–	438,551	42,677	481,228
Derivative assets	–	9,380	–	9,380
	775	1,317,061	44,522	1,362,358
Financial liabilities				
Derivative liabilities	–	10,244	–	10,244
31.12.2011				
Financial assets				
Financial assets held-for-trading				
– Money market instrument	–	21,119	–	21,119
– Unquoted securities	–	95,765	–	95,765
Financial investments available-for-sale				
– Money market instrument	–	1,647,480	–	1,647,480
– Quoted securities	1,340	–	–	1,340
– Unquoted securities	–	704,601	42,463	747,064
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)

Bank	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
1.1.2011				
Financial assets				
Financial assets held-for-trading				
– Money market instrument	–	280,009	–	280,009
– Unquoted securities	–	70,321	–	70,321
Financial investments available-for-sale				
– Money market instrument	–	2,107,821	–	2,107,821
– Quoted securities	1,305	–	–	1,305
– Unquoted securities	–	1,091,808	56,752	1,148,560
Derivative assets	–	19,094	–	19,094
	1,305	3,569,053	56,752	3,627,110
Financial liabilities				
Derivative liabilities	–	20,144	–	20,144

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy are as follows:

Group	Financial investment available-for-sale		
	Domestic RM'000	Overseas RM'000	Total RM'000
31.12.2012			
As at 1 January 2012	57,594	572	58,166
Transfer in	21,088	–	21,088
Total gains or losses recognised in other comprehensive income	(4,338)	–	(4,338)
Sales	(29,822)	(65)	(29,887)
Exchange differences	–	(47)	(47)
	44,522	460	44,982
31.12.2011			
As at 1 January 2011	70,733	564	71,297
Total gains or losses recognised in other comprehensive income	(12,339)	–	(12,339)
Sales	(800)	–	(800)
Exchange differences	–	8	8
	57,594	572	58,166

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 (continued):

Bank	Financial investment available-for-sale		
	Domestic RM'000	Overseas RM'000	Total RM'000
31.12.2012			
As at 1 January 2012	42,463	–	42,463
Transfer in	21,088	–	21,088
Total gains or losses recognised in other comprehensive income	(6,035)	–	(6,035)
Sales	(12,994)	–	(12,994)
	44,522	–	44,522
31.12.2011			
As at 1 January 2011	56,752	–	56,752
Total gains or losses recognised in other comprehensive income	(13,489)	–	(13,489)
Sales	(800)	–	(800)
	42,463	–	42,463

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of each financial assets and liabilities presented on the statements of financial position of the Group and the Bank approximates the carrying amount as at the reporting date, except for the following:

	Group and Bank	
	Carrying amount RM'000	Fair value RM'000
31.12.2012		
Financial assets		
Financial investments held-to-maturity	671,892	680,179
Financial liabilities		
Subordinated obligations	291,131	291,472
31.12.2011		
Financial assets		
Financial investments held-to-maturity	608,354	615,445
Financial liabilities		
Subordinated obligations	246,069	250,164
1.1.2011		
Financial assets		
Financial investments held-to-maturity	184,918	187,749
Financial liabilities		
Subordinated obligations	246,127	252,331

41 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values are based on the following methodologies and assumptions (continued):

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.

42 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

Segment information is presented in respect of the Group's business segment. All of the Group's business transactions are conducted mainly 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 covers facilities for equity share trading in local and foreign markets, share margin financing, futures broking products and services, custodian and nominees services, investment cash management and unit trust funds.

(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		
	Investment Banking RM'000	Treasury RM'000	Total RM'000
31.12.2012			
External revenue	214,572	65,906	280,478
Overhead expenses including:	(155,744)	(10,544)	(166,288)
– Depreciation of property, plant and equipment	(3,337)	(162)	(3,499)
– Amortisation of intangible assets	(1,148)	(231)	(1,379)
Allowance for impairment on loans, advances and financing	46	(9)	37
Impairment losses on other assets	(2,820)	(1,978)	(4,798)
Profit before unallocated expenses	56,054	53,375	109,429
Sub-debt interest*			(13,122)
Profit after unallocated expenses			96,307
Share of results of a joint venture			826
Profit before taxation			97,133
Taxation			(26,263)
Net profit for the financial year			70,870

- Total segment revenue comprise of net interest income (excluding interest expense on subordinated obligations amounting to RM13,122,000) and other operating income.
- During the financial year, no one group of related customers accounted for more than 10% of the Group's revenue.

	Group			
	Investment Banking RM'000	Treasury RM'000	Others RM'000	Total RM'000
31.12.2012				
Segment assets	696,663	3,833,141	28,354	4,558,158
Investments in a joint venture				18,967
Tax recoverable				4,042
Deferred tax assets				1,663
Total assets				4,582,830
Segment Liabilities	763,527	2,837,993	36,016	3,637,536
Tax liabilities				1,883
Deferred tax liabilities				581
Subordinated obligations				291,131
Total liabilities				3,931,131

42 SEGMENT REPORTING (CONTINUED)

	Group		
	Investment Banking RM'000	Treasury RM'000	Total RM'000
31.12.2011			
External revenue	189,492	63,517	253,009
Overhead expenses including:	(152,056)	(12,951)	(165,007)
– Depreciation of property, plant and equipment	(2,516)	(156)	(2,672)
– Amortisation of intangible assets	(1,270)	(229)	(1,499)
Allowance for impairment on loans, advances and financing	(1,344)	–	(1,344)
Impairment losses on other assets	(6,336)	(29,504)	(35,840)
Profit before unallocated expenses	29,756	21,062	50,818
Sub-debt interest*			(13,075)
Profit after unallocated expenses			37,743
Share of results of a joint venture			427
Profit before taxation			38,170
Taxation			(14,222)
Net profit for the financial year			23,948

- 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.

	Group			
	Investment Banking RM'000	Treasury RM'000	Others RM'000	Total RM'000
31.12.2011				
Segment assets	627,842	5,105,555	38,947	5,772,344
Investments in a joint venture				19,020
Tax recoverable				11,062
Deferred tax assets				1,919
Total assets				5,804,345
Segment Liabilities	706,197	4,193,815	38,623	4,938,635
Tax liabilities				2,046
Deferred tax liabilities				3,287
Subordinated obligations				246,069
Total liabilities				5,190,037

43 TRANSITION FROM FINANCIAL REPORTING STANDARDS (FRS) TO MALAYSIAN FINANCIAL REPORTING STANDARDS (MFRS)

The Group and the Bank does not take advantage on certain mandatory exceptions and optional exceptions provided in MFRS 1 for first time adoption of MFRS, except those mentioned below.

(a) MFRS 1 mandatory exceptions

(i) Estimates

MFRS estimates as at transition date is consistent with the estimates as at the same date made in conformity with FRS.

(ii) Hedge Accounting

Hedge accounting can only be applied prospectively from the transition date to a hedging relationship that qualifies for hedge accounting under MFRS 139 'Financial instruments: Recognition and measurement' at that date. Hedging relationships cannot be designated retrospectively.

(b) MFRS 1 exemption options

(iii) Exemption for business combinations

MFRS 1 provides the option to apply MFRS 3 'Business combinations' prospectively for business combination that occurred from the transition date or from a designated date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date or a designated date prior to the transition date. The Group elected to apply MFRS 3 prospectively to business combinations that occurred after 1 January 2012. Business combinations that occurred prior to 1 January 2012 have not been restated. In addition, the Group has also applied MFRS 127 'Consolidated and separate financial statements' from the same date.

The above transition from FRS to MFRS had no effect on the reported equity, total comprehensive income and cash flow for prior years. As such, no reconciliations to explain the effects of transition from FRS to MFRS are disclosed in these financial statements.

44 EFFECT ON CHANGES IN ACCOUNTING POLICIES

MFRS 139 'Financial Instruments: Recognition and Measurement'

Previously, the Group applied the Amendment to FRS 139 'Financial Instruments: Recognition and Measurement', which included an additional transitional arrangement for financial sectors, whereby Bank Negara Malaysia (BNM) may prescribed the use of an alternative basis for collective assessment of impairments on loans, advances and financing. 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.

With effect from 1 January 2012, BNM has removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and loan loss provisioning to comply with 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 loan loss allowance 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.

Previously, when a collectively assessed loans and advances is deemed impaired, the Group reversed out the interest income recognised in profit or loss and set-off against the interest receivable in the statements of financial position. Upon the adoption of MFRS 139 on 1 January 2012, once a collectively assessed loan and advances has been written down as a result of an impairment loss, interest income is thereafter recognised using the original effective interest rate in the profit or loss.

FRSIC Consensus 18 Monies Held in Trust by Participating Organisations of Bursa Malaysia Securities Berhad (FRSIC 18)

According to FRSIC 18, although a participating organisation is required by Capital Markets and Services Act (CMSA), 2007 and Bursa Securities Rules to maintain the trust account, it does not have any contractual or statutory obligation to its clients on the money deposited in the trust account that would result in an outflow of resources embodying economic benefits from the participating organisation. In addition, a participating organisation is prohibited under the provisions contained in Section 113 of CMSA 2007 to utilise the monies either for its own economic benefits or settlement of its own liability. The monies are also not available for distribution in the event the participating organisation is liquidated. As such, a participating organisation does not have any control over the trust monies to obtain the future economic benefits embodied in the trust monies. Accordingly, the trust monies should not be recognised as part of the participating organisation's asset with a corresponding liability.

Previously, monies held in trust forms part of the assets in the financial statements with a corresponding liability. Upon adoption of FRSIC 18, the monies held in trust are no longer included in the assets with corresponding liabilities in the financial statements of the Group.

Reclassification of software to other intangibles

Previously, software licences were classified under property, plant and equipment. Upon the full adoption of MFRS, software licenses are now reclassified to other intangibles.

44 EFFECT ON CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the Group's statement of financial position

	As previously reported RM'000	Effects of full adoption of MFRS 139 RM'000	Effect of adoption of FRSIC 18 RM'000	Effect of reclassifica- tion of software to other intangibles RM'000	Total RM'000
As at 1 January 2011					
Assets					
Cash and short term funds	1,907,199	–	(206,849)	–	1,700,350
Loans and advances	49,891	760	–	–	50,651
– Collective impairment allowances	(760)	760	–	–	–
Clients' and brokers' balances	421,127	1,810	1,068	–	424,005
– Individual impairment allowances	(7,478)	6,022	–	–	(1,456)
– Collective impairment allowances	(357)	(4,212)	–	–	(4,569)
Property, plant and equipment	14,075	–	–	(6,515)	7,560
Goodwill and other tangible assets	172,844	–	–	6,515	179,359
Liabilities					
Other liabilities	73,722	–	(25)	–	73,697
Clients' and brokers' balances	610,360	–	(205,757)	–	404,603
Deferred tax liabilities	2,251	642	–	–	2,893
Equity attributable to equity holders of the Bank: Retained profits	103,817	1,927	–	–	105,744
As at 31 December 2011					
Assets					
Cash and short term funds	2,080,685	–	(325,914)	–	1,754,771
Loans and advances	42,928	654	–	–	43,582
– Collective impairment allowances	(654)	654	–	–	–
Clients' and brokers' balances	232,676	2,158	1,431	–	236,265
– Individual impairment allowances	(9,309)	7,777	–	–	(1,532)
– Collective impairment allowances	(240)	(5,619)	–	–	(5,859)
Property, plant and equipment	14,053	–	–	(5,610)	8,443
Goodwill and other tangible assets	172,844	–	–	5,610	178,454
Liabilities					
Other liabilities	77,480	–	(97)	–	77,383
Clients' and brokers' balances	562,393	–	(324,386)	–	238,007
Deferred tax liabilities	2,584	703	–	–	3,287
Equity attributable to equity holders of the Bank: Retained profits	57,585	2,109	–	–	59,694

44 EFFECT ON CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Impact on the Group's statements of comprehensive income for the year ended 31 December 2011

	As previously reported RM'000	Effects of full adoption of MFRS 139 RM'000	Effect of adoption of FRSIC 18 RM'000	Effect of reclassification of software to other intangibles RM'000	Total RM'000
Allowance for impairment on loans, advances and other losses	(1,586)	242	–	–	(1,344)
Profit before taxation	37,927	243	–	–	38,170
Taxation	(14,161)	(61)	–	–	(14,222)
Net profit for the financial year	23,766	182	–	–	23,948
Earnings per share (sen) - basic	9.01	0.07	–	–	9.08

(c) Impact on the Bank's statement of financial position

	As previously reported RM'000	Effects of full adoption of MFRS 139 RM'000	Effect of adoption of FRSIC 18 RM'000	Effect of reclassification of software to other intangibles RM'000	Total RM'000
As at 1 January 2011					
Assets					
Cash and short term funds	1,841,694	–	(206,848)	–	1,634,846
Loans and advances	49,891	760	–	–	50,651
– Collective impairment allowances	(760)	760	–	–	–
Clients' and brokers' balances	421,127	1,810	1,068	–	424,005
– Individual impairment allowances	(7,478)	6,022	–	–	(1,456)
– Collective impairment allowances	(357)	(4,212)	–	–	(4,569)
Property, plant and equipment	12,334	–	–	(5,746)	6,588
Goodwill and other tangible assets	159,280	–	–	5,746	165,026
Liabilities					
Other liabilities	60,052	–	(24)	–	60,028
Clients' and brokers' balances	610,360	–	(205,757)	–	404,603
Deferred tax liabilities	2,251	642	–	–	2,893
Equity attributable to equity holders of the Bank:					
Retained profits	93,912	1,927	–	–	95,839

44 EFFECT ON CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Impact on the Bank's statements of financial position (continued)

	As previously reported RM'000	Effects of full adoption of MFRS 139 RM'000	Effect of adoption of FRSIC 18 RM'000	Effect of reclassifica- tion of software to other intangibles RM'000	Total RM'000
As at 31 December 2011					
Assets					
Cash and short term funds	2,013,729	–	(325,913)	–	1,687,816
Loans and advances	42,928	654	–	–	43,582
– Collective impairment allowances	(654)	654	–	–	–
Clients' and brokers' balances	232,676	2,158	1,431	–	236,265
– Individual impairment allowances	(9,309)	7,777	–	–	(1,532)
– Collective impairment allowances	(240)	(5,619)	–	–	(5,859)
Property, plant and equipment	12,167	–	–	(4,801)	7,366
Goodwill and other tangible assets	159,280	–	–	4,801	164,081
Liabilities					
Other liabilities	54,586	–	(96)	–	54,490
Clients' and brokers' balances	562,393	–	(324,386)	–	238,007
Deferred tax liabilities	2,297	703	–	–	3,000
Equity attributable to equity holders of the Bank:					
Retained profits	53,198	2,109	–	–	55,307

(d) Impact on the Bank's statements of comprehensive income for the year ended 31 December 2011

	As previously reported RM'000	Effects of full adoption of MFRS 139 RM'000	Effect of adoption of FRSIC 18 RM'000	Effect of reclassifica- tion of software to other intangibles RM'000	Total RM'000
Allowance for impairment on loans, advances and other losses	(1,586)	242	–	–	(1,344)
Profit before taxation	44,913	243	–	–	45,156
Taxation	(15,629)	(61)	–	–	(15,690)
Net profit for the financial year	29,284	182	–	–	29,466
Earnings per share (sen) - basic	11.11	0.07	–	–	11.18

45 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Issuance of RM245 million Tier II Subordinated Notes 2012/2022

On 10 December 2012, the Bank issued RM245 million nominal value of the Subordinated Notes. The RM245 million in nominal value is as follows:

Tranche	Principal RM'million	Maturity Date	Interest Rate	Interest Payment
2012/2022	245	9 December 2022 (Callable on 2017)	4.4% per annum chargeable to 9 December 2022	Accrued and payable semi-annually in arrears

46 PROPOSED MERGER OF BUSINESS WITH OSK INVESTMENT BANK BERHAD

Upon completion of the acquisition OSK Investment Bank Berhad by RHB Capital Berhad, the holding company of the Bank, on 9 November 2012, the businesses of OSK Investment Bank shall merge with that of RHB Investment Bank by way of a vesting order to be granted by the High Court of Malaya (Merger). This will entail RHB Investment Bank assuming substantially all the assets and liabilities of OSK Investment Bank and the Merger is expected to be completed by the first half of 2013.

Statement By Directors

Pursuant To Section 169(15) of The Companies Act, 1965

We, Tan Sri Ong Leong Huat @ Wong Joo Hwa 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 69 to 227 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 2012 and of their financial results and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

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

TAN SRI ONG LEONG HUAT @ WONG JOO HWA
CHAIRMAN

DATO' SAW CHOO BOON
DIRECTOR

Kuala Lumpur
28 February 2013

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 69 to 227 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 above named Muffriezal bin Ahmad Sufian @ Qurnain at Kuala Lumpur on 28 February 2013, before me.

COMMISSIONER FOR OATHS

Kuala Lumpur
28 February 2013

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 2012 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 69 to 227.

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 judgement, 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.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2012 and of their financial performance and cash flows for the year then ended.

► **Independent Auditors' Report**

To The Member of RHB Investment Bank Berhad

(Incorporated in Malaysia)

(Company No. 19663 P)

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 MATTER

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

Kuala Lumpur

28 February 2013

SRIDHARAN NAIR

(No. 2656/05/14 (J))

Chartered Accountant

Basel II Pillar 3 Disclosures

31st December 2012

Section	Item	Page(s)
	Statement by Officer in Charge	232
1.0	Introduction	233
2.0	Scope of Application	234
3.0	Capital Management	235
3.1	Internal Capital Adequacy Assessment Process (ICAAP)	236
3.2	Capital Adequacy Ratios	237
3.3	Risk-Weighted Assets (RWA) and Minimum Capital Requirements	237
4.0	Capital Structure	239
5.0	Risk Management	240
6.0	Credit Risk	244
6.1	Credit Risk Management Oversight & Organisation	244
6.2	Credit Risk Management Approach	245
6.3	Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)	246
6.4	Credit Exposures and Risk-Weighted Assets (RWA) By Portfolio	246
6.5	Use of External Ratings	255
6.6	Credit Risk Monitoring and Control	258
6.7	Impairment Allowances for Loans	261
7.0	Securitisation Exposures	264
8.0	Market Risk	267
9.0	Equity Exposures in The Banking Book	269
10.0	Liquidity Risk	269
11.0	Interest Rate Risk/Rate of Return Risk in The Banking Book	270
12.0	Operational Risk	273
13.0	Country Cross-Border Risk	276
14.0	Reputational Risk	276
15.0	Forward Looking Statements	277
	Glossary of Terms	278

▸ 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 of Directors and Senior Management of RHB Investment Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of the Bank for the year ended 31st December 2012 are accurate and complete.

CHAN CHEONG YUEN

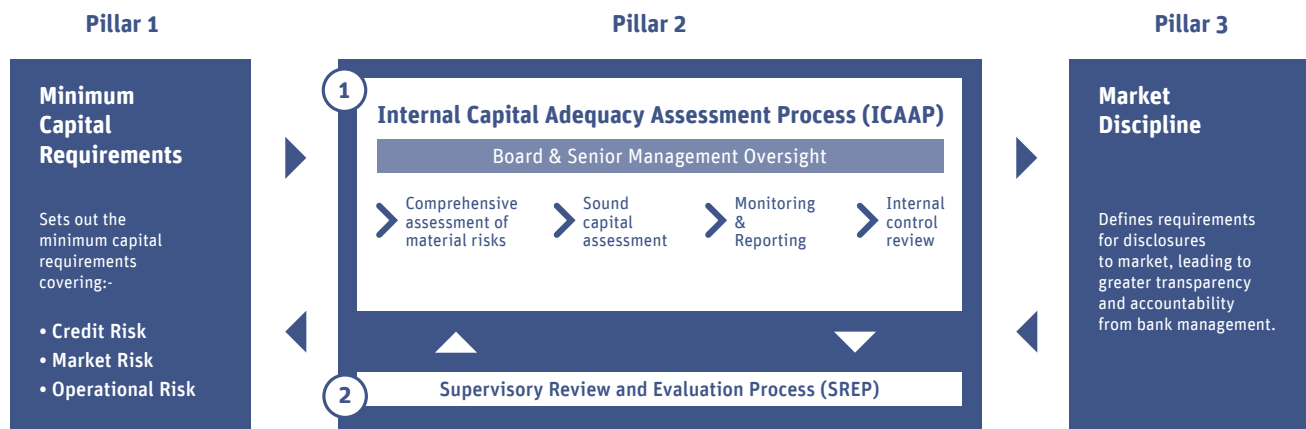
Officer in Charge,
RHB Investment Bank Berhad

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).

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. Basel II is designed to be a catalyst for more advanced risk management techniques, enterprise-wide culture of risk management and improved corporate governance and public disclosure.

The Basel II approach based on the three pillars can be diagrammatically depicted as below:-



Pillar 1 provides guidelines for calculation of risk-weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume.

Pillar 2 comprises two components as follows:-

1. Placing obligations on banks to develop an Internal Capital Adequacy Assessment Process (ICAAP), and setting capital targets that commensurate with the banking institution's risk profile and control environment; and
2. Placing obligations on the supervisory authority to evaluate how well banking institutions are assessing their capital needs relative to their risks and to intervene, where appropriate.

Pillar 3 covers the external communication of risk and capital information by banks. The purpose of the Pillar 3 disclosures is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through the development of a set of disclosure requirements that will allow market participants to assess information on banking institutions' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

1.0 INTRODUCTION (CONTINUED)

The table below lists the various methodologies applicable to the capital requirements calculation for the various types of risks under Pillar 1.

Type of Approaches		
Credit Risk	Market Risk	Operational Risk
1. Standardised Approach (SA)	1. Standardised Approach (SA)	1. Basic Indicator Approach (BIA)
2. Foundation Internal Ratings-Based Approach (F-IRB)	2. Internal Models Approach (IMA)	2. The Standardised Approach (TSA)
3. Advanced Internal Ratings-Based Approach (A-IRB)		3. Advanced Measurement Approach (AMA)

For the purpose of credit risk and market risk measurement, RHB Investment Bank has adopted the Standardised Approach (SA) while for operational risk; RHB Investment Bank applies the Basic Indicator Approach (BIA). These requirements are set out in the Guideline on Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets Computation) issued by BNM in 2009 (updated in November 2012).

This document covers the qualitative and quantitative information for financial year ended 31st December 2012 with comparative quantitative information of the preceding financial year 2011. The comparative figures for the financial year 2011 in this report have been restated to give effect to changes in the accounting policies in relation to the Malaysian Financial Reporting Standards 139 (MFRS 139), as reflected in Note 44: Effect on changes in accounting policies, to the financial statements.

This is RHB Investment Bank's third annual Pillar 3 disclosure report published in accordance with the Basel II Pillar 3 Guideline issued by BNM. 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 2012, 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 statements for a list of consolidated entities.

2.0 SCOPE OF APPLICATION (CONTINUED)

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 excluded from eligible capital are required under BNM's Guidelines '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.

During the financial year 2012, there were no capital deficiencies in RHB Investment Bank Berhad or any of its subsidiaries.

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to ensure that the Bank has adequate capital to maintain stability, while meeting its business objectives and in line with its risk appetite. 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. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting the regulatory requirements.

With comprehensive capital management, the Bank aims to assist the Board of Directors (Board) and the management in overseeing and ensuring that the Bank and its entities have a sound capital management practice that is aligned to BNM's requirements on ICAAP.

The management of capital involves capital strategy, capital planning, capital structuring and dividend pay-out.

- **Capital Strategy**

Capital strategy includes the determination of target capital under both normal and stress market conditions and considers the business risk and strategic objectives, external credit ratings, and capital adequacy requirements. A comprehensive capital adequacy assessment is conducted at least annually to ensure that the target capital level is appropriate.

- **Capital Planning**

Based on strategic directions and regulatory requirements, the Bank formulates a capital plan to support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate. The capital plan describes the actions required to raise capital in a timely manner in both normal and stress conditions as assumed in the stressed scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Bank maintains adequate capital on a forward-looking basis. The Bank also establishes a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer, and deliberated at the Group Capital and Strategic Risk Management Committee (GCSRMC) for endorsement, and submitted to Group Risk Management Committee (GRMC) and the Board for approval.

3.0 CAPITAL MANAGEMENT (CONTINUED)

- **Capital Structuring**

Capital structuring affects the Bank through its impact on cash flow and cost of capital. The Bank adopts capital structuring that maximises value and minimises overall cost of capital. In order to achieve optimum capital structure, the Bank determines the levels, mix and structure of internal and regulatory capital in line with its current and planned levels of business activities, risk appetite and desired level of capital adequacy.

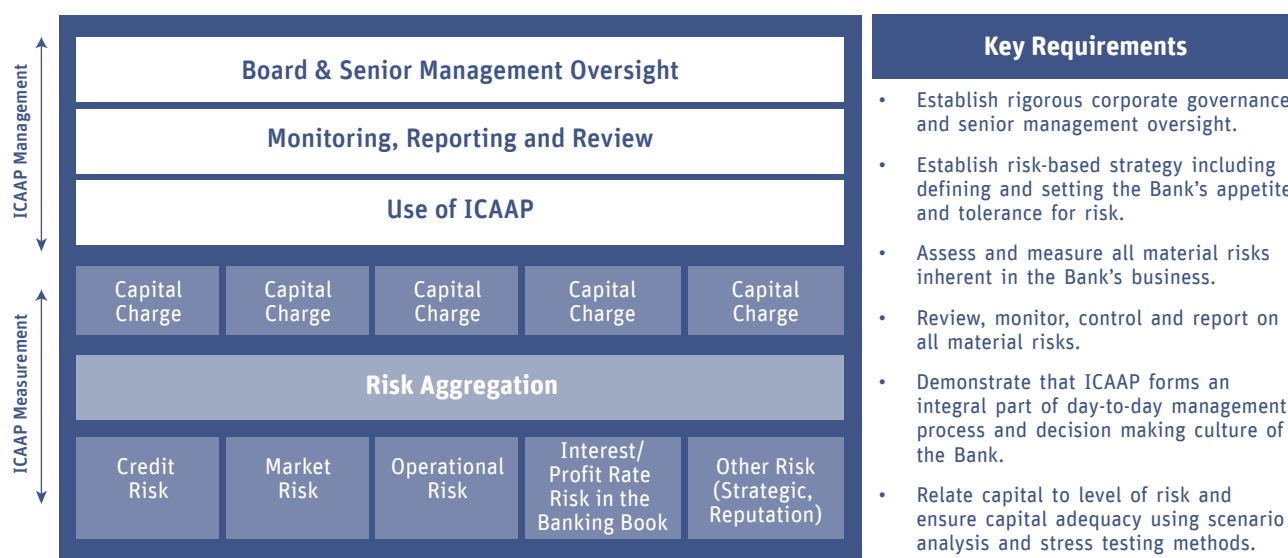
- **Dividend Pay-Out**

The Bank aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

In line with BNM’s Guideline on ICAAP under the Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2) issued in December 2011, the Bank has embarked on implementing ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy will be assessed in relation to the Bank’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 end March 2013.

The ICAAP Framework, developed and adopted across the Bank summarises the key ICAAP requirements into two functional categories, namely; ICAAP Measurement and ICAAP Management as depicted below:-



3.0 CAPITAL MANAGEMENT (CONTINUED)

3.2 Capital Adequacy Ratios

BNM's Guidelines on '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 for a bank incorporated in Malaysia shall use in calculating these ratios.

The capital ratios of RHB Investment Bank Group are computed based on BNM's Guideline on 'Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets Computation)'.

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 2012 and 31st December 2011 are as follows:-

Table 1: Capital Adequacy Ratios

	RHB Investment Bank Group		RHB Investment Bank	
	2012	2011	2012	2011
Before proposed final dividends:				
Core capital ratio	29.45%	32.65%	31.40%	36.67%
Risk-weighted capital ratio	42.59%	46.86%	39.93%	45.35%
After proposed final dividends:				
Core capital ratio	28.35%	30.37%	30.25%	34.20%
Risk-weighted capital ratio	40.95%	43.44%	38.20%	41.66%

The above core capital ratios and risk-weighted capital ratios are above the minimum level required by BNM.

3.3 Risk-Weighted Assets (RWA) and Minimum Capital Requirements

Table 2: Risk-Weighted Assets (RWA) by Risk Types

	RHB Investment Bank Group (RM'000)		RHB Investment Bank (RM'000)	
	2012	2011	2012	2011
Credit RWA	911,953	702,889	885,313	658,003
Market RWA	204,925	126,884	204,925	126,884
Operational RWA	438,993	453,579	386,394	402,937
Total RWA	1,555,871	1,283,352	1,476,632	1,187,824

Capital requirements for the three risk types are derived by multiplying the risk-weighted assets by 8%.

There has been an increase in Credit RWA for RHB Investment Bank Group as at 31st December 2012 by RM209 million arising from money market lending exposures with other banks, while the increase in Market RWA by RM78 million is due to increase in exposure to fixed rate securities/bonds.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Risk-Weighted Assets (RWA) and Minimum Capital Requirements (CONTINUED)

The following table shows a breakdown of the RWA by risk types as at 31st December 2012 and 31st December 2011:-

Table 3a: Risk-Weighted Assets and Minimum Capital Requirements by Risk Types as at 31st December 2012

Risk Type	RWA (RM'000)		Capital Requirement (RM'000)	
	RHB Investment Bank Group	RHB Investment Bank	RHB Investment Bank Group	RHB Investment Bank
Credit Risk				
<i>Under Standardised Approach</i>	911,953	885,313	72,956	70,825
Market Risk				
<i>Under Standardised Approach</i>	204,925	204,925	16,394	16,394
Operational Risk				
<i>Under Basic Indicator Approach</i>	438,993	386,394	35,119	30,912
Total	1,555,871	1,476,632	124,469	118,131

Table 3b: Risk-Weighted Assets and Minimum Capital Requirements by Risk Types as at 31st December 2011

Risk Type	RWA (RM'000)		Capital Requirement (RM'000)	
	RHB Investment Bank Group	RHB Investment Bank	RHB Investment Bank Group	RHB Investment Bank
Credit Risk				
<i>Under Standardised Approach</i>	702,889	658,003	56,231	52,640
Market Risk				
<i>Under Standardised Approach</i>	126,884	126,884	10,151	10,151
Operational Risk				
<i>Under Basic Indicator Approach</i>	453,579	402,937	36,286	32,235
Total	1,283,352	1,187,824	102,668	95,026

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 on '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 I 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 Note 39 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 2012 and 31st December 2011.

Table 4: Capital Structure

	RHB Investment Bank Group (RM'000)		RHB Investment Bank (RM'000)	
	2012	2011	2012	2011
Tier I Capital				
Paid-up ordinary share capital	263,646	263,646	263,646	263,646
Retained profits	101,299	59,694	85,112	55,307
Other reserves	272,034	273,155	278,549	278,549
Total Tier I Capital	636,979	596,495	627,307	597,502
Less:				
Deferred tax assets	(5,988)	(4,581)	(4,325)	(2,662)
Goodwill	(172,844)	(172,844)	(159,280)	(159,280)
Eligible Tier I Capital	458,147	419,070	463,702	435,560
Tier II Capital				
Collective impairment allowance	34	14	34	14
Maximum allowable subordinated debt capital	229,074	209,535	231,851	217,780
Total Tier II Capital	229,108	209,549	231,885	217,794
Less:				
Investment in subsidiary companies and joint ventures	(18,967)	(19,020)	(100,333)	(106,433)
Securitisation exposures subject to deductions	(4,879)	(7,781)	(4,879)	(7,781)
Other deductions	(782)	(440)	(782)	(440)
Total deductions from Tier II Capital	(24,628)	(27,241)	(105,994)	(114,654)
Eligible Tier II Capital	204,480	182,308	125,891	103,140
Capital Base	662,627	601,378	589,593	538,700

5.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, 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 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 contains five fundamental principles that drive the philosophy of risk management in the RHB Banking Group. They are:-

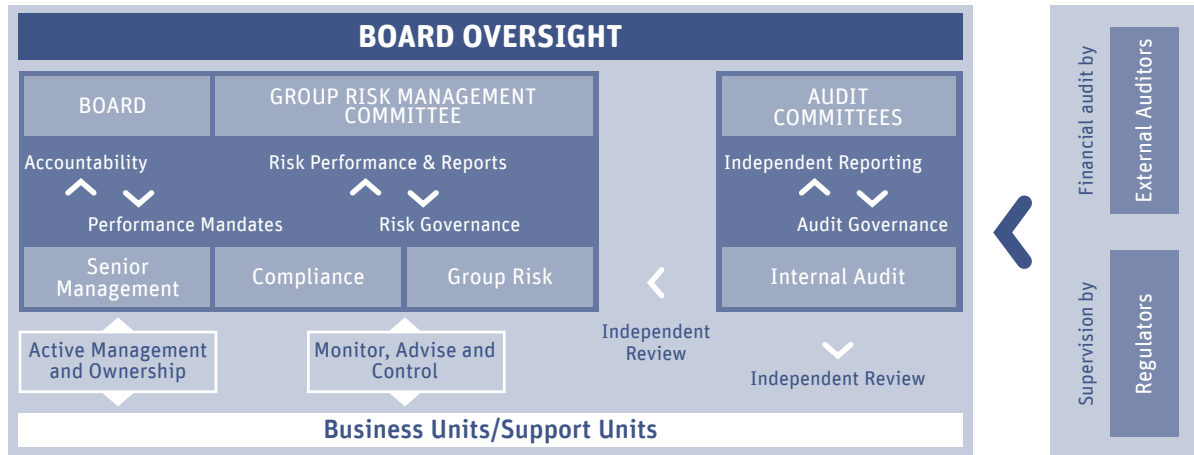
- Risk governance from the Board of Directors of companies in the Group;
- Clear understanding of risk management;
- Institutionalisation of a risk-focused organisation;
- Alignment of risk management to business strategies; and
- Optimisation of risk-adjusted economic and financial returns

Principle 1: Risk Governance from the Board of Directors of Companies in the Group

The ultimate responsibility of the Board 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's oversight responsibilities which is depicted in the accompanying diagram:

5.0 RISK MANAGEMENT (CONTINUED)

Structured Framework to Support Board Oversight Role in Risk Management



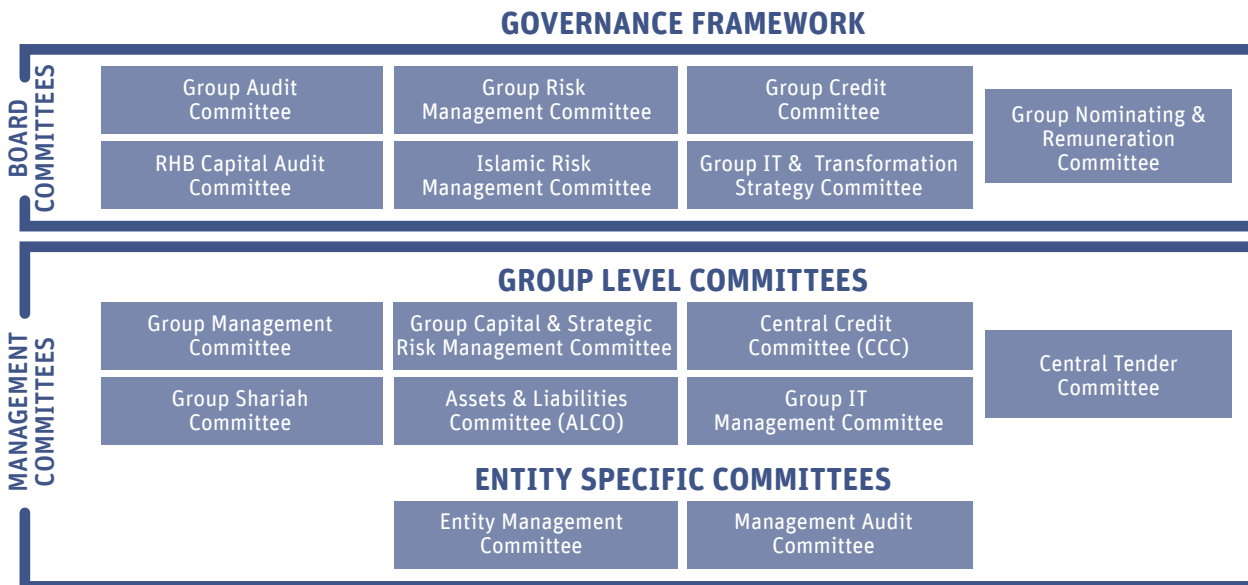
RISK GOVERNANCE AND ORGANISATION

The Board of Directors (Board) 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 on risk management to ensure that the risk management process of the Group is in place and functional. GRMC assists the Board to review the Group's overall risk management philosophy; risk management framework, risk management policies and risk management models.

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (CONTINUED)

There are other committees set up to manage specific areas of risks in the Group. An overview of this governance framework at Group level is as below:-

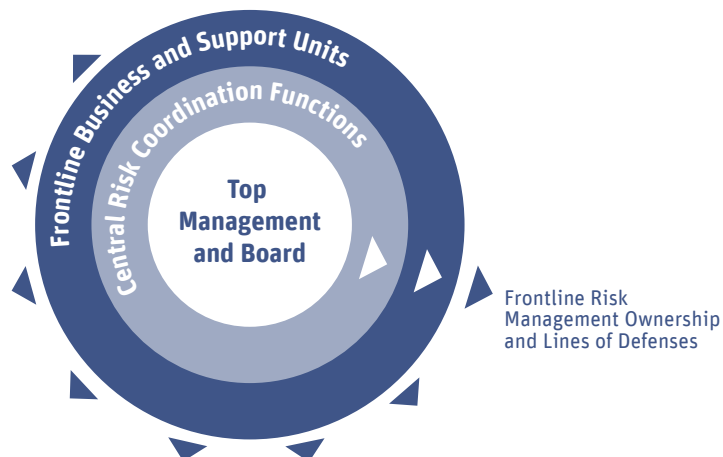


Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the RHB Banking Group. The business and functional units of the Group are collectively 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 warrants the cooperation of the 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



5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (CONTINUED)

Principle 3: Institutionalisation of a Risk-focused Organisation

In addition to risk ownership, a risk-focused culture is promoted 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 independent of the origination and business functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This risk management function is responsible for formulating risk related policies and presents risk performance and reports to GRMC for recommendation to the Board.

The risk management function is headed by the Director of Group Risk Management, who reports to the Group Managing Director. Among the roles and responsibilities of the Director 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 practices in risk management 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 and impact on the Group; and
- 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 compliance with applicable laws, regulations, rules, directives and guidelines.

Risk and Control Environment

Business and functional 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 and responsibility delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

The primary responsibility for managing risks, therefore, rests with the business managers, who 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.

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (CONTINUED)

Principle 4: Alignment of Risk Management to Business Strategies

A statement of intent of the Group Risk Management framework is to align the Group's business strategy to risk strategy, and vice versa. This is articulated through the Group's annual business and financial budgetary plan, which is 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 functional units are required to be 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 risk-adjusted return assumed by businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses whose value creation exceeds the internal targeted threshold. 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 has implemented a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk 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 & 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 which are duly approved by the CCC, as well as 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.

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 prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.0 CREDIT RISK (CONTINUED)

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, and 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.

Lending to Corporate and Institutional Customers

Loans to corporate and institutional customers are undertaken 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.

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.

6.0 CREDIT RISK (CONTINUED)

6.3 Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)

The management of the following off-balance sheet exposures of RHB Investment Bank Group is in accordance to the credit risk management approach as set out under Section 6.2 of this report.

- Underwriting commitments in respect of the Bank'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.

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 the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

All outstanding financial derivative positions are marked-to-market on a daily basis. The Bank's Treasury Operations Department monitors counterparties' positions and promptly escalates any shortfall in the threshold levels to the relevant parties.

6.4 Credit Exposures and Risk-Weighted Assets (RWA) By Portfolio

All credit exposures of the Bank 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.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets (RWA) By Portfolio (continued)

Table 5a: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On- and Off-Balance Sheet Exposures) as at 31st December 2012

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)
Credit Risk				
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns and Central Banks	1,274,014	1,274,014	–	–
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions and MDBs	1,811,091	1,811,091	362,218	28,977
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–
Corporates	556,644	556,644	148,505	11,880
Regulatory Retail	1,751	1,751	1,313	105
Residential Mortgage	1,102	1,102	386	31
Higher Risk Assets	34	34	51	5
Other Assets	363,499	363,499	340,082	27,206
Specialised Financing/Investment	–	–	–	–
Securitisation Exposures	–	–	–	–
Equity Exposures	19,251	19,251	19,251	1,540
Defaulted Exposures	21,605	21,605	8,373	670
Total On-Balance Sheet Exposures	4,048,991	4,048,991	880,179	70,414
Off-Balance Sheet Exposures				
OTC Derivatives	29,624	29,624	5,925	474
Credit Derivatives	–	–	–	–
Off-balance sheet exposures other than OTC derivatives or credit derivatives	37,515	37,515	25,849	2,068
Defaulted Exposures	–	–	–	–
Total Off-Balance Sheet Exposures	67,139	67,139	31,774	2,542
Total On- and Off-Balance Sheet Exposures	4,116,130	4,116,130	911,953	72,956

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- 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)
Credit Risk				
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	628,292	628,292	125,658	10,053
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–
Corporates	601,078	601,078	228,224	18,258
Regulatory Retail	1,736	1,736	1,302	104
Residential Mortgage	1,814	1,814	647	52
Higher Risk Assets	–	–	–	–
Other Assets	293,228	293,228	242,950	19,436
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	11,075	886
Total On-Balance Sheet Exposures	5,479,266	5,479,266	653,634	52,291
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	5,613,429	5,613,429	702,889	56,231

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 2012

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	1,053	–	527	159
Assets sold with recourse	–	–	–	–
NIFs & obligations under an on-going underwriting agreement	40,000	–	20,000	10,000
Interest/profit rate related contracts	1,870,000	9,380	29,624	5,925
1 year or less	1,055,000	3,853	5,846	1,169
Over 1 year to 5 years	800,000	3,987	21,488	4,298
Over 5 years	15,000	1,540	2,290	458
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	–	–	–	–
Other commitments such as formal standby facilities & credit lines, with original maturity of over 1 year	22	–	11	16
Other commitments such as formal standby facilities & credit lines, with original maturity of up to 1 year	79,886	–	15,977	14,674
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	–	–	–	–
Total	1,991,961	9,380	67,139	31,774

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 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 & obligations under an on-going 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 & credit lines, with original maturity of over 1 year	–	–	–	–
Other commitments such as formal standby facilities & 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 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2012

Exposure Class	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale, Retail Trade, Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business	Education, Health & others	Household	Others	Total
	(RM'000)									
Exposures under Standardised Approach										
Sovereigns and Central Banks	-	-	-	-	-	282,897	991,117	-	-	1,274,014
Public Sector Entities	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	-	-	-	-	-	1,840,715	-	-	-	1,840,715
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-	-
Corporates	189,617	153,092	26,233	-	40,799	148,291	-	-	47,629	605,661
Regulatory Retail	-	-	-	-	-	-	-	6,965	-	6,965
Residential Mortgage	-	-	-	-	-	-	-	1,102	-	1,102
Higher Risk Assets	-	-	-	-	-	-	-	44	-	44
Other Assets	-	-	-	-	-	346,516	1,004	-	15,979	363,499
Specialised Financing/Investment	-	-	-	-	-	-	-	-	-	-
Total Exposures under SA	189,617	153,092	26,233	-	40,799	2,618,419	992,121	8,111	63,608	4,092,000

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 2011

Exposure Class	Electricity, Gas & Water Supply	Construction	Wholesale, Retail Trade, Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business	Education, Health & others	Household	Others	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	-	-	-	-	684,236	-	-	-	684,236
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-
Corporates	191,855	-	34,737	15,265	191,294	-	-	60,772	699,403
Regulatory Retail	-	-	-	-	-	-	3,751	-	3,751
Residential Mortgage	-	-	-	-	-	-	1,842	-	1,842
Higher Risk Assets	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	278,582	593	-	14,053	293,228
Specialised Financing/Investment	-	-	-	-	-	-	-	-	-
Total Exposures under SA	222,175	-	34,737	55,956	2,946,739	2,006,794	5,593	74,825	5,552,299

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 2012

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	282,897	45,892	945,225	1,274,014
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions and MDBs	1,710,812	82,903	47,000	1,840,715
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–
Corporates	124,465	357,858	123,338	605,661
Regulatory Retail	6,738	–	227	6,965
Residential Mortgages	–	–	1,102	1,102
Higher Risk Assets	–	–	44	44
Other Assets	344,115	–	19,384	363,499
Specialised Financing/Investment	–	–	–	–
Total Exposures under SA	2,469,027	486,653	1,136,320	4,092,000

Table 8b: 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	563,142	69,920	51,174	684,236
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–
Corporates	408,914	189,271	101,218	699,403
Regulatory Retail	1,660	–	2,091	3,751
Residential Mortgages	–	–	1,842	1,842
Higher Risk Assets	–	–	–	–
Other Assets	278,582	–	14,646	293,228
Specialised Financing/Investment	–	–	–	–
Total Exposures under SA	2,870,767	516,071	2,165,461	5,552,299

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 2012

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	1,274,014	-	-	-	-	-	-	-	-	-	1,274,014
Banks, MDBs and DFIs	-	1,840,715	-	-	-	-	-	-	-	-	1,840,715
Corporates	241,025	200,730	-	68,092	-	78,222	17,592	-	-	-	605,661
Regulatory Retail	-	-	-	-	6,965	-	-	-	-	-	6,965
Residential Mortgages	-	-	1,102	-	-	-	-	-	-	-	1,102
Higher Risk Assets	-	-	-	-	-	-	44	-	-	-	44
Other Assets	17,891	6,908	-	-	-	338,700	-	-	-	-	363,499
Securitisation	-	-	-	-	-	-	-	-	4,879	-	4,879
Equity	-	-	-	-	-	19,251	-	-	-	-	19,251
Total Exposures after CRM (RM'000)	1,532,930	2,048,353	1,102	68,092	6,965	436,173	17,636	-	4,879	4,116,130	
Total Risk-Weighted Assets (RM'000)	-	409,670	386	34,046	5,224	436,173	26,454	-	-	911,953	

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets (RWA) By Portfolio (continued)

Table 9b: 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	-	684,236	-	-	-	-	-	-	-	-	684,236
Corporates	-	480,680	-	98,687	-	99,374	20,662	-	-	-	699,403
Regulatory Retail	-	-	-	10	3,741	-	-	-	-	-	3,751
Residential Mortgages	-	-	1,758	84	-	-	-	-	-	-	1,842
Other Assets	48,566	2,140	-	-	-	242,522	-	-	-	-	293,228
Securitisation	-	5,162	-	10,883	-	-	-	-	7,781	-	23,826
Equity	-	-	-	-	-	37,304	-	-	-	-	37,304
Total Exposures after CRM (RM'000)	3,918,405	1,172,218	1,758	109,664	3,741	379,200	20,662	-	7,781	-	5,613,429
Total Risk-Weighted Assets (RM'000)	-	234,443	615	54,832	2,806	379,200	30,993	-	-	-	702,889

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).

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

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 the Bank's credit exposures to sovereigns, corporate and banking institutions for 31st December 2012 compared with 31st December 2011, according to the ratings by ECAIs.

Table 10a: Rated Exposures According to Ratings by ECAIs as at 31st December 2012

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)		334,693	52,188	17,582	-	201,198

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)		-	-	-	-	-

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)		-	1,274,014	-	-	-	-

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 2012 (continued)

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)		516,827	1,323,888	-	-	-	-

Table 10b: 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)		491,388	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	-	-	-

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 2011 (continued)

Ratings of Sovereigns and Central Banks by Approved ECAIs	Moody's S&P Fitch R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B- BB+ to B-	Caa1 to C CCC+ to D CCC+ to D CCC+ to C	Unrated Unrated Unrated 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 S&P Fitch RAM MARC R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB- BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B- BB+ to B-	Caa1 to C CCC+ to D CCC+ to D C1 to D C+ to D CCC+ to C	Unrated Unrated Unrated Unrated Unrated Unrated
On- and Off-Balance Sheet Exposures Banks, MDBs and DFIs (RM'000)		536,655	147,581	-	-	-	-

6.6 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Bank generally does not grant credit facilities solely on the basis of collateral(s) 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 Bank's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

The main types of collateral taken by the Bank are:-

- Shares listed on Bursa Malaysia (including listed warrants)
- Land and/or Buildings
- Cash Deposit

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (continued)

Credit Risk Mitigation (continued)

Collateral is valued in accordance with the Bank's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collateral/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 Bank 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 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.

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31st December 2012

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)
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns and Central Banks	1,274,014	-	-
Banks, Development Financial Institutions and MDBs	1,811,091	-	-
Corporates	556,644	10,240	291
Regulatory Retail	1,751	-	-
Residential Mortgages	1,102	-	-
High Risk Assets	34	-	-
Other Assets	363,499	-	-
Securitisation Exposures	-	-	-
Equity Exposures	19,251	-	-
Defaulted Exposures	21,605	-	-
Total On-Balance Sheet Exposures	4,048,991	10,240	291
Off-Balance Sheet Exposures			
OTC Derivatives	29,624	-	-
Off-Balance Sheet exposures other than OTC Derivatives or Credit Derivatives	37,515	-	-
Total Off-Balance Sheet Exposures	67,139	-	-
Total On- and Off-Balance Sheet Exposures	4,116,130	10,240	291

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (continued)

Credit Risk Mitigation (continued)

Table 11b: 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)
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns and Central Banks	3,869,839	–	–
Banks, Development Financial Institutions and MDBs	628,292	–	–
Corporates	601,078	154,708	614
Regulatory Retail	1,736	–	–
Residential Mortgages	1,814	–	–
Other Assets	293,228	–	–
Securitisation Exposures	23,826	–	–
Equity Exposures	37,304	–	–
Defaulted Exposures	22,149	–	–
Total On-Balance Sheet Exposures	5,479,266	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	5,613,429	154,708	614

Credit Concentration Risk

The Bank 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 regimen. In this respect, the Bank 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 better management of credit concentration risk.

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (continued)

Credit Monitoring and Annual Reviews

The Bank 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 on-going 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

Previously, the Bank had applied the Amendment to FRS 139 'Financial Instruments: Recognition and Measurement', which included an additional transitional arrangement, whereby Bank Negara Malaysia (BNM) prescribed the use of an alternative basis for collective assessment of impairments on loans, advances and financing. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing issued in 2010, whereby banking institutions were required to maintain collective allowances of at least 1.5% of total outstanding loans, net of individual impairment allowances under the transitional provisions in the guidelines.

With effect from 1st January 2012, BNM has removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and loan loss provisioning to comply with 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 loan loss allowance 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.

For loans and advances, the Bank first assesses 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 Bank can 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 Bank addresses impairment of loans and advances via either individually assessed allowance or collectively assessed allowance.

Individually impairment allowance

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

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans (continued)

Collective impairment allowance

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

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

Write-Off of Impaired Loans

All loans that satisfy any one of the following criteria, and provided impairment loss has been fully made for shortfall, if any, may be recommended for write-off:-

- Deemed irrecoverable, worthless and with slim prospect of recovery.
- Waiver/discount already given under approved composite settlement schemes.
- For retail and scored loans with ageing of 12 months and above, provided legal action has been initiated.

This policy of impairment loans write-off is intended to provide a timely and consistent methodology for loans to be written-off and to reflect the true value of assets in the Bank's books.

Table 12a: Impaired and Past Due Loans and Provision for Impairment by Industry Sector as at 31st December 2012

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)
Household	350	340	-	-	172
Total	350	340	-	-	172

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans (continued)

Write-Off of Impaired Loans (continued)

Table 12b: Impaired and Past Due Loans 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)
Household	619	584	–	9	185
Total	619	584	–	9	185

Table 13: Reconciliation of Changes to Loan Impairment Provisions

Impairment Provision Details	Individual Impairment Provision (RM'000)		Collective Impairment Provision (RM'000)	
	2012	2011	2012	2011
Opening Balance	584	882	–	760
Effect on full adoption of MFRS 139	–	–	–	(760)
Net Allowance Made	–	9	–	–
Amount Recovered	(72)	(122)	–	–
Amount Written-Off	(172)	(185)	–	–
Closing Balance	340	584	–	–

All impaired, past due and provisions for impaired loans are for credit exposures booked in Malaysia.

7.0 SECURITISATION EXPOSURES

The Bank has exposures to securitised assets in its banking book as a result of previous securitisation exercises (prior to the year ended 31st December 2010). In general, the Bank'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, coordinating 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 Credit Risk Policy detailed in Section 6.0 and the overall Market Risk Policy detailed in Section 8.0.

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.

Rating Agency Malaysia (RAM) 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 from 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 the 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 Credit Risk Policy detailed in Section 6.0 and the overall Market Risk Policy detailed in Section 8.0.

The accounting policies governing the 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 Financial Statements of the Bank.

Malaysian Rating Corporation Berhad (MARC) was the ECAI used in determining the initial rating of the securitised asset.

7.0 SECURITISATION EXPOSURES (CONTINUED)

The definitions of the roles mentioned 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 the key requirements by the Securities Commission (SC) and BNM, 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, 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.

The Bank has no remaining exposure to the SPVs created or the previous securitisation exercises in general, apart from the risks it faces as an investor.

Table 14: Disclosure on Securitisation Exposures in the Banking Book

Underlying Assets	Total Exposures Securitised (RM'000)		Impaired (RM'000)	
	2012	2011	2012	2011
Traditional Securitisation (Banking Book Exposures): Originated by the Bank				
Collateralised Loan Obligation (Corporate Loans)	4,879	18,664	55,800	54,230
Securitisation of Third-Party exposures where the Bank acts only as a Sponsor				
Assets-Backed Securities (Personal Loans)	–	5,162	–	–
Total	4,879	23,826	55,800	54,230

The totals above relate to the carrying balance sheet value of the investment in the securitised instruments, including 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 financial year 2012.

7.0 SECURITISATION EXPOSURES (CONTINUED)

Capital Treatment for Securitisation Exposures

The Bank applies the Standardised Approach to calculate the credit risk capital requirements in accordance with BNM's Guideline. The Bank's credit risk-weighted securitisation exposures are shown below:-

Table 15a: Securitisation under the Standardised Approach for Banking Book Exposures as at 31st December 2012

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	-	-	-	-	-	-
Originating Banking Institution						
Most Senior	4,879	4,879	-	-	-	-
Mezzanine	-	-	-	-	-	-
Total	4,879	4,879	-	-	-	-

Table 15b: 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

The Bank did not have any exposure to synthetic securitisation during the financial years 2012 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 Bank has established a Trading Book Policy as guidance for market risk management. This is 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 (Group ALCO) performs a critical role in the management of market risk and 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 Bank'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.

8.0 MARKET RISK (CONTINUED)

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 Bank's treasury functions with the approval of Group ALCO.

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding market risk capital charge for the Bank as at 31st December 2012 and 31st December 2011 are shown in the tables below:-

Table 16a: Market Risk-Weighted Assets and Capital Requirement as at 31st December 2012

Market Risk	Long Position (RM'000)	Short Position (RM'000)	Risk-Weighted Assets (RM'000)	Capital Charge (RM'000)
Interest Rate Risk	2,189,639	1,870,000	199,635	15,971
Foreign Currency Risk	5,290	–	5,290	423
Options Risk	–	–	–	–
Total			204,925	16,394

Table 16b: Market Risk-Weighted Assets and Capital Requirement 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

As at 31st December 2012 and 31st December 2011, the Bank 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. The Bank holds positions as a result of debt equity conversions, exposures arising from equity underwriting commitments and for both socio-economic and non socio-economic purposes, which are deemed as non-trading instruments.

Holding of publicly traded equity investments comprise quoted shares which are traded actively in the stock exchange. All publicly traded equity exposures are stated at fair value. Privately held equities are unquoted investments and stated at cost-adjusted for impairment loss, if any.

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	Gross Credit Exposures (RM'000)		Risk-Weighted Assets (RM'000)	
	2012	2011	2012	2011
Publicly traded				
– Holdings of equity investments	775	2,000	775	2,000
Privately held				
– For socio-economic purposes	18,016	19,601	18,016	19,601
– For non socio-economic purposes	460	15,703	460	15,703
Total	19,251	37,304	19,251	37,304

The Bank did not make any material gain or loss from the sale or liquidation of the equity exposures during the financial years 2012 and 2011.

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 not able to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals and/or the inability to meet contractual commitments when due. 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.

10.0 LIQUIDITY RISK (CONTINUED)

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 ALCO supports the Group 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 Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Bank's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets interest/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.

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 the bank's products.

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk/rate of return risk of the banking book. They are computed based on the re-pricing gap profile of the book. Assets and liabilities are bucketed based on their remaining tenor to maturity or next re-price dates. For indefinite maturity products, the re-pricing behaviour will be reflected in the gapping profile. The measurement of EaR and EVE are conducted on a monthly basis.

11.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The Group 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 Group 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 Bank 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 Bank. The Bank regularly considers the economics and necessity of increasing or reducing its interest rate/profit rate risk hedges.

In line with the Bank's Interest Rate Risk/Rate of Return Risk Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest rates, interest rate risk to earnings is controlled using 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 2012 and 31st December 2011 are shown in the tables below:-

Table 18a: Interest Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2012

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	(11,437)	11,437	(54,831)	54,831
USD	120	(120)	(5)	5
Others*	-	-	-	-
Total	(11,317)	11,317	(54,836)	54,836

Note* Inclusive of GBP, EUR, SGD, etc.

11.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

Table 18b: 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

Note* Inclusive of GBP, EUR, SGD, etc.

The impact to net earnings above represents financial assets and liabilities that have been prepared on the following basis:

- Interest rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio, are slotted into time bands based on the maturity or re-pricing tenure whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point interest rate change impact.
- For assets and liabilities with non-fix maturity, 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 units 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 the Bank'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 Director 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 on-going and actively managed Business Continuity Planning (BCP) programmes for its major critical business operations and activities at the Head Office, data centre and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management (BCM) Department.

The Board of Directors has an oversight function through the GRMC and Group Management Committee (GMC). 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 GMC.

- **Outsourcing**

With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing of the Bank's Operations and Services ensures that outsourcing risks are adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

12.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls (CONTINUED)

- **Insurance Management**

The Bank considers risk transfer by means of insurance to mitigate operational risk. The Bank has a programme of insurances designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party insurers and 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 Bank's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

Treatment for Operational Risk Capital Charge

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital charge. The operational risk-weighted assets and the corresponding risk capital charge as at 31st December 2012 and 31st December 2011 are shown below:-

Table 19: Operational Risk-Weighted Assets and Capital Requirement

Operational Risk	RHB Investment Bank Group (RM'000)		RHB Investment Bank (RM'000)	
	2012	2011	2012	2011
Risk-Weighted Assets	438,993	453,579	386,394	402,937
Capital Requirement at 8%	35,119	36,286	30,912	32,235

13.0 COUNTRY CROSS-BORDER RISK

Country cross-border risk is the risk that the Bank will not be able 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.

The Bank is guided by the Group Guidance on Cross-Border Business, particularly on ethics in business practices, key success factors in managing such business, and the internal control measures which are essential to provide adequate protection to its customers as well as the Bank's interests, thus reducing the risks associated with business activities.

14.0 REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the conduct of the Bank 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 RHB Banking 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.

15.0 FORWARD LOOKING STATEMENTS

This document could or may contain forward looking statements that are based on current expectations as well as assumptions or anticipation of future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts, and often use words such as anticipate, target, expect, estimate, intend, plan, believe, will, may, should, would, could or other words of similar expressions.

Undue reliance should not be placed on any of such statements. By their nature, forward looking statements are subject to risks and uncertainty because they relate to future events and circumstances, including, but not limited to domestic and global economic and business conditions, the effects of continued volatility in the credit markets, market-related risks such as changes in interest rates and exchange rates, changes in regulation, and future business combinations or dispositions. As a result, the Bank's actual future results may differ materially from the plans, goals, and the expectations contained in the forward looking statements.

The Bank undertakes no obligation to revise or update any forward looking statements contained in this document, regardless of whether these statements are affected as a result of new information, future events or otherwise.

GLOSSARY OF TERMS

A-IRB Approach	Advanced Internal Ratings-Based Approach
BIA	Basic Indicator Approach
BCM	Business Continuity Management
BCP	Business Continuity Planning
BNM	Bank Negara Malaysia
Board	Board of Directors
CCC	Central Credit Committee
CCR	Counterparty Credit Risk
CLO	Collateralised Loan Obligation
CRM	Credit Risk Mitigation
DFIs	Development Financial Institutions
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EVE	Economic Value of Equity
EUR	Euro Dollar
F-IRB Approach	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
GBCMSC	Group Business Continuity Management Steering Committee
GBP	Pound Sterling
Group ALCO	Group Asset and Liability Committee
GCSRMC	Group Capital & Strategic Risk Management Committee
GCPM	Group Credit Procedures Manual
GMC	Group Management Committee
GRM	Group Risk Management
GRMC	Group Risk Management Committee
KRI	Key Risk Indicators
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
MFRS 139	Malaysia Financial Reporting Standards 139
Moody's	Moody's Investors Service
MYR	Malaysian Ringgit
NIF	Notes Issuing Facility
OTC	Over-the-Counter
PDS	Private Debt Security
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self Assessment
R&I	Rating and Investment Information, Inc
RM'000	Malaysian Ringgit in nearest thousand
RWA	Risk-Weighted Assets
RWCAF	Risk-Weighted Capital Adequacy Framework
SA	Standardised Approach
SC	Securities Commission
SGD	Singapore Dollar
S&P	Standard & Poors
VaR	Value-at-Risk



www.rhb.com.my

facebook.com/RHBGroup

twitter.com/RHBGroup

RHB Investment Bank Berhad (19663-P)

Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

Tel : 603-9287 8888 Fax : 603-9280 6507