ANNUAL REPORT **2016**

RHB Investment Bank Berhad

TOGETHER WE PROGRESS

DRIVING SUSTAINABLE PERFORMANCE

With a strong presence in the ASEAN region, our focus is on driving performance as we look to improve revenue and productivity by identifying new opportunities and implementing strategies that create measurable improvements in sustainability and business performance.

As we progress on our journey to becoming a Leading Multinational Financial Services Group, we will continue to invest for the future, particularly in our people, technology and digital capabilities. Investments in our digital environment are aimed at delivering customer-centric innovations that supports a fast, simple and seamless banking experience as well as fuels business growth for the organisation.

Working with our customers, business partners and shareholders, we are committed to a sustainable future as we drive RHB Banking Group towards being a regional powerhouse in ASEAN.

Together, we progress.

What's Inside

Overview

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ASPIRATIONS, VISION & VALUES

PROFESSIONAL
- Committed
- High level of proficiency, competency and reliability

RESPECT
- Courteous
- Humble

INTEGRITY
- Honest
- Ethical
- Uphold a high standard of governance

DYNAMIC
- Proactive
- Responsive
- Forward thinking

EXCELLENCE
- Continuously achieve high standards of performance and service deliverables

VALUE

Our Vision by 2020...

TO BE A LEADING MULTINATIONAL FINANCIAL SERVICES GROUP

RHB'S ASPIRATIONS

- **Top 3 in Malaysia/Top 8 in ASEAN**
  by performance
- **Strong Market Leadership in Malaysia**
  across targeted products and segments
- **Regional Powerhouse in ASEAN**
  +20% profit contribution from International Operations
- **Next Generation Customer Centric Bank**
  delivering innovative and personalised customer offerings
- **Prominent Employer of Choice**
  within the region

OUR STRATEGY STATEMENT

To be a multinational regional financial services provider that is committed to deliver complete solutions to our clients through differentiated segment offerings and an ecosystem that supports a simple, fast and seamless customer experience, underpinned by our cohesive and inspired workforce and relationships built with our stakeholders

OUR BRAND PROMISE

Together We Progress
- Being your trusted partner
- Delivering simple, fast and seamless experiences
- Providing solutions that help achieve your goals
- Nurturing future generations

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

	2016	2015	2014	2013	Restated 2012[N1]
RESULTS (RM'000)					
Profit before tax	**73,490**	115,698	345,942	185,585	114,997
Net profit for the financial year	**31,334**	72,510	285,072	141,067	86,494
Net dividend	**–**	–	14,200	–	17,005
STATEMENTS OF FINANCIAL POSITION (RM'000)					
Share capital	**818,646**	818,646	818,646	818,646	263,646
Shareholder's equity (attributable to owner of the Bank)	**3,158,039**	3,104,259	2,951,088	2,770,363	2,467,283
Total assets	**10,058,173**	11,183,542	12,388,741	13,945,383	16,106,158
Loans and advances	**1,792,172**	2,069,802	2,285,890	2,393,747	1,727,602
Total deposits	**3,385,462**	4,753,162	6,646,316	7,105,107	9,633,300
RATIOS					
Basic earnings per share (sen)	**3.7**	8.7	32.6	19.8	32.1
Gross dividends per share (sen)	**–**	–	1.7	–	8.6
Net tangible assets per shares (sen)	**225.4**	218.7	199.6	244.6	504.6
Return on shareholder's equity (%)	**1.0**	2.3	9.0	4.7	3.4

N1: Restated to reflect the effect of acquisition of assets and liabilities of OSK Investment Bank Berhad by applying predecessor accounting.

SUMMARY OF FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

PROFIT BEFORE TAX (RM'Million)

	RM'Million
2016	73,490
2015	115,698
2014	345,942
2013	185,585
Restated) 2012[N1]	114,997

SHARE CAPITAL (RM'Million)

	RM'Million
2016	818,646
2015	818,646
2014	818,646
2013	818,646
(Restated) 2012[N1]	263,646

SHAREHOLDER'S EQUITY (RM'Million)

	RM'Million
2016	3,158,039
2015	3,104,259
2014	2,951,088
2013	2,770,363
Restated) 2012[N1]	2,467,283

TOTAL ASSETS (RM'Million)

	RM'Million
2016	10,058,173
2015	11,183,542
2014	12,388,741
2013	13,945,383
(Restated) 2012[N1]	16,106,158

LOANS AND ADVANCES (RM'Million)

	RM'Million
2016	1,792,172
2015	2,069,802
2014	2,285,890
2013	2,393,747
Restated) 2012[N1]	1,727,602

TOTAL DEPOSITS (RM'Million)

	RM'Million
2016	3,385,462
2015	4,753,162
2014	6,646,316
2013	7,105,107
(Restated) 2012[N1]	9,633,300

N1: Restated to reflect the effect of acquisition of assets and liabilities of OSK Investment Bank Berhad by applying predecessor accounting.

CORPORATE INFORMATION

As at 14 February 2017

BOARD OF DIRECTORS

Tan Sri Azlan Zainol
Non-Independent Non-Executive Chairman

Chin Yoong Kheong
Senior Independent Non-Executive Director

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

Patrick Chin Yoke Chung
Non-Independent Non-Executive Director

Yap Chee Meng
Independent Non-Executive Director

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

Datuk Nozirah Bahari
Independent Non-Executive Director

BOARD COMMITTEES

BOARD RISK COMMITTEE#

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

Patrick Chin Yoke Chung
Non-Independent Non-Executive Director

Tuan Haji Md Ja'far Abdul Carrim
Non-Independent Non-Executive Director

Chin Yoong Kheong
Independent Non-Executive Director

BOARD NOMINATING & REMUNERATION COMMITTEE#

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

Tan Sri Azlan Zainol
Non-Independent Non-Executive Director

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

Ong Seng Pheow
Independent Non-Executive Director

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

BOARD CREDIT COMMITTEE#

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

Abdul Aziz Peru Mohamed
Independent Non-Executive Director

Tuan Haji Md Ja'far Abdul Carrim
Non-Independent Non-Executive Director

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

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

BOARD AUDIT COMMITTEE#

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

Tan Sri Saw Choo Boon
Independent Non-Executive Director

Ong Seng Pheow
Independent Non-Executive Director

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

BOARD TECHNOLOGY COMMITTEE#

Chin Yoong Kheong
Independent Non-Executive Director/Chairman

Ong Seng Pheow
Independent Non-Executive Director

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

MANAGEMENT OF SUBSIDIARIES

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

Ho Seng Yee
Chief Executive Officer

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

RHB TRUSTEES BERHAD
Tony Chieng Siong Ung
Head

MALAYSIAN TRUSTEES BERHAD
Vanaja Kanagaretnam
Acting Head

RHB RESEARCH INSTITUTE SDN BHD
Lim Chee Sing
Group Chief Economist

RHB ASSET MANAGEMENT PTE LTD
Eliza Ong Yin Suen
Chief Executive Officer

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

RHB HONG KONG LIMITED
Wu Wai Leung, William
Chief Executive Officer

PT RHB SEKURITAS INDONESIA
Chan Kong Ming
President Director

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

COMPANY SECRETARY

Azman Shah Md Yaman
(LS 0006901)

REGISTERED OFFICE

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

BUSINESS ADDRESS

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

COMPANY NO.

19663-P

AUDITORS

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

Notes:
The Committee is shared with the relevant subsidiaries of the Group.

GROUP CORPORATE STRUCTURE

As at 14 February 2017

RHB Bank Berhad

COMMERCIAL BANKING GROUP

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

INVESTMENT BANKING GROUP

100.00% RHB Investment Bank Berhad

- 100.00% RHB International Investments Pte Ltd
  - 100.00% RHB Asset Management Pte Ltd
    - 40.00% RHB GC-Millennium Capital Pte Ltd(5)
- 100.00% RHB Hong Kong Limited
  - 100.00% RHB Securities Hong Kong Limited
  - 100.00% RHB Futures Hong Kong Limited
  - 100.00% RHB Finance Hong Kong Limited
  - 100.00% RHB Capital Hong Kong Limited
  - 100.00% RHB Fundamental Capital Hong Kong Limited
  - 100.00% RHB Asset Management Limited
    - 51.00% RHB Fideus Asia and Emerging Markets Value Fund Ltd
  - 100.00% RHB Wealth Management Hong Kong Limited
  - 100.00% RHB (China) Investment Advisory Co Ltd
- 99.00% PT RHB Securities Indonesia
  - 99.62% PT RHB Asset Management Indonesia
- 100.00% RHB Securities Singapore Pte Ltd
  - 100.00% RHB Nominees Singapore Pte Ltd#
  - 100.00% Summit Nominees Pte Ltd#
  - 100.00% RHB Research Institute Singapore Pte Ltd
- 99.95% RHB Securities (Thailand) Public Company Limited
- 100.00% RHB Indochina Securities PLc.

Notes:

*	Dormant Company
#	Inactive
(1)	With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.
(2)	The company has ceased operations from the close of business on 10 December 2001.
(3)	The company has commenced members' voluntary winding-up on 16 February 2011.
(4)	The company has commenced members' voluntary winding-up on 28 March 2012.
(5)	Jointly controlled entity
(6)	Held by: (i) RHB Investment Bank Berhad; (ii) RHB Nominees (Tempatan) Sdn Bhd; (iii) RHB Nominees (Asing) Sdn Bhd; and (iv) RHB Futures and Options Sdn Bhd with direct shareholdings of 20.00% each.
(7)	RHB Bank Berhad became the holding company of RHB Investment Bank Berhad, RHB Insurance Berhad, RHB Equities Sdn Bhd, RHB Kawal Sdn Bhd, RHB Capital (Jersey) Limited, RHB Property Management Sdn Bhd and RHBF Sdn Bhd on 14 April 2016. RHB Bank Berhad also holds direct shareholding of 20% in RHB Trustees Berhad and Malaysian Trustees Berhad as well as 59.95% in RHB Finexasia.Com Sdn Bhd w.e.f. 14 April 2016. RHB Bank Berhad became the ultimate holding company of the Group on 13 June 2016.

- 94.70% RHB Insurance Berhad
- 100.00% RHB Futures and Options Sdn Bhd*
- 100.00% RHB Research Sdn Bhd*
- 100.00% RHB International Asset Management Sdn Bhd*
- 100.00% RHBIB Nominees (Tempatan) Sdn Berhad*
- 100.00% RHBIB Nominees (Asing) Sdn Berhad*
- 100.00% TCL Nominees (Tempatan) Sdn Bhd*
- 100.00% TCL Nominees (Asing) Sdn Bhd*
- 100.00% KE-ZAN Nominees (Tempatan) Sdn Bhd*
- 100.00% KE-ZAN Nominees (Asing) Sdn Bhd*
- 80.00% RHB Trustees Berhad(6) — 20.00%
- 80.00% Malaysian Trustees Berhad(6) — 20.00%
- 100.00% RHBIM Berhad*
- 100.00% RHB Asset Management Sdn Bhd
  - 100.00% RHB Islamic International Asset Management Berhad
  - 100.00% RHB Islamic Asset Management Sdn Bhd*
- 100.00% RHB Research Institute Sdn Bhd
- 100.00% RHB Merchant Nominees (Tempatan) Sdn Bhd
  - 100.00% RHB Merchant Nominees (Asing) Sdn Bhd
- 100.00% RHB Nominees Sdn Bhd
- 100.00% RHB Nominees (Tempatan) Sdn Bhd
- 100.00% RHB Nominees (Asing) Sdn Bhd
- 100.00% RHB Excel Sdn Bhd(4)
- 100.00% RHB Progressive Sdn Bhd(4)
- 100.00% RHB Marketing Services Sdn Bhd(3)
- 100.00% RHB Unit Trust Management Berhad(4)
- 100.00% RHB Private Equity Holdings Sdn Bhd
  - 100.00% RHB Private Equity Management Ltd
  - 100.00% RHB Private Equity Fund Ltd (Cayman Islands)

- 40.05% RHB Finexasia.Com Sdn Bhd — 59.95%
  - 100.00% RHB Stock 188.Com Sdn Bhd*
- 49.00% Vietnam Securities Corporation(5)

OTHERS

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

BOARD BALANCE & COMPOSITION

Board Balance & Composition

3 INDEPENDENT NON-EXECUTIVE DIRECTORS

- Yap Chee Meng
- Tan Sri Dr Rebecca Fatima Sta Maria
- Datuk Nozirah Bahari

2 NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

- Tan Sri Ong Leong Huat @ Wong Joo Hwa
- Patrick Chin Yoke Chung

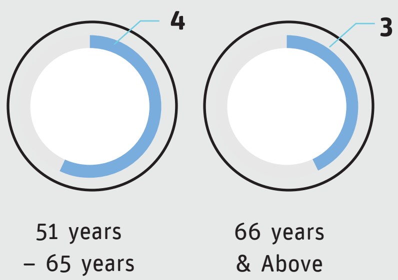
1 SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

- Mr Chin Yoong Kheong

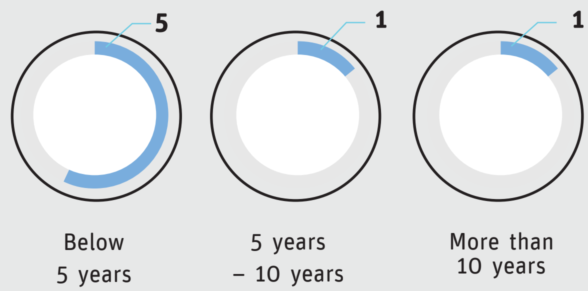
1 NON-INDEPENDENT NON-EXECUTIVE CHAIRMAN

- Tan Sri Azlan Zainol

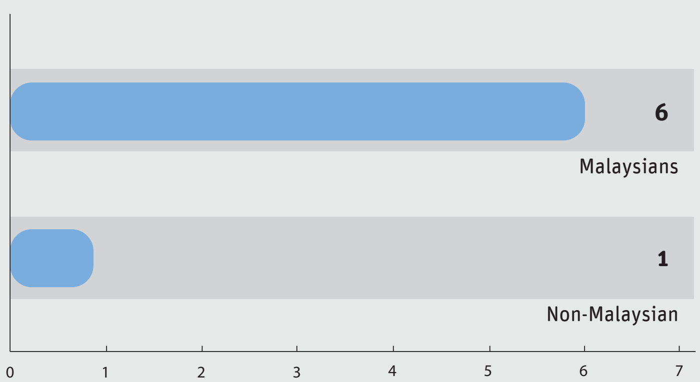
Age Group



Tenure of Service in the Bank



Nationality



Ethnicity

2	4	1
Malay	Chinese	Eurasian

PROFILE OF THE BOARD OF DIRECTORS

As at 14 February 2017

TAN SRI AZLAN ZAINOL

Non-Independent Non-Executive Chairman

Nationality: **Malaysian**, Age: **66**, Gender: **Male**,

Date of Appointment: **27 June 2016**,

Length of Service in the Bank: **8 months**,

Date of Last Re-Election: **Not Applicable**

BOARD COMMITTEE MEMBERSHIPS:

- Board Nominating & Remuneration Committee (Member)

OTHER DIRECTORSHIPS:

Listed Entities:

- RHB Bank Berhad (Chairman)
- Malaysian Resources Corporation Berhad (Chairman)
- Kuala Lumpur Kepong Berhad
- Jardine Cycle & Carriage Limited (Singapore)

Public Companies:

- Eco World International Berhad (Chairman)
- Yayasan Astro Kasih (Chairman/Trustee)
- OSK Foundation (Trustee)
- RHB Capital Berhad (In Member's Voluntary Liquidation)
- Rashid Hussain Berhad (In Members' Voluntary Liquidation)
- Financial Reporting Foundation

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:

- 7/7

QUALIFICATIONS:

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

SKILLS AND EXPERIENCE:

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

DECLARATION:

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

CHIN YOONG KHEONG
Senior Independent
Non-Executive Director

Nationality: **Malaysian**, Age: **58**,
Gender: **Male**, Date of Appointment:
1 August 2016*, Length of Service
in the Bank: **7 months**, Date of Last
Re-Election: **Not Applicable**

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

BOARD COMMITTEE MEMBERSHIPS:
- Board Technology Committee (Chairman)
- Board Risk Committee (Member)

OTHER DIRECTORSHIPS:

Listed Entities:
- Otto Marine Ltd

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

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 5/5

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

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

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

TAN SRI ONG LEONG HUAT @ WONG JOO HWA
Non-Independent
Non-Executive Director

Nationality: **Malaysian**, Age: **68**,
Gender: **Male**, Date of Appointment:
20 November 2006*, Length of
Service in the Bank: **10 years 3 months**,
Date of Last Re-Election: **29 May 2015**

* *Re-designated from Non-Independent Non-Executive Chairman to Non-Independent Non-Executive Director on 27 June 2016*

BOARD COMMITTEE MEMBERSHIPS:
- Board Nominating & Remuneration Committee (Member)

OTHER DIRECTORSHIPS:

Listed Entities:
- RHB Bank Berhad
- OSK Holdings Berhad
- OSK Ventures International Berhad

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

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 12/12

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

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

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

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

PATRICK CHIN YOKE CHUNG
Non-Independent Non-Executive Director

Nationality: **Malaysian**, Age: **71**, Gender: **Male**, Date of Appointment: **2 August 2007***, Length of Service in the Bank: **9 years 7 months**, Date of Last Re-Election: **11 May 2016**

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

BOARD COMMITTEE MEMBERSHIPS:
- Board Credit Committee (Chairman)
- Board Risk Committee (Member)

OTHER DIRECTORSHIPS:

Listed Entities:
- Muda Holdings Berhad

Public Companies:
- RHB Islamic International Asset Management Berhad

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 10/12

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

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

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

YAP CHEE MENG
Independent Non-Executive Director

Nationality: **Singaporean**, Age: **61**, Gender: **Male**, Date of Appointment: **1 August 2016**, Length of Service in the Bank: **7 months**, Date of Last Re-Election: **Not Applicable**

BOARD COMMITTEE MEMBERSHIPS:
- Nil

OTHER DIRECTORSHIPS:

Listed Entities:
- SATS Ltd

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

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 5/5

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

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

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

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

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

Nationality: **Malaysian**, Age: **59**, Gender: **Female**, Date of Appointment: **6 December 2016**, Length of Service in the Bank: **3 months**, Date of Last Re-Election: **Not Applicable**

BOARD COMMITTEE MEMBERSHIPS:
- Board Audit Committee (Chairperson)

OTHER DIRECTORSHIPS:

Listed Entities:
- RHB Bank Bank Berhad
- Sunway Construction Group Berhad
- Hartalega Holdings Berhad
- Lafarge Malaysia Berhad

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 1/1

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

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

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

DATUK NOZIRAH BAHARI
Independent Non-Executive Director

Nationality: **Malaysian**, Age: **61**, Gender: **Female**, Date of Appointment: **2 January 2017**, Length of Service in the Bank: **2 months**, Date of Last Re-Election: **Not Applicable**

BOARD COMMITTEE MEMBERSHIPS:
- Nil

OTHER DIRECTORSHIPS:

Listed Entities:
- Nil

Public Companies:
- Bintulu Port Holdings Berhad
- MyWin Academy Berhad

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- Not Applicable

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

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

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

INVESTMENT BANKING SERVICES

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

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

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

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

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

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

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

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

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

IB Treasury ("IBT") offers a diverse suite of Treasury investment and hedging products that include money market instruments, fixed income securities, repurchase agreements, foreign exchange and derivative structured products (FX & Interest Rates). We are supported by a well-established sales, trading and distribution network. Primary and secondary financial and capital market activities are supported through efficient dissemination of effective cross investment and hedging solutions to a wide client base with diverse needs, comprising government agencies, pension funds, mutual funds, insurance companies, corporations, private banking and interbank counterparties.

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

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

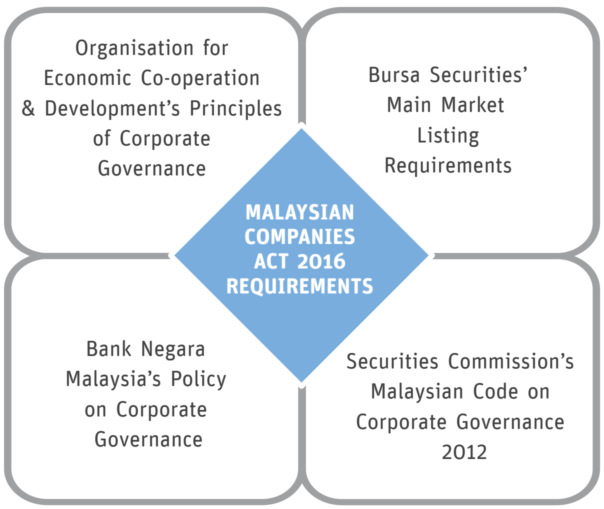
Asset Management ("AM") has the expertise and skills in managing a full range of investment instruments, customised according to client risk profile, including conventional and Shariah compliant instruments, targeting the institutional, corporate and retail investors. The investments and mandates managed include a wide range of unit trusts across different geographical regions covering asset classes such as equity, fixed income, balanced and cash management; discretionary and non-discretionary mandates through focused portfolios; alternative investments which include private equity funds, structured investments and investment-linked products; and trustee services with the offering of all types of trustee products and services ranging from estate planning services, will-writing, private and corporate trustee services to Private Debt Securities. Other services include product manufacturing, investment services mandates, portfolio restructuring and management of sinking funds.

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

> **GOOD GOVERNANCE IS A CRITICAL COMPONENT OF SOUND FINANCIAL INSTITUTIONS AND PLAYS A KEY ROLE IN MAINTAINING PUBLIC CONFIDENCE IN THE FINANCIAL SYSTEM**
>
> *– Bank Negara Malaysia’s public statement released on 3 August 2016*

STATEMENT ON CORPORATE GOVERNANCE

The Board of RHB Investment Bank Berhad (“RHB Investment Bank” or “Company”) fully supports adoption of best practices in good corporate governance beyond regulatory requirements. RHB Investment Bank recognises that enterprise governance, which is a balancing act of steering the RHB Banking Group’s performance while it conforms to best practices, whether in accordance with mandatory or voluntary requirements, is the turnkey to strengthen and ensure long-term sustainability in the Group-wide governance arrangements. Under the enterprise governance umbrella, the Company continuously strives at its best to sustain and stimulate value creation by subscribing the broad principles set out in the following essential requirements and practices:



COMMITMENT TO CONFORMANCE

RHB Investment Bank is fully committed to protect the interests of all its stakeholders by applying good corporate governance practices, including greater transparency and sustainable disclosure. This office norm subsequently being translated into corporate culture as manifested top-down across the internal stakeholders, from the Board of Directors, down to the Senior Management and subsequently touches the rest of its Employees. A dedicated Business Risk and Compliance Officer is then employed in each respective business and functional units or branches to act as a focal point for line departments to relay matters relating to regulatory and internal requirements. This control function further formalised an in-house gatekeeper embedded into the existing enterprise risk management framework and covers all streams of businesses and functional arms of the Company within the Group.

The continuous enhancement in the Company’s corporate governance deck has shown significant results in the way RHB Banking Group operates. A more emphasis placed by the Board of Directors on its fiduciary duty as guardian of public deposits, customers’ investments and account holders’ policies, through sustainable boardroom scrutiny, decision-making and directives has gained more trust and in return, builds lasting commercial relationship with the Company’s business partners. More rewardingly, this effort was externally assured by reputable and independent third parties’ assessments which currently positioned the then ultimate holding company, RHB Capital Berhad, among **Top 6** of Malaysian Public Listed Companies (“PLCs”) and **Top 50** of Association of Southeast Asian Nations (“ASEAN”) Publicly Listed Companies, in terms of quality disclosures and scope of corporate governance practices.

During calendar year 2016, the Group's good corporate governance practices were externally verified and assured via the following recognitions:

- '**Merit Award** for Corporate Governance Disclosures' accorded by the Minority Shareholder Watchdog Group ("MSWG") on 15 December 2016. This merit award has been won for two consecutive years and earned 6th position in ranking among Malaysian PLCs under MSWG-ASEAN scorecard methodology, based on the Organisation for Economic Co-operation and Development ("OECD")'s Principles of Corporate Governance.
- **Enlisted** on the FTSE4Good Bursa Malaysia Index effective 19 December 2016 for good demonstration of Environmental, Social & Governance ("E.S.G.") practices.
- **Silver Award** for 'Best Annual Report in Bahasa Malaysia' during the National Annual Corporate Report Awards ("NACRA") Ceremony 2016 on 1 December 2016.
- **Platinum winner** for 'Excellence in Governance, Corporate Social Responsibility & Investor Relations Benchmarking 2016' under The Asset Corporate Awards.
- **Silver winner** for 'Best Governed and Most Transparent Company' category during The Pinnacle Group's Global Good Governance Awards Ceremony 2016.

Excellence in corporate governance is central towards promoting the Company's financial services amongst the ASEAN and Greater China economic community ventured. This compliance culture fosters the Group's Directors, Senior Management and the rest of the Employees to embrace professional business ethics and be self-adherence to internal and external requirements.

MERIT AWARD FOR CG DISCLOSURES (BY RANK)

- › Bursa Malaysia Bhd
- › Telekom Malaysia Bhd
- › Axiata Group Bhd
- › Malayan Banking Bhd
- › Sime Darby Bhd
- › RHB Capital Bhd
- › Allianz Malaysia Bhd
- › Petronas Dagangan Bhd
- › Tenaga Nasional Bhd
- › LPI Capital Bhd

9 December 2016

YBhg Dato' Khairussaleh Bin Ramli
Managing Director
RHB Bank Berhad
Level 9, Tower One,
RHB Centre, Jalan Tun Razak
50400 KUALA LUMPUR

YBhg Dato'

INCLUSION IN THE FTSE4GOOD BURSA MALAYSIA INDEX

Bursa Malaysia is delighted to inform you that RHB BANK BERHAD has met the globally recognised standards for inclusion in the FTSE4Good Bursa Malaysia Index. The FTSE4Good Bursa Malaysia Index is designed to measure the performance of companies demonstrating good Environmental, Social and Governance (ESG) practices.

FTSE4Good

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

OVERVIEW
GOVERNANCE
FINANCIAL STATEMENTS

COMMITMENT TO PERFORMANCE

RHB Banking Group embarks its aspirations of becoming a **Leading Multinational Financial Services Group** towards the year 2020. This vision commits the Company to deliver complete solutions to its clients through differentiated segment offerings and an ecosystem that supports simple, fast and seamless customer experience, embossed in its latest strategy statement. In achieving RHB Banking Group's short, medium and long-term strategic objectives, this mission intent is translated into the Group's Core **Shared Values** namely P.R.I.D.E. (Professional, Respect, Integrity, Dynamic & Excellence), the Company's Annual Balanced Scorecard, Individual Sustainable Key Performance Indicators and also the Group's I.G.N.I.T.E. 2017 principles it currently adopts; namely **Innovative** in approach, **Growth** oriented, **Nimble** in action, **Impactful** in outcomes, **Teamwork** to succeed and **Excellence** in delivery.

Apart from the governance element already considered, the Board of RHB Investment Bank is now venturing into the adoption and integration of the Economic, Environment and Social ("EES") elements into the Group's business strategies to further create sustainable business operations and shares value. **Together we progress**; the Group's primary tagline, basically promoting the idea of the Company, walking hand-in-hand with its stakeholders, whether internal or external parties, towards achieving sustainable operations as the Company runs and manages its business in an orderly fashion. The other commercial tagline, namely **driving performance** include utilisation of the Group's current capitals (financial, manufactured, intellectual, human, social relationship and natural) at optimal level to improve its integrated value chain while safeguarding its own assets and the environment for future generation.

In leading the organisation and ensuring that all the Group's strategic objectives and business scorecards are met within the approved risk appetite, the Board is bound by its Charter, Terms of Reference ("ToR") for its various Board Committees, Group Code of Ethics & Business Conduct for Directors, and other internal guidelines. In complementary, Group Manual of Authority, Power of Attorney, Delegated Lending & Financing Authority (Discretionary Powers), Group Code of Ethics & Conduct for Employees, Group Whistleblowing Policy and Group Gifts & Hospitality Guidelines were approved or endorsed by the Board to ensure good governance practice and fiduciary duties are implemented by the Senior Management and other key personnel. An overview of the Company's primary governance documents can be referred on the corporate website (www.rhbgroup.com) while the Group's Key Internal Control Policies and Procedures are summarised on pages 41 to 46 of this Annual Report.

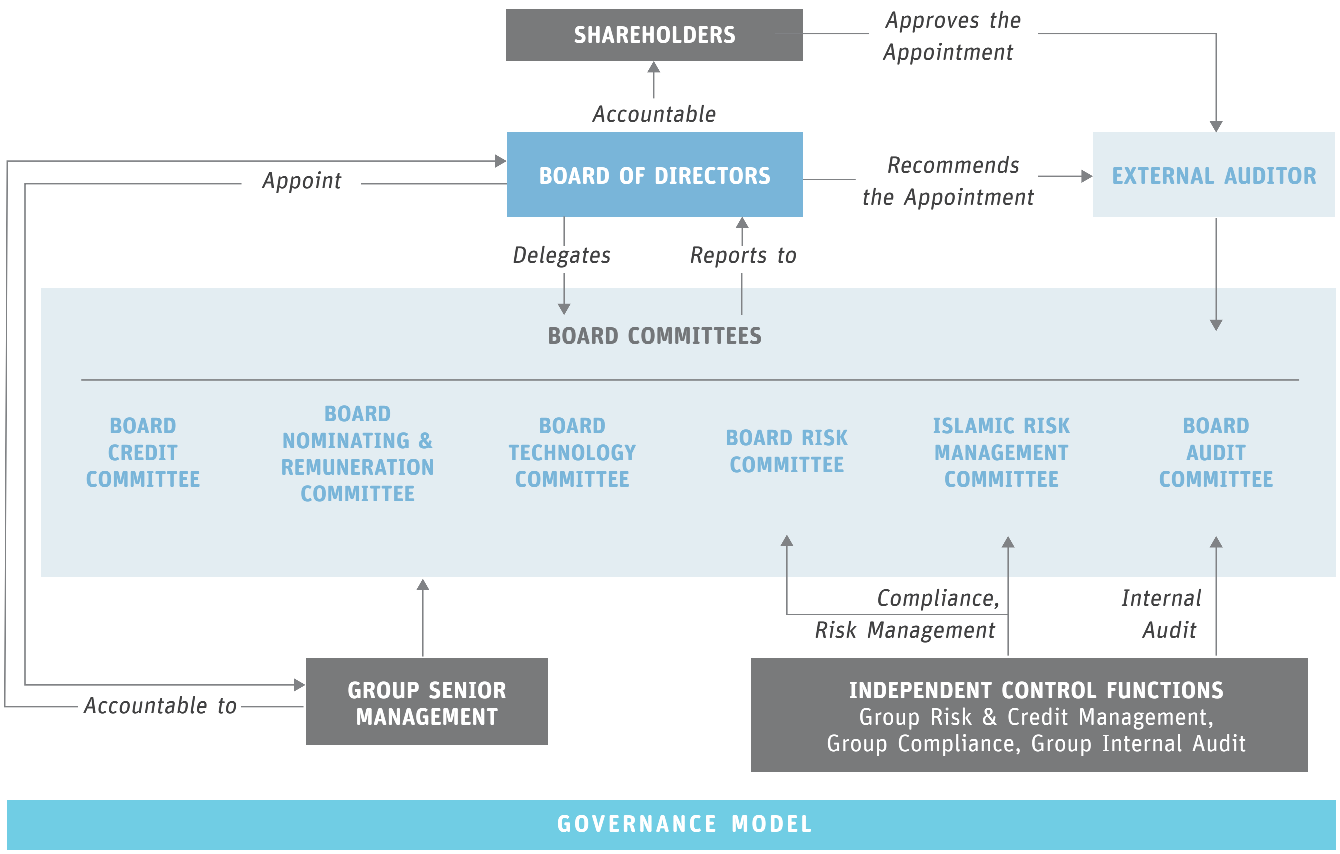
pg_ to pg_

Excellence in the Company's corporate and business governance are keys to reflect the overall good governance in practice and portray the overall picture of the Company's sustainability in the long run. In this respect, the Group is ranked **Top 10** among 920 Malaysian PLCs and **Top 3** among the Malaysian banks, in terms of overall good corporate governance and excellent financial performance, based on the latest MSWG-ASEAN Corporate Governance Scorecard 2016 assessment.

GROUP'S CORE SHARED VALUES
P.R.I.D.E. (PROFESSIONAL, RESPECT, INTEGRITY, DYNAMIC & EXCELLENCE)

LEADING MULTINATIONAL
FINANCIAL SERVICES GROUP

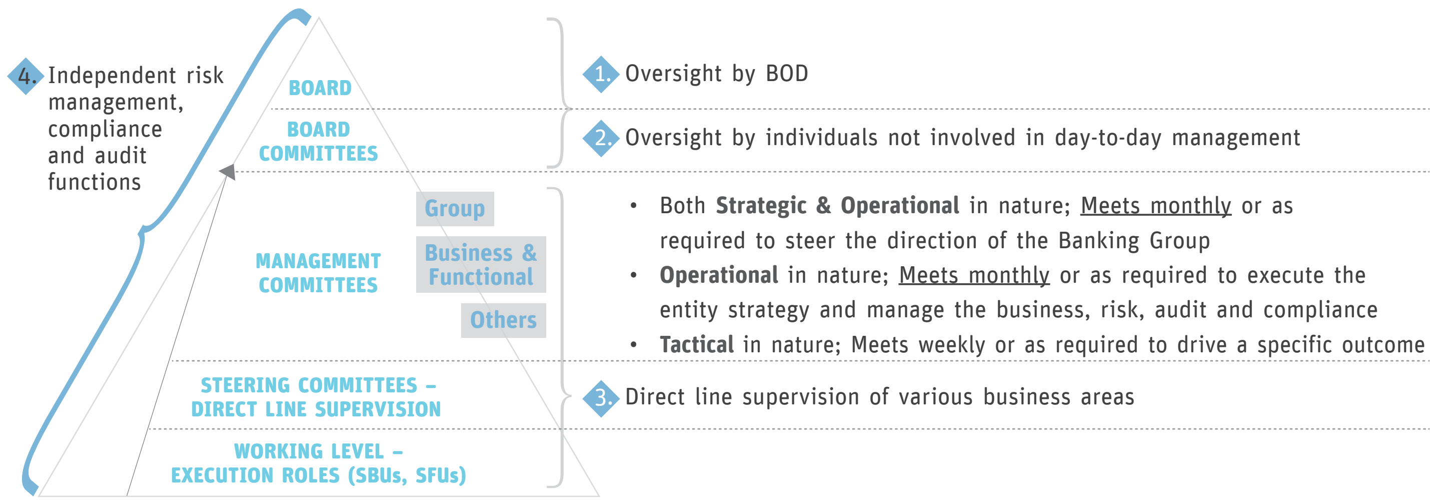
GOVERNANCE MODEL & FRAMEWORK



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

As the Board further commits working under a solid governance structure with greater transparency, a framework on governance was established. It is within this reach that the Board approved the **Group Governance Framework** as a basis of an effective governance and oversight to support the overall RHB Banking Group's strategies.

Governance Framework



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

THE BOARD OF DIRECTORS

Board Charter

The Board Charter sets out the key corporate governance principles adopted by the respective Boards in each of the major operating entities within the Group, clearly defines the roles and responsibilities of Boards, Chairperson, Senior Independent Non-Executive Director and the Group Managing Director/Managing Director ("MD")/Chief Executive Officer ("CEO") in the areas of strategy setting, management of company, succession planning, risk management, integrity of internal control and communication plan.

Functions and matters of **strategic importance reserved** for the Board for deliberation and decision-making are mainly on the following:

- Business and operating strategies
- New or changes to existing business plans
- New investments or divestments
- Mergers and acquisitions
- Expansion or entry into new markets, geographies or regions
- Corporate restructuring or reorganisation
- Set-up of new subsidiaries
- Joint ventures, partnership or strategic alliance
- Acquisition or disposal of significant assets
- Progress and updates on I.G.N.I.T.E. 2017 initiatives

Within these boundaries, the respective Boards discusses, sets and agrees with the Management on the annual balanced scorecard, key performance indicators and the risk appetite that are to be duly executed and achieved by the Management. The performance and progress of the Management are then reviewed by the respective Boards at specified intervals.

Roles and Responsibilities of the Board

The Board is charged with leading and governing the Company in an effective, efficient and responsible manner. The Directors, collectively and individually, are aware of their responsibilities to shareholders/stakeholders and the manner in which the affairs of the Company are managed. They discharge their roles and duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Company's shareholders and other stakeholders, and ensure the Company adheres to the highest standards of corporate governance.

The Board assumes active roles and responsibilities for key strategy setting, business plans, financial objectives and major capital and operating budgets. While the Board scrutinises the policies proposed by the Management, the Board also monitors the Management's performance in implementing the adopted strategies as well as provides direction and advices to ensure the achievement of the objectives.

(a) Governing the Company's and the Group's business conduct and operations

The Board governs the business conduct, performance and operations of the Company and the Group. To ensure high performance, the Board reviews the Group's business strategies and approves the Group Balanced Scorecard. The Management's performance is monitored against the Balanced Scorecard on a regular basis. Interventions and regular reviews may be held to ensure that the execution of plans is aligned with the set objectives and goals.

The Board also governs the Company's and the Group's risk management, internal controls and human resource ("HR") management through the delegation of certain decision making and/or oversight responsibilities to various Board Committees, namely the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee. At the highest executive level, the Group MD assumes the overall responsibilities of executing the Group's strategies and plans in line with the Board's direction, oversees the listed entity's operations and drives the Group's businesses and performance towards achieving the Group's vision and goals.

In carrying out his tasks, the Group MD is supported by Group Management Committee ("GMC") which comprises the Group MD as the Chairman, the Chief Executive Officers/Managing Directors of the relevant key operating subsidiaries and key Senior Management of the Group.

The Board is updated on the Company's and the Group's performance during monthly Board meetings. The reports include a comprehensive summary of the Company's and the Group's business drivers and financial performance of each reporting period vis a vis the Company's approved Balanced Scorecard and the industry benchmark, risk management report, compliance report and transformation updates. The Board is also kept abreast of the key strategic initiatives, significant operational issues and latest developments in the financial services industry.

In addition, the Group's Chief Compliance Officer, on a monthly basis, provides the Board with a report on the Company's and the Group's compliance with its statutory obligations as well as rules and regulations governing the Company's and the Group's businesses and operations, actions taken to address shortcomings as well as self-regulating initiatives taken by the Group, especially initiatives that are critical to the Group's businesses and operations under local and foreign jurisdictions. Areas for improvement, non-compliance incidents and action plans are highlighted and recommended to the Board for information and approval where required.

The Board also reviews management reports. Special meetings are held where any direction or decision is required expeditiously from the Board between the scheduled meetings.

As part of the Group's initiatives to continuously improve employee engagement and employee value propositions, a combined employee engagement study via "Employee Engagement Survey" and "Internal Customer Effectiveness Survey" was conducted in October 2016 to assess the level of employee engagement and quality of service rendered by the respective Strategic Business Groups and Strategic Functional Groups within the Group. From this engagement, the Group targets to acquire valuable information from the employees to craft sustainable improvements in primary aspects of strategies and operations.

Other initiatives undertaken by the Group include a survey entitled "RHB Compliance Culture and Behavioural Assessment" initiated to improve the current state of the Group's compliance culture and behavioural maturity. The survey was conducted in November 2016 as part of the group-wide Compliance Risk Assessment to benchmark against industry-leading practices to improve RHB Banking Group's overall compliance effectiveness and the efficacy in meeting compliance requirements.

(b) Risk Management

The Board is responsible for identifying the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board Risk Committee ("BRC") has been entrusted with providing oversight and governance of risks for the Group. The BRC comprises two Independent Non-Executive Directors ("INEDs") and two Non-Independent Non-Executive Directors ("NINEDs"), representing the Group's respective entities. Matters deliberated at BRC meetings are presented to the Board on a monthly basis.

The Board is satisfied that the BRC has effectively and efficiently discharged its functions to support the Board in ensuring, among others, that the Company and the Group are adequately capitalised to support risks undertaken and meet regulatory requirements.

A Group Risk Management Report (including the entities' and the Group's risk metrics and tolerance dashboard) is also presented to the Board on a monthly basis.

The Company and the Group maintain and review its internal control procedures to ensure, as far as possible, the protection of its assets and liabilities as well as its shareholders' investments. The Board considers that the Group's risk management framework and system of internal control, which are in place throughout the financial year, up to and as of the date of this report, are operating adequately and effectively. An overview of the Company and the Group's systems of risk management is contained in the Risk Management Report set out on pages 41 to 46 of this Annual Report.

(c) Talent Development and Succession Planning

Talent development and succession planning are key priorities to the Board in ensuring a high-performing workforce which contributes to the Company's and the Group's sustainability and competitiveness. The Board has entrusted the Board Nominating & Remuneration Committee ("BNRC") with the responsibility of providing high-level oversight and direction on human resource matters, and to recommend remuneration and human resource ("HR") strategies such as employee value propositions, retention strategies, performance management and succession planning.

The BNRC also approves changes to Group HR policies in line with the HR strategy and direction set by the Board. Additionally, the BNRC supports the Board and that of the subsidiaries in reviewing and assessing the appointment of Directors, Board Committee members, Shariah Committee and key Senior Management officers. It also advises on the optimal size and mix of skills for the Group's Boards.

In line with IGNITE 2017, the Group has made a concerted effort to enhance and realign its HR and talent management to attract and retain regional talent and build a high-performing regional workforce. During the year, the BNRC has considered the renewal of various service contracts and new appointments for key management positions, based on their profiles, professional achievements and personal assessments. These nominations included successfully identifying and attracting suitable candidates for all senior positions. The BNRC also considered their remuneration package(s) in finalising the terms and conditions of their service contracts. In addition, the BNRC also reviewed the current organisation structure in enhancing greater alignment and accountability to deliver business value and outcomes.

The BNRC also continuously monitors succession planning updates presented by Group HR to ensure smooth transitions of key personnel into critical positions, and ensured that the development plans for identified successors are put in place based on their readiness to assume the positions. Other major issues deliberated on by the BNRC were the salary and grading structure, retention plans and incentive schemes for key Senior Management as well as numerous employee value propositions.

(d) Effective Communication

The Board recognises the importance of developing a healthy relationship with the investment community. To create shareholder value and improve communication with investors, the Investor Relations team implemented a comprehensive engagement programme in 2016 consisting of proactive and regular sessions with research analysts and institutional investors for timely and fair dissemination of information on the Group's vision and strategies, overall operations, and business and financial performance.

The key spokespersons and representatives for Investor Relations of the Group are the Group MD and the Group Chief Financial Officer.

(e) Internal Control

The Board is responsible for ensuring the adequacy and integrity of the Company's and Group's internal control system. With the support of the Board Audit Committee and Group Internal Audit, the Board ensures that there is a process for reviewing the adequacy and effectiveness of the Company's and the Group's internal control system. Details pertaining to the Company's and the Group's internal control system and review of its adequacy and effectiveness are set out in the Statement on Risk Management and Internal Control on pages 41 to 46 of this Annual Report.

Board Composition and Balance

The Board of RHB Investment Bank is currently represented by **seven** Members, comprising a Non-Independent Non-Executive Chairman, four INEDs and two NINEDs as follows:

BOARD COMPOSITION:

- 1 Non-Independent Non-Executive Chairman
  - YBhg Tan Sri Azlan Zainol
- 1 Senior INED
  - Mr Chin Yoong Kheong
- 3 INEDs
  - Mr Yap Chee Meng
  - YBhg Tan Sri Dr Rebecca Fatima Sta Maria
  - YBhg Datuk Nozirah Bahari
- 2 NINEDs
  - YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa
  - Mr Patrick Chin Yoke Chung

The above structure and composition of the Board comply with the BNM's Policy on Corporate Governance. Mr Chin Yoong Kheong has been appointed as the Senior INED ("SINED"), to whom concerns pertaining to the Group may be conveyed by shareholders and the public.

Current Independent Directors of the Company account for 57.14% of the Board, **exceeding** BNM's requirements of majority (>50%) of Board Members must be independent, and fulfil the criteria of independence as defined in the BNM's Policy on Corporate Governance.

Their presence ensures an effective check and balance in the functioning of the Board. They are not involved in the day-to-day management of the Company, nor do they participate in any of its business dealings. This ensures they remain free of any conflict of interest and can undertake their roles and responsibilities as INEDs effectively.

Recognising the increasing importance of boardroom diversity in pursuing business and governance performance, the Group established a **boardroom diversity policy** in 2013. The policy is also in line with the Securities Commission's goal for women Directors to make up 30% of Boards. Diversity, which includes but is not limited to gender, age, ethnicity and cultural background, is therefore a key consideration in assessing and reviewing the Board's composition as it strives to achieve the targeted level of women participation.

During calendar year 2016 and the beginning of year 2017, the Company welcomes two **female directors** on the Board, namely YBhg Tan Sri Dr Rebecca Fatima Sta Maria and YBhg Datuk Nozirah Bahari who serve as INEDs from 6 December 2016 and 2 January 2017, respectively.

In view of the enforcement of the new Companies Act 2016 on 31 January 2017 and the on-going requirements of the Malaysian Code on Corporate Governance (MCCG) 2012, RHB Investment Bank recognises that organisation is best served by a constantly evolving board of directors, with staggered terms and a healthy combination of fresh perspective and experienced board members. Upon reaching the tenure of nine years, the INED shall discontinue to serve on the Board and therefore retire at the next Company's AGM or when a new incumbent is available to replace him, as the case may be. While RHB Investment Bank plans to adhere strictly to the nine years cap for the tenure of Independent Director in future, the **age limits** at 70 and 73 set for the Group's Non-Executive Directors ("NED") is abolished in consistent with the new Companies Act 2016. The Internal Guidelines will be revisited to strictly enforce the requirement of the nine years' tenure and align the removal of the age restriction pursuant to the Companies Act 2016.

Assessment of Independence

The independence of the Directors is reviewed annually and benchmarked against best practices and regulatory provisions. Independent Directors are required to attest to their compliance with the criteria and definition of "Independent Director" as stipulated under Policy on Corporate Governance and Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad.

All Independent Directors are either independent from the Company's substantial shareholders, are not substantial shareholders themselves or directly associated with any substantial shareholders. Based on individual Director's self-disclosure, the Board is generally satisfied with the level of independence demonstrated by all the INEDs and their ability to act in the best interest of the Company.

At every Board Meeting, all Directors are required to disclose their interest or any possible conflicts on any matter put forth in the meeting. When required, the interested Director shall excuse himself/herself and abstain from deliberation and voting to allow unbiased and free discussion and decision making. In the event a corporate proposal requires shareholder approval, interested Directors will abstain from voting in respect of their shareholdings in the Company and will further ensure that persons connected to them similarly abstain from voting on the resolution.

In an effort to preserve the independence of INEDs, the Group has put in place its internal Guidelines on Tenure of Appointment/Re-Appointment of Non-Executive Directors for RHB Banking Group ("Internal Guidelines"). The Board believes the tenure of INEDs should balance experience and learning with the need for renewal and fresh perspectives.

Roles of the Chairman and Managing Director/Chief Executive Officer

The distinct and separate roles and responsibilities of the Chairman and Chief Executive Officer ensure balance of power and authority such that no one individual has unfettered powers of decision-making.

The Non-Independent Non-Executive Chairman, YBhg Tan Sri Azlan Zainol, manages the affairs of the Board with a view of ensuring that it functions effectively and meets its obligations and responsibilities. He also leads the Board in executing its responsibilities to shareholders and ensures that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary in the Board's decision-making.

Additionally, the Chairman must ensure that general meetings are conducted efficiently and in accordance with the requirement of the Companies Act 2016, and that shareholders have adequate opportunity to air their views and obtain answers to their queries.

The CEO, Mr Robert Angelo Hendro Santoso Huray ("Mr Robert Huray"), who has extensive financial experience and knowledge, was appointed effective 1 July 2016 to execute the overall responsibilities of the Group's strategies in line with the Board's direction, overseeing RHB Investment Bank's operations and driving RHB Investment Bank's businesses and performance towards achieving the Group's vision and goals. Mr Robert Huray leads the RHB Investment Bank's Senior Management in the execution of the Group's strategic initiatives.

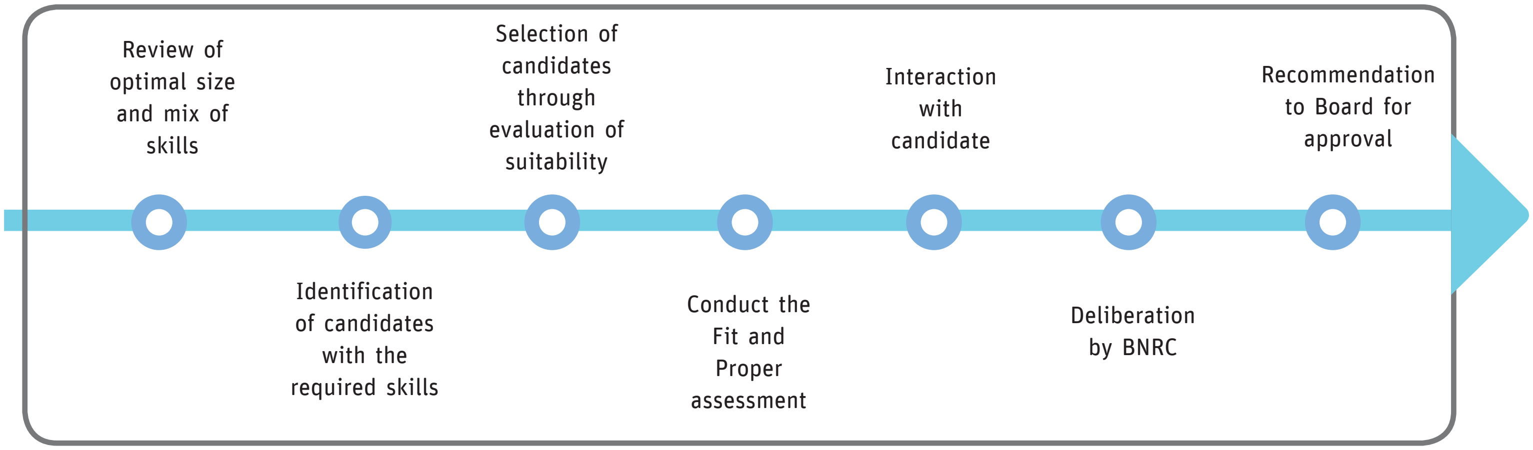
Nomination Framework

New Director nominees are assessed by the BNRC in accordance with RHB Banking Group's Policy and Guidelines on Fit and Proper for Key Responsible Persons ("Fit and Proper Policy").

The assessment takes into account the nominees' background, skills, knowledge and experience, and is part of a transparent nomination process before a recommendation is made for the Board's approval. The assessments are carried out against a benchmark of documented competencies which have been prepared for each role, the completion of declarations by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy and regulatory disqualification.

A set of questionnaire is given to new Board candidates to complete. One of the important areas assessed from the questionnaire is on time commitment, where the Company expects its Directors to devote appropriate time for Board/Board Committees meetings, relevant training and others. New directors need to make written declaration on their time commitment as indicated by the Company. One of the pre-requisite for a new candidate is the number of directorships held in public listed companies to ensure that the director is able to participate and perform his duties adequately, while existing directors are assessed on their meetings attendance records to reflect their time commitment.

Nomination Framework



These assessments are reviewed on an annual basis. The Fit and Proper Policy outlines the following criteria in assessing the suitability of new and existing candidates:

- Probity, personal integrity and reputation, where the candidate must have personal qualities such as honesty, integrity, diligence, independence of mind, fairness and ethical behaviour.
- Competency 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.

Directors' Appointment and Assessment

(a) Appointment of Directors

The Group leverages on the industry talent pool, FIDE Forum's Directors' Register and the Group's Independent Directors' network to source for new candidates for Board appointments, as overseen by the BNRC. This is the approach taken during calendar year 2016 and the beginning of year 2017 for nomination of the Company's new directors, namely Mr Yap Chee Meng, Mr Chin Yoong Kheong, YBhg Tan Sri Dr Rebecca Fatima Sta Maria, YBhg Datuk Nozirah Bahari and YBhg Dato' Abdul Rahman Ahmad (who has since resigned on 30 September 2016). Another new Director of the Company during the same calendar year, namely YBhg Tan Sri Azlan Zainol is no new face for RHB Banking Group and is also the Chairman of the ultimate holding company of the Group, RHB Bank Berhad.

The Chairman and/or members of the BNRC conducts an interaction session with the proposed candidates and assesses the candidates based on their relevant skills and experience, independence (where relevant) and objectivity, track record of success, sound judgement and broad perspective. The Board's expectation on the time commitment and contribution from the Directors will also be clearly communicated to the proposed candidates.

The BNRC is guided by a nomination framework approved by the Board. The framework ensures that individuals appointed to relevant senior positions and the Boards within the Group have the appropriate fitness and propriety to discharge their prudential responsibilities on and during the course of their appointment.

During its review of the suitability of candidates and criteria for the appointment process, the BNRC also takes into consideration the appropriate skill sets required, size, structure and composition of the Board. This ensures it is not only well-balanced and supportive of good governance and efficient management, but also complies with regulatory requirements and is responsive to changing business environments as well as the entity's business needs.

For the re-appointment of existing Directors, the BNRC refers to results of the individual assessments conducted via the Board Effectiveness Evaluation, in addition to their formal/informal interactions with the Directors. The BNRC also assesses the Directors based on their roles played and contributions to the Board and Board Committees, independence of view in respect of decision making (as the case may be), adequacy of training and time commitment by the Directors. The application for the appointment/re-appointment of Directors is submitted to BNM for consideration once it is approved by the Board.

(b) Board Effectiveness Evaluation ("BEE")

Since 2006, the Group has undertaken the BEE exercise on the Boards and Board Committees to assess their effectiveness and that of individual Directors. The BEE is designed to detect strengths and weaknesses to improve the Board's overall effectiveness and forms part of the BNRC's evaluation for the re-appointment of Directors.

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 Consulting Services Sdn Bhd ("PwCCS") was engaged to collate and tabulate the results of the evaluation. The BEE also includes in-depth interviews with Directors and Senior Management by PwCCS to encompass areas which fall outside the realm of the written assessment. The detailed BEE results are discussed with the Chairmen of the BNRC and Boards.

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

Part A: Board Evaluation

1. Board responsibilities
2. Board composition
3. Board remuneration
4. Board Committees: evaluation and self-evaluation
5. Board conduct
6. Board interaction and communication with management and stakeholders
7. Chairman
8. Group Managing Director/Managing Director/Chief Executive Officer
9. Board administration and process

Part B: Directors' Self and Peer Evaluation

1. Self-evaluation
2. Independent Directors assessment

Each Director and Board Committee member is required to perform an online self and peer assessment for the year in review. Upon completion, individual results together with a peer average rating on each area of assessment will be provided to each Director and Board Committee member for their information and further improvement. The latest BEE results has been presented to BNRC and the Board in March 2017 to identify and address areas for improvement.

Details pertaining to the Company's and the Group's selection of new director(s) and assessment criteria undertaken for board appointments are set out in the Board Nominating & Remuneration Committee Report on pages 257 to 263 of the RHB Bank Annual Report 2016.

MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

Board meetings are convened monthly as well as additionally when required to deliberate on any arising issues. At each Board meeting, the Board is, among others, informed of decisions and salient issues by the respective Board Committees' Chairmen/representative. Minutes of the respective Board Committees meetings are also tabled for the Board's information.

Key matters discussed by the Board are mainly strategic of nature, but from time-to-time, some material operational issues are also being discussed which need special attention and urgent direction.

For the financial year ended 31 December 2016, the Board is satisfied with the time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of RHB Investment Bank. The Board convened 12 meetings for the financial year ended 31 December 2016 and all the Directors except Mr Mohamed Ali Ismaeil Ali AlFahim, have complied with the required minimum Board meetings attendance of 75% under BNM's latest Policy on Corporate Governance and as adopted by the Company.

Details on the independent status of the Board of Directors, their roles in Board Committees and their attendance at the aforesaid meetings in 2016 are set out below:

Company's Director	Position/ Independent Status	Date of Board appointment	Attendance of Meetings					
			Board Meeting	BNRC[1] Meeting	BRC[2] Meeting	BAC[3] Meeting	BCC[4] Meeting	BTC[5] Meeting
YBhg Tan Sri Azlan Zainol	Chairman/Non-Independent Non-Executive Director (NINED)	27 June 2016	5/5 (100%)	8/8 (100%)	–	–	–	–
Mr Chin Yoong Kheong	Senior Independent Non-Executive Director (SINED)	1 August 2016	5/5 (100%)	–	11/12 (92%)	–	–	6/6 (100%) (Chair)
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa	Non-Independent Non-Executive Director (NINED)	20 November 2012	12/12 (100%)	5/5* (100%)	–	–	–	–
Mr Patrick Chin Yoke Chung	Non-Independent Non-Executive Director (NINED)	2 August 2007	10/12 (83%)	–	11/12 (92%)	–	34/38 (90%) (Chair)	–
Mr Yap Chee Meng	Independent Non-Executive Director (INED)	1 August 2016	5/5 (100%)	–	–	–	–	–
YBhg Tan Sri Dr Rebecca Fatima Sta Maria	Independent Non-Executive Director (INED)	6 December 2016	1/1 (100%)	–	–	2/2@ (100%) [Chair]	–	–
YBhg Datuk Nozirah Bahari	Independent Non-Executive Director (INED)	2 January 2017	N/A	–	–	–	–	–
YBhg Dato' Mohamed Khadar Merican	Independent Non-Executive Director (INED)	4 December 2003 *(Retired on 11 May 2016)*	4/4 (100%)	–	–	–	10/13# (77%)	–

Company's Director	Position/ Independent Status	Date of Board appointment	Attendance of Meetings					
			Board Meeting	BNRC[1] Meeting	BRC[2] Meeting	BAC[3] Meeting	BCC[4] Meeting	BTC[5] Meeting
Mr Charles Lew Foon Keong	Senior Independent Non-Executive Director (SINED)	15 March 2004 *(Retired on 11 May 2016)*	4/4 (100%)	–	–	–	–	2/2+ (100%)
YBhg Tan Sri Saw Choo Boon	Independent Non-Executive Director (INED)	1 April 2010 *(Resigned with effect from 1 August 2016)*	7/7 (100%)	8/8 (100%) [Chair]	12/12 (100%) [Chair]	13/13 (100%)	–	–
Mr Mohamed Ali Ismaeil Ali AlFahim	Non-Independent Non-Executive Director (NINED)	9 May 2014 *(Resigned with effect from 1 August 2016)*	5/7 (71%)	–	–	–	–	–
Mr Abdul Aziz Peru Mohamed	Independent Non-Executive Director (INED)	7 February 2011 *(Resigned with effect from 6 February 2016)*	1/1 (100%)	–	–	–	37/38 (97%)	–
YBhg Dato' Abdul Rahman Ahmad	Independent Non-Executive Director (INED)	1 March 2016 *(Resigned with effect from 30 September 2016)*	4/4 (100%)	–	–	5/5^ (100%)	–	–
Mr Chan Cheong Yuen	Managing Director/ Chief Executive Director	15 August 2013 *(Resigned with effect from 1 July 2016)*	6/6 (100%)	–	–	–	–	–

Note:
1-5 Abbreviations used denote various main Board Committees.
** Appointed with effect from 27 June 2016.*
@ Appointed with effect from 1 November 2016.
 # Resigned with effect from 22 April 2016.
+ Retired with effect from 11 May 2016.
^ Resigned with effect from 30 September 2016.

For the Directors' convenience, an annual meeting schedule for Board and Board Committee meetings and the AGM is circulated to the Directors before the beginning of every year. Since 2014, the Group embarked on the use of a meeting management solution system (in place of eBooks used previously), allowing Directors/Board Committee Members to access the online portal directly in a secure and organised manner on their iPads.

This initiative has significantly enhanced mobility, movement of documents, cost and time savings, as well as created greater convenience, better security and a positive impact on the environment. Directors who are unable to attend the Board/Board Committee meetings physically are also encouraged to participate via telephone and video-conferencing using LYNC application system.

This latest flexibility accommodates any Board meeting's paper to be circulated to the Board members instantly. Currently the circulations of the Board papers are between 5 and 7 days before each meeting.

The Directors are required to notify the Board on changes of their other directorships and shareholdings in RHB Bank Berhad as and when such changes arise. This information is used to monitor the number of directorships held by the Directors of RHB Investment Bank, including those on other public listed companies, and to notify the Companies Commission of Malaysia accordingly.

pg_ to pg_

The information on the Company's Directors' directorships in public listed companies and other public companies is available on pages 11 to 14 of this Annual Report.

Information and Advice

The Board, whether as a group or individually, regularly obtains the advice and dedicated support services of the Company Secretary. The Board members may also interact directly with the Management, seek their clarification and advice as well as request for information on matters pertaining to the Company's and the Group's operations or business concerns. Pursuant to the Group's Standard Procedures for Directors to have access to Independent Advice, the Directors may also seek independent professional advice, at the Company's expense, should the need arise in discharging their duties.

Dedicated Company Secretary

The Board acknowledges and is satisfied with the performance and support rendered by the Company Secretary. In addition to acting as the custodian of the Company's and the Group's statutory records, the Company Secretary serves and advises the Board on matters relating to the affairs of the Board and good corporate governance practices, ensures that Board meetings are properly convened and maintain an accurate and proper record of the proceedings and minutes of the meetings.

In promoting good corporate governance practices, the Company Secretary assists the Board and Senior Management on meeting with regulatory requirements and best practices specifically pertaining to Board governance. This include proposing on transparency and mandatory/voluntary disclosure on governance issues which are relevant and materially important to the stakeholders.

The Company Secretary also assists the Chairman and Directors in conducting meetings and discharging their governance obligations and responsibilities as Directors of the Company. Additionally, the Company Secretary facilitates the communication of key decisions and policies between the Board, Board Committees and the Senior Management, updating the Board on the follow-up or implementation of decisions/recommendations.

In order to play an effective advisory role to the Board, the Company Secretary remain informed of the latest regulatory changes, evolving industry developments and best practices in corporate governance through continuous training and regular interactions with regulators and industry peers.

Remuneration Strategies

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

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

The remuneration structure of the NEDs of the Group is laid out as follows:

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

Notes:

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

1) Directors' Fees

NEDs are entitled to annual Directors' fees, which are subject to shareholders' approval at the Annual General Meeting ("AGM") of the Company. The existing fees structure for the Company's Non-Executive Directors on the basis of RM150,000 per annum for Non-Executive Chairman and of RM120,000.00 per annum for every NED, is based on the approved Group's Directors' Fees structure in year 2014.

2) Board Committee Allowances

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

3) Chairmen's Premium

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

4) Emoluments

NEDs are awarded with 'On-Going Recognition & Appreciation Service Award' scheme ("Service Award") and the Group Chairman is accorded with a special allowance, in recognition of their services and commitments to the Group. Effective 1 January 2017, the Service Award was discontinued and being replaced by 'Farewell Pot' scheme for all the NEDs.

5) Benefits-in-kind

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

6) Meeting attendance allowance

NEDs are also entitled to meeting attendance allowances when they attend any Board/Board Committee meetings. Total allowances are subject to number of Board/Board Committee sittings and number of meetings attended by each Company's Non-Executive Director.

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

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

The information on the total remuneration of the Directors from the Company and from the subsidiaries is available under Note 31 to the Financial Statements on pages 152 to 154 in the accompanying Financial Statements 2016 Report.

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 salary and bonus, either as short term or long term incentives, in cash or benefits-in-kind, is derived from the Company.

The Group has also established a remuneration framework for key Senior Management, consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with contributions to the organisation. Key Senior Management Officers are defined per term of references of the BNRC as Group Managing Director ("Group MD"), Chief Executive Officer/Managing Director who is the Direct Report to the Group MD and any persons as decided by the Committee.

Their aggregated total remuneration package amounting **RM15.7 million** for FYE 2016, includes basic salary, allowances, benefits in-kind and bonuses. The Board however believes that disclosure of the remuneration package of each key Senior Officer personnel in details would be disadvantageous for the Group's business interests, as poaching of executives is rather norm due to limited pool of executive talents and expertise within the local financial services industry.

DIRECTORS' ORIENTATION, CONTINUING EDUCATION AND TRAINING

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

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

Learning Process for New Director

Five new NEDs are on board of the Company for the FYE 2016. The newly appointed Company's NEDs attended an induction programme organised by the Management of the Group to provide them with in-depth information of the industry as well as an overview of the Group's business operations. During the induction programme, they were briefed by relevant Management on the functions and areas of responsibility of their respective divisions. This enables the new NEDs to familiarise themselves with the Group's operations and organisational structure and also helps them to establish effective channels of communication and interaction with Management.

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

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

2016 DIRECTORS' TRAINING BUDGET
AMOUNTING RM1.05 MILLION

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

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Tan Sri Azlan Zainol	Bank Negara Malaysia Annual Report 2015 and Payment Systems Report 2015 Briefing Session	• Financial Stability • Payment Systems
	Trans-Pacific Partnership Agreement (TPPA) Briefing by PwC	• Economic impact of TPPA • Overall economy & sectoral analysis • Potential impact of TPPA on RHB Banking Group • Thematic issues
	Presentation on MFRS9 by Ernst & Young	• Implication and challenges of implementing IFRS9 • IAS 39
	Shariah Awareness Programme by Amanie	• Islamic Banking: Compliance, Innovation and Profitability • Social Entrepreneur & Social Responsibility Investment
	Capital Market Director Programme: • Module 1 • Module 2A • Module 2B • Module 3 • Module 4	• Directors as Gatekeepers of Market Participants • Business Challenges and Regulatory Expectations • Risk Oversight and Compliance – Action Plan for Board of Directors • Current and Emerging Regulatory Issues in the Capital Market
	Anti-Money Laundering (AML) & Counter Financing of Terrorism (CFT) by NRRET	• Scope of Money Laundering • Role & responsibilities of financial institutions • New AML System • Proceeds of Unlawful Activities
	New Companies Bill 2016 by ZICO	• Key & structural changes • New requirements & impacts • Corporate Governance
Mr Chin Yoong Kheong	Relationship Economics: The Art & Science Of Relationship, Renewal and Reinvention of the Enterprise	• Key relationships • Relationship Economics • Renewal & Reinvention of the Enterprise
	Briefing on Trans-Pacific Partnership Agreement (TPPA) by PwC to Board of Directors & Senior Management	• Economic impact of TPPA • Overall economy • Sectoral analysis • Potential impact of TPPA on RHB Group and related key client segments 16 Thematic issues
	FIDE FORUM: 2nd Distinguished Board Leadership Series – "Avoiding Financial Myopia" by Professor Jeffrey L. Sampler	• Identify sources of qualitative risk

Name of Director(s)	Training Programme Attended	Training Scope & Description
Mr Chin Yoong Kheong (continue)	Invitation To World Bank Conference	• The Trans-Pacific Partnership (TPP) as an Opportunity for Integration • The Gains from Networks and Integration • Market Rigidities as Obstacles to Integration
	Digital Signature Training To RHB Board of Directors	• Perform the Digital Signing
	Presentation on MFRS9 by Ernst & Young (EY) To The Board of Directors	• Implication and challenges of implementing IFRS9 • IAS 39
	Shariah Awareness Programme For Board of Directors and Senior Management	• Shariah awareness
	Invitation To Attend "Role Of The Chairman & Independent Directors' Seminar	• The chairman's role in creating Board effectiveness • The CEO/Executive relationship • Primary Attributes of an Independent Director
	Anti-Money Laundering/Counter Financing of Terrorism for RHB Banking Group BODs & GMCs and Heads	• Scope of Money Laundering Problem • Money Laundering: International Actions • Objectives of AMLA/AMLATFA/AMLATFPUA
	Briefing on Companies Act 2016	• Status of new Companies Act • General Impact of the new Companies Act 2016 • Contents of the Companies Act 2016
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa	Bank Negara Malaysia Annual Report 2015 and Payment Systems Report 2015 Briefing Session	• Financial Stability • Payment Systems
	Trans-Pacific Partnership Agreement (TPPA) Briefing by PwC	• Economic impact of TPPA • Overall economy & sectoral analysis • Potential impact of TPPA on RHB Banking Group • Thematic issues
	Presentation on MFRS9 by Ernst & Young	• Implication and challenges of implementing IFRS9 • IAS 39
	Capital Market Director Programme: • Module 2A • Module 2 • Module 3 • Module 4	• Business Challenges and Regulatory Expectations • Risk Oversight and Compliance – Action Plan for Board of Directors • Current and Emerging Regulatory Issues in the Capital Market
	Anti-Money Laundering (AML) & Counter Financing of Terrorism (CFT) by NRRET	• Scope of Money Laundering • Role & responsibilities of financial institutions • New AML System • Proceeds of Unlawful Activities

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Tan Sri Ong Leong Huat @ Wong Joo Hwa (continue)	New Companies Bill 2016 by ZICO	• Key & structural changes • New requirements & impacts • Corporate Governance
Mr Patrick Chin Yoke Chung	Digital Signature Training To RHB Board of Directors	• Perform the Digital Signing
	Presentation on MFRS9 by Ernst & Young (EY) To The Board of Directors	• Implication and challenges of implementing IFRS9 • IAS 39
	Capital Market Director Programme: • Module 1 • Module 2B	• Directors as Gatekeepers of Market Participants • Business Challenges and Regulatory Expectations
Mr Yap Chee Meng	Capital Market Director Programme: • Module 1 • Module 2A • Module 2B • Module 3 • Module 4	• Directors as Gatekeepers of Market Participants • Business Challenges and Regulatory Expectations • Risk Oversight and Compliance – Action Plan for Board of Directors • Current and Emerging Regulatory Issues in the Capital Market
YBhg Tan Sri Dr Rebecca Fatima Sta Maria	Mandatory Accreditation Programme For Directors Of Public Listed Companies	• Understanding the directors' obligation: Board effectiveness & managing risk • Discharging directors' financial reporting responsibility • Demystifying Directors' Key Obligations Under The Listing Requirements of Bursa Malaysia Securities Berhad • Audit Committee Expanded Governance Oversight Role
	Shariah Awareness Programme by Amanie	• Islamic Banking: Compliance, Innovation and Profitability • Social Entrepreneur & Social Responsibility Investment
	Anti-Money Laundering (AML) & Counter Financing of Terrorism (CFT) by NRRET	• Scope of Money Laundering • Role & responsibilities of financial institutions • New AML System • Proceeds of Unlawful Activities
	New Companies Bill 2016 by ZICO	• Key & structural changes • New requirements & impacts • Corporate Governance

BOARD COMMITTEES

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

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

Board Nominating & Remuneration Committee

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

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

The BNRC comprises five NEDs, of whom three are INEDs and two are NINEDs, representing the respective entities within the Group. The BNRC is chaired by YBhg Tan Sri Saw Choo Boon, the SINED of RHB Bank Berhad.

Board Risk Committee

The Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and safeguard shareholders' investments as well as the Company's and the Group's assets. The Board Risk Committee ("BRC") provides oversight and governance of risks for the Group to ensure that the Group's risk management process is functional and effective.

The BRC also oversees Senior Management's activities in managing risk, ensuring that the risk management process in each of the Group's entities functions in accordance with a risk-return performance management framework. Furthermore, the BRC supports and leads the Senior Management in driving the Risk Culture and Risk Ownership in the Group.

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

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

THE BOARD RISK COMMITTEE ("BRC") PROVIDES
OVERSIGHT AND GOVERNANCE OF RISKS FOR THE GROUP

The BRC comprises four NEDs, of whom two are INEDs and two NINEDs, representing the respective entities within the Group. The BRC met 12 times during the financial year 2016. The composition of the BRC and the attendance of the members at meetings held in 2016 are as follows:

Name of Directors	Attendance at Meetings
YBhg Tan Sri Saw Choo Boon (INED/Chairman)#	12/12 (100%)
Mr Patrick Chin Yoke Chung (NINED)	11/12 (92%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	12/12 (100%)
Mr Chin Yoong Kheong (INED)	11/12 (92%)
Tuan Haji Khairuddin Ahmad (INED/Chairman)^	4/4 (100%)
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (INED)*	5/6 (83%)

Note:

* *Resigned with effect from 27 June 2016.*
\# *Redesignated as BRC Chairman on 11 May 2016.*
^ *Retired from BRC on 11 May 2016.*

Board Audit Committee

The Board Audit Committee ("BAC") comprises four INEDs representing RHB Bank and its major operating subsidiaries. The BAC provides independent oversight of RHB Banking Group's financial reporting and internal control system, ensuring checks and balances for entities within the Group. The BAC continuously reinforces the independence of the external auditors and provides a line of communication between the Board and the external auditors.

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

- Adequate processes and controls are in place for an effective and efficient financial statement close process;
- Appropriate accounting policies have been adopted and applied consistently; and
- The relevant financial statements give a true and fair view of the state of affairs of the Company and the Group in compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Companies Act 1965.

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

The BAC also emphasises the internal audit function by increasing the objectivity and independence of the internal auditors and provides a forum for discussion that is, among others, independent of the Management. Additionally, the BAC reviews the quality of the audits conducted by internal and external auditors as well as the Group's financial condition and performance. This enhances the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Detailed disclosures on BAC's governance structure and primary activities are available on pages 47 to 51 of this Annual Report.

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to pg_

Board Credit Committee

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

Board Technology Committee

The Board Technology Committee ("BTC") comprises two INEDs and one NINED, and guides the Boards of the major operating subsidiaries on the Group's strategic IT programmes and major IT investments. The BTC reviews and recommends to the Boards the Group's overall technology strategies and policies, strategic and major technology investments and projects above Management's limits set by the Boards or as referred to by the Group Management Committee. It also receives updates from Management on emerging technology trends affecting the Group.

INVESTOR RELATIONS AND STAKEHOLDER COMMUNICATIONS

Corporate Disclosure

Since 2013, the Group has adopted a media communication plan which defined the roles and responsibilities of the Chairman and Senior Management together with levels of authority in handling the disclosure of material corporate, business and financial information to the public via media channels.

In addition, the Directors and employees are required to execute confidentiality undertakings in compliance with the secrecy requirement of the Financial Services Act 2013 or other regulatory requirements in respect of information which they may acquire through the business of the Company and its subsidiaries.

Corporate Website

In view of the importance of the corporate website to promote the Group's branding and image, our intranet has been restructured to enhance our internal communication channel and landing platform for knowledge repository within the Group. The corporate section on the Group's website, on the other hand, makes all relevant information (including information on dividend, capital & debt instruments, credit rating, all announcements released to media and Bursa Malaysia website, annual reports, corporate structure, corporate governance statement, notice of general meetings and minutes of general meetings) on the holding company, RHB Bank Berhad and its main operating subsidiaries publicly accessible.

UPHOLDING INTEGRITY

Compliance with Financial Reporting Standards

The Board ensures that shareholders are provided with a clear, balanced and meaningful assessment of the Company's and the Group's financial performance, position and future prospects through the Annual Audited Financial Statements, quarterly reports and corporate announcements on significant events affecting the Company.

Relationship with Internal and External Auditors

Internal audit

The Group Internal Audit ("GIA"), led by the Group Chief Internal Auditor, reports the results of its audits directly to the BAC. Guided by the Internal Audit Charter, the GIA regularly reviews and reports on the adequacy and effectiveness of the Group's risk management, internal control and governance processes. Based on the annual audit plan approved by the BAC, GIA undertakes an independent assessment of the internal control systems throughout the Company and the Group to assure that deficiencies or issues are promptly resolved by the Management.

Follow-up actions and a review of the status of actions taken as per the auditors' recommendations are carried out by the Management via the various Management Audit Committees established 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 on by the Management.

Further details of the activities of the GIA function are set out in the Statement on Internal Audit on pages 52 to 53 of this Annual Report.

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The Group's current Internal Audit Charter is up-to-date in line with the latest regulatory requirements as well as the International Standards for the Professional Practice of Internal Auditing.

Assessment of external auditors

The BAC undertakes an assessment of the suitability and independence of the external auditors, Messrs PricewaterhouseCoopers, based on qualifying criteria for the appointment of auditors and terms of audit engagements in accordance with BNM's Guidelines – "External Auditor" dated 29 August 2014. Among the criteria set are that the auditors are registered auditors with professional competence, their objectivity/ independence are not impaired, their background are free from criminal dishonesty acts and disciplinary actions taken by the Malaysian Institute of Accountant, and also their tenure of appointment as engagement partner not exceeding 5 continuous years with the Company.

In addition, the performance of the external auditors is assessed through a survey amongst the management requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the financial reporting year. The survey covers areas such as quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness, relationship management and staff continuity.

Having satisfied itself with their performance and fulfilment of criteria as set out in BNM's Guidelines, the BAC will recommend the re-appointment of the external auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC reviews the non-audit services rendered by the external auditors and the related fees prior to the approval of the services. A report on non-audit fees is also presented to the BAC quarterly. This is to ensure the independence of the external auditors and its compliance with the Policy and terms of all relevant professional and regulatory requirements when rendering its audit and non-audit services. During the financial year, the external auditors made written assurance that they have maintained their independence for the audit of the Group's financial statements and for all the non-audit engagements undertaken, in accordance with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants.

Group Whistle Blower Policy

The Group has, since 2004 (revised and updated in 2014), established a Group Whistle Blower Policy to strengthen its controls and governance. The policy provides employees with an avenue to report suspected fraud, corruption, dishonest practices or other similar circumstances. This policy encourages reporting of such matters in good faith, with the confidentiality of the person making such reports protected from reprisal in the best possible manner.

For the current year under review, three complaints pursuant to the Group Whistle Blower Policy were received, investigated and pursued. All reports or complaints are 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 the reference of the Group's staff.

Code of Ethics

The Board is committed to inculcating a corporate culture which engenders ethical conduct throughout the Company and the Group. The Board has thus adopted a Code of Ethics and Business Conduct for Directors ("Code of Ethics") to enhance the standard of corporate governance, establish uniform ethical standards and promote ethical conduct for Directors in line with governing laws, regulations and guidelines. The Code of Ethics includes principles relating to general standard of conduct, conflict of interest, insider trading, maintaining confidentiality, use of corporate assets, etc.

The Group has also implemented a Group Code of Ethics and Conduct ("Code") for its employees to ensure a high standard of ethical and professional conduct in performing their duties and responsibilities. The said 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 judgement and be accountable for their actions. Compliance with the Code is part of the terms and conditions of employment for every employee. The Code is currently under revision to incorporate current best practices and in line with the industry standard.

Group Gifts & Hospitality Guidelines

The Group had, in November 2014, established Group Gifts & Hospitality Guidelines to promote integrity and transparency. The Guidelines complement the existing Group Code of Ethics and Conduct for Employees and are benchmarked against best practices for giving and receiving gifts as well as transparency and openness about gifting. It is also part of the overall anti-bribery and corruption initiative currently pursued by the Group.

Corporate Responsibility

The foundation of our Corporate Responsibility ("CR") initiatives is premised on the four quadrants of Community, Environment, Workplace and Marketplace. The Group's established CR strategic framework has supported and created value for the Group's business, operations and brand, as well as contributed positively to the Group's shareholders, customers, employees and society at large. The framework was introduced with the intention of translating its defined values into a governing policy that addresses the Group's CR and sustainability reporting which incorporates the economic, environmental and social ("EES") elements.

The framework will ensure that EES issues are integrated into the Group's daily business practices to promote its sustainability. Sustainability is defined as conducting business responsibly and ethically by factoring in economic, environmental and social considerations in the decision making process for long-term business success that, in turn, will contribute to the socioeconomic development of the communities in which the Group operates. As such, the Group embarks on activities that conserve the environment, enrich the lives of communities, promote a culture of respect and care for its workforce and the public, all of which, appropriately implements good governance.

The Board also acknowledges that a sustainable approach to investing is vital to the interests of long-term investors and positively impacts the value of investments. The Board further recognises that the Group's ability to prosper hinges substantially on its ability to make business decisions that uphold economic, environmental and social responsibilities by which the stakeholders and society can hold the Group accountable. In this way, the Company can combine its economic success with environmental protection and social responsibility. Therefore, EES issues are of the utmost importance in the Board's decision making to maintain responsible corporate citizenship.

ADDITIONAL COMPLIANCE INFORMATION

Related Party Transactions

The Group has put in place a Policy on Related Party Transaction Review Process since 2004 (revised and updated in 2011 and 2012, respectively), which guides the review and reporting of all related party transactions. Under this policy, all related party transactions are reviewed by Group Legal prior to independent review by Group Internal Audit before any submission is made to the BAC for deliberation.

Sanctions and penalties

For the financial year 2016, no public reprimands, sanctions and/or material penalties were imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies.

Material contracts involving Directors' and major shareholders' interest

RHB Investment Bank and its subsidiaries did not have any material contracts involving Directors' and major shareholders' interests in the 12-month financial period from 1 January 2016 to 31 December 2016. The material contracts in this case do not include financing to parties connected to Directors which are conducted in accordance with the relevant BNM's and Securities Commission of Malaysia's guidelines.

COMPLIANCE STATEMENT

In carrying out fiduciary duties, the Board of Directors ("Board") of RHB Investment Bank is pleased to disclose that the Company for the Financial Year Ended (FYE) 31 December 2016 has satisfied the following:

- The Company's financial statements were prepared in compliance with the approved accounting standards and disclosure requirements set out in the Companies Act 2016.
- All material aspects of the principles stipulated by Bank Negara Malaysia (Central Bank of Malaysia)'s Policy on Corporate Governance are complied.

This Corporate Governance Statement and the disclosures in this report have been approved by the Board on 25 April 2017.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

RESPONSIBILITY

The Board of Directors ("Board") acknowledges its overall responsibility in establishing a sound risk management and internal control system and for assessing its effectiveness. Such a system is designed to manage risks within the established risk appetite and risk tolerance rather than total elimination of risks to achieve RHB Investment Bank Berhad (the "Investment Bank")'s business objectives. The system can therefore only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board is assisted by the Board Risk Committee ("BRC") and Board Audit Committee ("BAC") which have been delegated with primary oversight responsibilities on the Investment Bank's risk management and internal control system.

The Board is further assisted by the Management who is responsible for implementing the Investment Bank's policies and processes to identify, evaluate, monitor and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely corrective actions as required, and to provide assurance to the Board that the processes have been carried out.

RISK MANAGEMENT FRAMEWORK

The Group has put in place a risk management framework approved by the Board for identifying, evaluating, monitoring and reporting of significant risks faced by the Group and the Investment Bank that may affect the achievement of the Group's business objectives.

Risk Governance and Oversight

The Group's risk management framework seeks to ensure that there is an effective on-going process in place to manage risk across the Group. This process is regularly reviewed by the Board through the BRC which provides oversight over the risk management activities for the Group to ensure that the Group's risk management process is functioning effectively.

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

Group Risk & Credit Management function provides independent oversight on business activities and implements the Group's risk management framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Its responsibilities include implementation of the Group's risk policy and framework, daily risk measurement and monitoring, provision of timely risk analysis to Management, ensuring compliance to regulatory risk reporting requirements, overseeing group-wide credit evaluation and assessment as well as implementing a comprehensive enterprise-wide risk governance framework and a robust risk management infrastructure. On a monthly basis, a Group Risk Management Report prepared by Group Risk & Credit Management function which includes the entities and the Group's risk metrics and tolerance dashboard is presented to the Board for information, deliberation or decision making.

In addition to the risk management framework, the Group has implemented the Internal Capital Adequacy Assessment Process ("ICAAP") framework to ensure that the Group maintains adequate capital levels consistent with the risk profiles including capital buffers to support the Group's current and projected demand for capital under existing and stressed conditions.

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

Risk Appetite

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

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

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

Risk Culture

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

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

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

The implementation of the BRCO programme is in line with the 'Three Lines of Defence' model practised globally and is depicted in the diagram below:

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

Risk and Control Self-Assessment

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

INTERNAL CONTROL SYSTEM

The Group's internal control system which encompasses the policies, procedures, processes, organisational structures, tasks and other control aspects is implemented for assuring the achievement of the Group's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies.

Control Environment and Control Activities

Organisation Structure

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

Policies and Procedures

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

Authority Limits

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

Information Technology (IT) Security

The objectives of the Group's IT security encompass the protection of programs, data, information stored and facilities of the computerised data processing system from unauthorised access and use, loss or destruction as well as ensuring reliability and continuous availability of the computerised data processing systems.

IT security in the Group is achieved through the implementation of control processes which include documented policies, standards, procedures and guidelines as well as organisational structures and software control functions. IT security controls protect the Group's information and data from a wide range of threats and safeguard its confidentiality, integrity and availability.

Computer equipment and information assets of various forms are provided to enable employees of the Group and relevant third parties to satisfactorily complete their duties. These assets, depending on its value and risk exposure, are subjected to controls that are designed to protect them from accidental or intentional loss, or unauthorised access, modification, manipulation or disclosure.

Budgeting Process

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

Human Capital Management

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

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

Group Code of Ethics and Conduct

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

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

Group Anti-Money Laundering/Counter Financing of Terrorism Policy

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

Pursuant to the Group AML/CFT Policy, the entities within the Group are required to adopt and implement the AML/CFT Compliance Programme framework which includes customer due diligence ("CDD") requirements, tracking, monitoring and reporting of suspicious transactions, record keeping, AML/CFT training, duty of care on customer information, and enforcement actions for non-compliance to the requirements.

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

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

Group Fraud Risk Management Policy

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

Business Continuity Management

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

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

The Group has on-going and actively managed BCM programmes, which include effective crisis management to deal with real life crisis. The BCP Programmes are subject to regular testing/exercising to ensure their efficacy, reliability and functionality. Simulation exercises and drills are conducted to familiarise and equip staff with the skills and techniques required to identify, assess, respond and cope with any untoward situations.

Information and Communication

Performance Review

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

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

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 the report will be dealt with confidentially and that the reporter's identity will be protected.

Incident Management Reporting

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

Monitoring

Board Committees

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

Group Management Committee

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

Management Audit Committee

Management Audit Committees ("MACs") are established at the key operating entities in the Group to ensure timely rectification of any audit findings and control lapses highlighted by the internal and external auditors, and regulators.

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

Group Compliance

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Group. Therefore, everyone concerned is expected to promote self-regulation and be accountable for his or her own activities while maintaining ethical principles and behaviour in everything that he or she does.

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

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

Shariah Compliance

In line with the Guidelines on Shariah Governance Framework for Islamic Financial Institutions issued by BNM, the Management is responsible for observing and implementing the respective Shariah rulings and decisions.

The Shariah Governance Framework has also been put in place which encompasses the concept of Shariah, Shariah governance and its reporting structures, roles and responsibilities, and the key principles underpinning the components of the Shariah governance structure.

Various activities involving Shariah reviews, control self-assessment, trainings and briefings aimed at creating awareness as well as continuous learning programmes were conducted throughout the year in mitigating Shariah non-compliance risks.

INTERNAL AUDIT

Group Internal Audit ("GIA") function assists the Board and BAC by providing independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the Group's risk management framework, control and governance processes implemented across the Group.

The internal audit plan is developed based on a risk-based approach and is approved by the BAC annually. Audit reports which include significant findings and recommendations for improvement, and Management's response to the recommendations are tabled to MACs and BAC on a monthly basis.

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

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

Further information on the GIA function is provided in the Statement on Internal Audit of this Annual Report.

Investment Banking Business Committee

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

CONCLUSION

The Board has received assurance from the Investment Bank's Chief Executive Officer and Group Chief Financial Officer as well as the Group Chief Risk Officer that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management model adopted by the Group. The Board also receives monthly updates on key risk management and internal control matters through its BRC and BAC as well as compliance assurance from the Group Compliance function.

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

BOARD AUDIT COMMITTEE REPORT

COMPOSITION AND ATTENDANCE OF MEETINGS

During the financial year ended 31 December 2016 ("year"), a total of thirteen (13) Board Audit Committee ("BAC") meetings were held. The BAC comprises the following members and the details of attendance of each member at the BAC meetings held during the year are as follows:

No	Composition of BAC	Attendance at Meetings
1.	Tan Sri Dr Rebecca Fatima Sta Maria (Chairperson/Independent Non-Executive Director) – Appointed as Chairperson on 1 November 2016	2/2 (100%)
2.	Mr Ong Seng Pheow (Member/Independent Non-Executive Director) – Re-designated from Chairman to Member on 1 November 2016	13/13 (100%)
3.	Tan Sri Saw Choo Boon (Member/Independent Non-Executive Director)	13/13 (100%)
4.	Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (Member/Independent Non-Executive Director) – Appointed as Member on 15 June 2016	8/8 (100%)
5.	Dato' Othman Jusoh (Member/Independent Non-Executive Director) – Retired as Member on 11 May 2016	4/4 (100%)
6.	Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director) – Ceased to be Member on 15 June 2016	5/5 (100%)
7.	Dato' Abdul Rahman Ahmad (Member/Independent Non-Executive Director) – Appointed as Member on 15 June 2016 and resigned w.e.f. 30 September 2016	5/5 (100%)

In compliance with Paragraphs 15.09(1) and 15.09(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the BAC membership comprises all Independent Non-Executive Directors with no alternate director appointed as a member and at least one member has membership with the Malaysian Institute of Accountants.

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

Matters deliberated at the BAC meetings together with the BAC's recommendations and decisions are summarised and presented to the Board in the same month by the Chairperson of the BAC. This allows the Board to be timely apprised of significant matters deliberated by the BAC and for the Board to provide any direction, if necessary.

SUMMARY OF BAC'S WORK

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

1. Financial Reporting

a) Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Bank Berhad ("RHB Bank" or "the Bank") and the Group (inclusive of RHB Investment Bank Berhad) as well as the announcements to Bank Negara Malaysia ("BNM") and Bursa Securities before recommending them for approval by the Board. The review process encompassed the following:

- Reviewed on any significant changes in accounting policy and adoption of new or updated accounting standards, and its impact to the financial statements.
- Reviewed the financial statements and made enquiries on any material changes between the current and preceding or corresponding quarter/year as well as any items that may appear uncorrelated to assess their reasonableness.
- Reviewed and deliberated on the key accounting estimates and assumptions used that are significant to the financial statements to assess their reasonableness based on available information and current/expected market condition. Details of the key estimates and assumptions applied are outlined below:

  (i) Allowance for impairment of financial assets

  In determining the impairment of financial assets, Management has considered the objective evidence of impairment and exercised judgement in estimating its cash flow and collateral value. Management's judgement was made in the estimation of the amount and timing of future cash flows in assessing the allowance for impairment of financial assets.

  (ii) Goodwill impairment

  Goodwill is tested at least annually for impairment. Testing of goodwill for impairment involves a significant amount of estimation which includes the identification of independent Cash Generating Units ("CGU") and allocation of goodwill to these units. Estimating the value in use requires the Bank and the Group to make an estimate of the expected future cash flows from the CGU.

- Noted the highlights on the overall financial performance of RHB Bank and the Group, and the main factors contributing to the Bank and the Group's revenue and operating expenses.

b) Reviewed the proposed dividend payout for the financial year, the dividend payout trend and its financial impact on RHB Bank and RHB Bank Group before recommending for the Board's approval.

2. Internal Audit

a) Reviewed and approved the Group Internal Audit ("GIA")'s annual audit plan for the financial year 2016 in November 2015 to ensure adequacy of scope, coverage and resources for the identified auditable areas.

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

c) Reviewed the audit activities of GIA for the financial year 2016 covering the planned audit assignments, ad-hoc audit projects, review of policies, processes and procedures, and IT project participation to ensure that the audit assignments were completed for the year.

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

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

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

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

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

i) Reviewed the proposed changes to the Internal Audit Charter ("Audit Charter") at the BAC meeting in September 2016 in order to align the Audit Charter with the BNM Guidelines, and The Institute of Internal Auditors' mandatory guidance, which includes the "Definition of Internal Auditing", the "Code of Ethics" and the "International Standards for the Professional Practice of Internal Auditing" prior to recommending the same for the Board's approval.

Further information on the GIA function is provided in the Statement on Internal Audit of this Annual Report.

3. External Audit

a) Reviewed the 2016 audit plan of the external auditors for RHB Banking Group at the BAC meeting held on 26 September 2016 covering the audit strategy, risk assessment, areas of audit emphasis for the year and the new auditors' report as per the new and amended International Standards on Auditing which are effective for financial year ended on or after 15 December 2016.

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

Audit Report issued by External Auditors in 2016	Date tabled to BAC
Final Audit Committee Report for the financial year 2015	22 January 2016
Internal Control Report for the financial year 2015	22 April 2016
Limited review of the unaudited financial statements of RHB Bank and RHB Islamic Bank for the financial period ended 30 June 2016	22 July 2016
Interim Audit Committee Report for the financial year 2016	9 December 2016

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

c) Met twice with the external auditors on 22 January 2016 and 9 December 2016 without the presence of Management to enable open discussion between the auditors and the BAC on any issues of concern to the auditors arising from their half year limited review and the annual statutory audit.

d) Reviewed and recommended for the Board's approval, the appointment of the external auditors for the provision of non-audit services after considering among others, the expertise, adequacy of knowledge and experience required for the services rendered and the competitiveness of fees quoted.

   Reviewed on a quarterly basis, the non-audit services rendered by the external auditors and the related fees taking into consideration the fees threshold established under the Group policy to ensure that the external auditors' independence and objectivity are not compromised. The total non-audit fees incurred as a percentage of the total statutory audit and other audit related services fees for the financial year 2016 for RHB Banking Group was 29.98% which is well within the policy threshold.

   For the financial year 2016, the main non-audit services rendered by the external auditors are as follows:

   - Conduct gap assessment, technical consultation and validation for the purpose of Malaysian Financial Reporting Standard ("MFRS") 9 implementation;
   - Act as the Reporting Accountant for the USD5.0 Billion Euro Medium Term Note Programme update; and
   - Perform statutory requirement of Perbadanan Insurans Deposit Malaysia ("PIDM") validation programme for assessment year 2016.

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

   - The external auditors have declared in their 2016 audit plan which was tabled to the BAC in September 2016 that they have maintained their independence for the audit of the financial statements of the Group in accordance with the firm's requirements and with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. They have further declared that the non-audit services provided to the Group during the year have not compromised their independence as external auditors of the Group.
   - Evaluated the performance of the external auditors based on the results of assessment of their work by the relevant Management staff of the Group following the completion of the annual statutory audit covering the categories of people, meeting objectives, responsiveness, knowledge of business, adding value and communications.
   - A comprehensive review was conducted on the external auditors to assess its independence and the potential risk of familiarity threat at all the banking entities within the Group to determine whether a change of external auditors is warranted. The comprehensive review covered three main categories, namely:

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

The results of the comprehensive review were deliberated and concurred by the BAC at its meeting in July 2016. The BAC has further decided that the familiarity threat review on the external auditors shall be conducted annually prior to its reappointment.

- Reviewed and recommended to the Board a policy to address the issue of long association and familiarity threat of the external auditors. The policy was approved by the Board in July 2016 upon recommendation by the BAC.

4. Related Party Transactions

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

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

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

TRAINING

During the year, the BAC members have attended various training programmes, conferences and seminars to enhance their knowledge in order to efficiently discharge their duties as Independent Non-Executive Directors of RHB Investment Bank Berhad.

Details of the trainings attended by BAC members are included in the Statement of Corporate Governance of the annual report.

STATEMENT ON INTERNAL AUDIT

RHB Banking Group (the "Group") has an in-house internal audit function which is guided by its Internal Audit Charter, Bank Negara Malaysia ("BNM") Guidelines on Internal Audit Function of Licensed Institutions (BNM GL13-4) and the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. Group Internal Audit ("GIA")'s main function is to provide the Board with independent assurance that the Group's risk management, internal control and governance processes are operating adequately and effectively.

The Group Chief Internal Auditor ("Group CIA") reports functionally to the Board Audit Committee ("BAC") of RHB Banking Group (which undertakes the functions of the Audit Committee of the major operating entities within the Group, such as RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad). To further preserve the independence of the GIA function, the Group CIA's performance is appraised by the BAC.

INTERNAL AUDIT CHARTER

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

The Audit Charter is reviewed by the Group CIA every two years to assess whether the GIA's purpose, authority and responsibility, as defined in the Audit Charter, continue to be adequate and relevant to enable the audit function to accomplish its objectives. Following the recent review, the updated Audit Charter was approved by the respective Boards in October 2016.

AUDIT SCOPE AND COVERAGE

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

The 2016 audit plan for RHB Banking Group which includes the audit objectives and scope, and manpower requirements for each planned auditable unit as well as GIA's risk assessment methodology was reviewed and approved by the BAC in November 2015.

The key areas covered by GIA during the financial year 2016 include amongst others, the Branches, Credit Underwriting, Business Centres, Treasury Operations, Information Technology Security and Enterprise Applications, Shariah Business Compliance and Shariah Advisory, Investment Banking Business, Asset Management, Overseas Operations, etc.

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

In addition to the planned audits, the key tasks performed by GIA during the financial year are as follows:

- Investigations and special reviews as requested by the Senior Management, BAC, Board or regulators.
- Review of policies, procedures and processes as requested by Management to provide feedback on the adequacy of internal control systems.
- Participated in system or product development activities to provide recommendations upfront on the relevant control features to be considered by Management.

REPORTING AND MONITORING

Upon completion of the audits, all audit reports on the results of work undertaken together with the recommended mitigation plans and their implementation status are presented to the respective Management Audit Committees ("MACs"). The MACs are established at the key operating entities in the Group to ensure timely rectification of any audit findings and control lapses highlighted by the internal and external auditors, and regulators. The status of rectification of all audit findings are closely monitored by the MACs at every meeting.

The MACs comprising senior level representatives from different business/functional groups are chaired by the Group Chief Financial Officer/Managing Director/Chief Executive Officer of the entity concerned. The MACs meet on a monthly/bi-monthly basis and the minutes of meetings together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

INTERNAL AUDIT RESOURCES

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

As at 31 December 2016, GIA has 160 internal auditors, with 16 internal auditors under Investment Banking Group Audit. All the internal auditors have the relevant academic/professional qualifications and experience to carry out the activities of the internal audit function of RHB Investment Bank and its subsidiaries.

PROFESSIONAL PROFICIENCY

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

Based on each staff's Individual Development Plan for the year 2016, the internal auditors attended the relevant technical as well as leadership and management programmes offered by RHB Academy, the Group's Learning and Development Centre and external programmes. For the year 2016, the internal auditors attended a total of 1,054 days of training which translates to 6.5 days per auditor.

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

INTERNAL AUDIT QUALITY ASSURANCE REVIEW

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

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

In addition to the internal assessment, external quality assessment is conducted by a qualified independent reviewer covering a broad scope that includes conformance with the Definition of Internal Auditing, the Standards, and the Code of Ethics, and the internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and BNM guidelines. The external quality assessment is conducted once every three years and the appointment of independent reviewer is subjected to the Group's established procurement process and endorsed by the BAC.

The results as well as recommendations for improvement of both the internal and external assessments are tabled to the BAC for deliberation and guidance or direction, if necessary.

AWARDS AND RECOGNITIONS

RHB INVESTMENT BANK

1 **BURSA MALAYSIA BROKER AWARDS 2016**

- **Best Retail Derivatives Trading Participant**
  - 1st Runner Up
- **Best Remisier**
  - 2nd Runner Up (Wong Chong Kim)

2 **IFR ASIA AWARDS 2016**

- **Regional Award – Best Islamic Issue**

  Lebuhraya Duke Fasa 3's RM3.64 billion Sukuk Wakalah

3 **ALPHA SOUTHEAST ASIA 10TH ANNUAL BEST FINANCIAL INSTITUTION AWARDS IN SOUTHEAST ASIA**

- **Best Small to Mid Cap Corporate Finance House in Malaysia (2007-2016)**
  - RHB Investment Bank
- **Best Small to Mid Cap Corporate Finance House in Singapore (2007-2016)**
  - RHB Securities Singapore

4 **ALPHA SOUTHEAST ASIA 10TH ANNUAL BEST DEAL & SOLUTION AWARDS 2016**

RHB INVESTMENT BANK

- **Best Islamic Finance Sukuk of the Year in Southeast Asia**

  Sarawak Hidro's RM5.54 billion (USD1.33 billion) Sukuk Murabahah

- **Best Wakalah Deal of the Year in Southeast Asia**

  Lebuhraya Duke Fasa 3's RM3.64 billion (USD820 million) Sukuk Wakalah

- **Best Secondary Deal of the Year in Southeast Asia**

  Malaysia Building Society's RM2.90 billion Rights Issue

RHB SECURITIES SINGAPORE

- **Best Reverse Takeover M&A Deal of the Year in Southeast Asia**

  United Fiber System's SGD1.879 billion (USD1.446 billion) RTO of PT Golden Energy Mines Tbk

5 **THE ASSET TRIPLE A ISLAMIC FINANCE AWARDS 2016**

- **Best Equity Deal**

  Al-Salam Reit RM252.36 million IPO

- **Best Corporate Sukuk** – Highly commended

  MMC Corporation RM1.2 billion Murabaha sukuk (via tawarruq arrangement)

- **Best Project Finance Deal** – Highly commended

  West Coast Expressway RM4.74 billion financing facilities

- **Best Loan Syndication**

  SapuraKencana TMC US$2.1 billion equivalent syndicated Murabaha term financing facility

6 **RAM RATINGS 2016**

AWARD OF DISTINCTION

- **Lead Manager Award (Sukuk)** (by programme value)
  - 2nd place
- **Lead Manager Award** X (by programme value)
  - 2nd place
- **Lead Manager Award** (by number of issues)
  - Joint 2nd place
- **Lead Manager Award (Sukuk)** (by number of issues)
  - Joint 3rd place

7 **THE EDGE MALAYSIA'S BEST DEALS OF THE YEAR 2016**

- **Best Mergers & Acquisitions**

  Best Deal – Desmond Lim's acquisition of a 19.7% stake in WCT Holdings Bhd from Peter Taing Kim Hwa and Wong Sewe Wing for RM614.3 million

- **Best Privatisation**

  Best Deal – Kulim (M) Bhd's privatisation by JCorp Bhd

- **Best Initial Public Offering**

  Notable Mention – Initial public offering of 101 million shares of Salutica Bhd at RM0.80 per share

8 **THE ASSET BENCHMARK RESEARCH**

- **Top Bank in the Secondary Market (Corporate Bonds – Malaysia)**
  - RHB Investment Bank

- **Best Individuals in Research, Sales & Trading (Malaysia Ringgit Bonds – Sales)**
  - Louis Goh – Commended
  - Soh Chin Yong – Commended

9 **ASIAMONEY BROKERS POLL 2016**

- **Malaysia – individuals – top 3 rankings**

  #1 Best Economist – Lim Chee Sing

  #2 Best Strategist – Lim Chee Sing

  #2 Best Analyst (Materials) – Ng Sem Guan

  #2 Best Analyst (Real Estate) – Loong Kok Wen

  #3 Best Analyst (Diversified Financials) – Fiona Leong

  #3 Best Analyst (Semiconductors & Semiconductor Equipment) – Kong Heng Siong

  #3 Best Analyst (Software, Internet & Services) – Kong Heng Siong

- **Malaysia – firm level – top 3 rankings**

  #1 Best Strategist Team

  #1 Best Economist Team

  #1 Best Small Caps Team

  #2 Best Materials Team

  #2 Best Real Estate Team

  #3 Best Banks Team

  #3 Best Diversified Financials Team

  #3 Best Healthcare Team

  #3 Best Semiconductors & Semiconductor Equipment Team

  #3 Best Software, Internet & Services Team

  #3 Best Telecommunication Services Team

- **Singapore – individuals – top 3 rankings**

  #1 Best Analyst (Semiconductors & Semiconductor Equipment) – Jarick Seet

  #1 Best Analyst (Small Caps) – Jarick Seet

  #1 Best Analyst (Software, Internet & Services) – Jarick Seet

  #1 Best Analyst (Technology Hardware & Equipment) – Jarick Seet

  #1 Best Analyst (Utilities) – Juliana Cai

  #1 Best Analyst (Consumer Staples) – Juliana Cai

  #2 Best Analyst (Consumer Discretionary) – Juliana Cai

  #2 Best Analyst (Materials) – Juliana Cai

  #3 Best Analyst (Small Caps) – Juliana Cai

  #3 Best Analyst (Consumer Discretionary) – James Koh

  #3 Best Analyst (Consumer Staples) – James Koh

- **Singapore – firm level – top 3 rankings**

  #1 Best Consumer Discretionary Team

  #1 Best Consumer Staples Team

  #1 Best Materials Team

  #1 Best Semiconductors & Semiconductor Equipment Team

  #1 Best Software, Internet & Services Team

  #1 Best Technology Hardware & Equipment Team

  #1 Best Small Caps Team

  #1 Most Improved Research

  #2 Most Independent Research

  #2 Best Utilities Team

  #3 Best Healthcare Team

- **Indonesia – firm level – top 3 ranking**

  #2 Best Small Caps Team

RHB ASSET MANAGEMENT

10 **ASIA ASSET MANAGEMENT – BEST OF THE BEST AWARDS:**

- Malaysia: Most Innovative Product RHB Pre-IPO & Special Situation Fund III
- Singapore: Most Innovative Product RHB Pre-IPO & Special Situation Fund III
- Indonesia: Rising Star PT RHB Asset Management Indonesia

11 **THE EDGE-LIPPER FUND AWARDS 2016**

- RHB Islamic Bond-Bond Malaysian Ringgit (3, 5 & 10 years)
- RHB Emerging Opportunity – Equity Malaysia Diversified – Malaysia (3, 5 & 10 years)
- RHB Multi Asset Regular Income-Mixed Asset MYR Balanced – Global (3 years)
- RHB Smart Balanced – Mixed Asset MYR Balanced – Malaysia (3, 5 & 10 years)
- RHB Smart Income – Mixed Asset MYR Conservative – Malaysia (3, 5 & 10 years)
- RHB Growth and Income Focus – Mixed Asset MYR Flexible – Malaysia (5 & 10 years)

12 **2016 APRDI-BLOOMBERG INDONESIA FUND AWARDS:**

- RHB LQ45 Tracker Fund – Best Index Fund (3-year category)

13 **2015 EPF EXTERNAL PORTFOLIO MANAGERS ANNUAL DINNER AWARDS CEREMONY**

RHB ASSET MANAGEMENT

- Best Domestic Fixed Income Portfolio Manager Year 2015

14 **MORNINGSTAR AWARDS 2016 MALAYSIA**

- RHB Bond Fund (Best Malaysia Bond Fund)

STATUTORY FINANCIAL STATEMENTS

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In the course of preparing the annual audited financial statements of the Company, the Directors are collectively responsible in ensuring that the audited financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

It is the responsibility of the Directors to ensure that the annual audited financial statements of the Company present a true and fair view of the state of affairs of the Company as at 31 December 2016 and of the financial results and cash flows of the Company for the financial year ended 31 December 2016.

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

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Company 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 238 of the financial statements.

DIRECTORS' REPORT

The Directors submit herewith their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

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

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

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Net profit for the financial year attributable to:		
– Equity holder of the Bank	30,087	63,653
– Non-controlling interests	1,247	–
Net profit for the financial year	31,334	63,653

DIVIDENDS

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

The Directors do not propose any final dividend for the financial year ended 31 December 2016.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

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

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

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

SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

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

DIRECTORS

The Directors of the Bank in office since the date of the last report and at the date of this report are:

Tan Sri Azlan Zainol	(Appointed on 27 June 2016)
Chin Yoong Kheong	(Appointed on 1 August 2016)
Tan Sri Ong Leong Huat @ Wong Joo Hwa	
Patrick Chin Yoke Chung	
Yap Chee Meng	(Appointed on 1 August 2016)
Tan Sri Dr Rebecca Fatima Sta Maria	(Appointed on 6 December 2016)
Datuk Nozirah Bahari	(Appointed on 2 January 2017)
Dato' Abdul Rahman Ahmad	(Appointed on 1 March 2016 and resigned on 30 September 2016)
Abdul Aziz Peru Mohamed	(Resigned on 6 February 2016)
Dato' Mohamed Khadar Merican	(Resigned on 11 May 2016)
Lew Foon Keong	(Resigned on 11 May 2016)
Chan Cheong Yuen	(Resigned on 1 July 2016)
Tan Sri Saw Choo Boon	(Resigned on 1 August 2016)
Mohamed Ali Ismaeil Ali AlFahim	(Resigned on 1 August 2016)

Pursuant to Article 97 of the Bank's Articles of Association, Tan Sri Azlan Zainol, Mr. Yap Chee Meng, Mr. Chin Yoong Kheong, Tan Sri Dr Rebecca Fatima Sta Maria and Datuk Nozirah Bahari shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to the Guidelines on Tenure of Appointment/Re-Appointment of Non-Executive Directors for RHB Banking Group, Tan Sri Ong Leong Huat @ Wong Joo Hwa and Mr. Patrick Chin Yoke Chung shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

DIRECTORS' INTERESTS IN SECURITIES

According to the Register of Directors' Shareholdings, the Director in office at the end of the financial year holding securities of the Bank and its related corporations are as follows:

Holding Company RHB Bank Berhad	Number of ordinary shares of RM1.00 each				
	As at 1.1.2016	Distribution and Capital Repayment+	Bought	Sold	As at 31.12.2016
Tan Sri Ong Leong Huat @ Wong Joo Hwa					
– Indirect*	–	31,431	–	–	**31,431**
– Indirect#	–	406,171,518	–	–	**406,171,518**

Notes:

+ Arising from distribution of the entire shareholding of the former ultimate holding company, RHB Capital Berhad ('RHB Capital') in RHB Bank Berhad ('RHB Bank') by way of distribution-in-specie via a reduction of the entire share premium account of RHB Capital and the par value of all the existing ordinary shares of RM1.00 each in RHB Capital from RM1.00 to RM0.05 in accordance with Sections 60(2) and 64 of the Companies Act, 1965 as well as via RHB Capital's retained earnings.

* The interest is held through family members.

Deemed interest in RHB Bank pursuant to Section 6A of the Companies Act, 1965 by virtue of shares held through OSK Holdings Berhad ('OSK').

Prior to 13 June 2016, RHB Capital is still the ultimate holding company of the Bank. The interest of Tan Sri Ong Leong Huat @ Wong Joo Hwa in RHB Capital was as follows:-

Former Ultimate Holding Company RHB Capital Berhad	Number of ordinary shares of RM1.00 each			
	As at 1.1.2016	Bought	Sold	As at 12.6.2016^
Tan Sri Ong Leong Huat @ Wong Joo Hwa				
– Indirect*	24,100	–	–	**24,100**
– Indirect#	311,429,200	–	–	**311,429,200**

Notes:

^ RHB Capital is no longer the ultimate holding company of the Bank with effect from 13 June 2016 upon completion of the distribution of its entire shareholding in RHB Bank by way of distribution-in-specie via a reduction of the entire share premium account of RHB Capital and the par value of all the existing ordinary shares of RM1.00 each in RHB Capital from RM1.00 to RM0.05 in accordance with Sections 60(2) and 64 of the Companies Act, 1965 as well as via RHB Capital's retained earnings.

* The interest is held through family members.

Deemed interest in RHB Capital pursuant to Section 6A of the Companies Act, 1965 by virtue of shares held through OSK.

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

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 31 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

IMMEDIATE AND ULTIMATE HOLDING COMPANY

On 14 April 2016, RHB Bank Berhad, a wholly-owned subsidiary of RHB Capital Berhad, become the immediate holding company of the Bank pursuant to an internal reorganisation exercise.

On 13 June 2016, RHB Capital Berhad ceased to be the ultimate holding company of the Bank, upon completion of distribution and capital repayment. The transfer of listing status was completed upon the listing of RHB Bank Berhad's shares on the Main Market of Bursa Malaysia Securities on 28 June 2016 from RHB Capital Berhad to RHB Bank Berhad.

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 AZLAN ZAINOL
Chairman

CHIN YOONG KHEONG
Senior Independent Non-Executive Director

Kuala Lumpur
28 February 2017

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Cash and short-term funds	2	**1,064,383**	1,132,078	**478,126**	718,596
Deposits and placements with banks and other financial institutions	3	**359,018**	13,179	**350,065**	–
Financial assets at fair value through profit or loss ('FVTPL')	4	**612,105**	398,127	**54,854**	131,577
Financial investments available-for-sale ('AFS')	5	**1,856,676**	3,412,471	**1,833,518**	3,311,449
Financial investments held-to-maturity ('HTM')	6	**398,564**	590,461	**398,564**	590,461
Loans and advances	7	**1,792,172**	2,069,802	**1,121,163**	1,320,752
Clients' and brokers' balances	8	**2,090,784**	1,654,213	**790,399**	572,001
Other assets	9	**274,714**	227,579	**73,847**	127,533
Derivative assets	10	**7,325**	57,906	**7,202**	57,906
Statutory deposits	11	**85,144**	148,392	**80,700**	144,152
Tax recoverable		**61,528**	38,979	**58,393**	36,894
Deferred tax assets	12	**19,477**	30,601	**7,919**	21,063
Investments in subsidiaries	13	**–**	–	**1,504,725**	1,451,367
Investments in associates and joint ventures	14	**54,989**	20,899	**21,057**	21,057
Property, plant and equipment	15	**60,402**	67,478	**27,802**	31,347
Goodwill and other intangible assets	16	**1,320,892**	1,321,377	**1,145,504**	1,143,948
TOTAL ASSETS		**10,058,173**	11,183,542	**7,953,838**	9,680,103

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

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
LIABILITIES AND EQUITY					
Deposits from customers	17	**691,844**	1,082,009	**707,611**	1,095,657
Deposits and placements of banks and other financial institutions	18	**2,693,618**	3,671,153	**2,764,787**	3,721,848
Obligation on securities sold under repurchase agreements	19	**–**	170,568	**–**	170,568
Obligation on securities borrowed		**–**	12,202	**–**	12,202
Bills and acceptances payable		**180,931**	138,794	**–**	–
Clients' and brokers' balances	20	**1,740,563**	1,346,924	**682,073**	585,773
Other liabilities	21	**463,986**	503,094	**159,899**	340,443
Derivative liabilities	10	**37,197**	127,546	**36,425**	125,994
Puttable financial instruments		**68,706**	–	**–**	–
Tax liabilities		**11,583**	8,895	**–**	–
Deferred tax liabilities	12	**3,189**	3,728	**–**	–
Borrowings	22	**552,720**	457,784	**–**	–
Subordinated obligations	23	**447,595**	548,822	**447,595**	548,822
TOTAL LIABILITIES		**6,891,932**	8,071,519	**4,798,390**	6,601,307
Share capital	24	**818,646**	818,646	**818,646**	818,646
Reserves	25	**2,339,393**	2,285,613	**2,336,802**	2,260,150
		3,158,039	3,104,259	**3,155,448**	3,078,796
Non-controlling interests	26	**8,202**	7,764	**–**	–
TOTAL EQUITY		**3,166,241**	3,112,023	**3,155,448**	3,078,796
TOTAL LIABILITIES AND EQUITY		**10,058,173**	11,183,542	**7,953,838**	9,680,103
COMMITMENTS AND CONTINGENCIES	39	**2,663,862**	4,296,861	**1,133,863**	3,650,315

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

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income	27	**299,059**	379,097	**220,760**	303,317
Interest expense	28	**(167,387)**	(238,687)	**(151,014)**	(225,509)
Net interest income		**131,672**	140,410	**69,746**	77,808
Fee and commission income	29(a)	**745,004**	802,631	**268,083**	355,822
Fee and commission expenses	29(b)	**(140,712)**	(122,576)	**–**	–
Other operating income	29(c)	**163,329**	129,413	**116,765**	119,615
		899,293	949,878	**454,594**	553,245
Other operating expenses	30	**(747,246)**	(860,474)	**(336,128)**	(456,059)
Operating profit before allowances		**152,047**	89,404	**118,466**	97,186
Allowance for impairment on loans, advances and other losses	32	**(61,180)**	(13,842)	**(8,275)**	(7,184)
Impairment losses (made)/written back on other assets	33	**(18,420)**	39,103	**(16,420)**	(7,155)
		72,447	114,665	**93,771**	82,847
Share of results of associates		**319**	733	**–**	–
Share of results of joint ventures		**724**	300	**–**	–
Profit before taxation		**73,490**	115,698	**93,771**	82,847
Taxation	34	**(42,156)**	(43,188)	**(30,118)**	(29,348)
Net profit for the financial year		**31,334**	72,510	**63,653**	53,499
Attributable to:					
– Equity holder of the Bank		**30,087**	71,543	**63,653**	53,499
– Non-controlling interests		**1,247**	967	**–**	–
		31,334	72,510	**63,653**	53,499
Earnings per share (sen)					
– Basic/Diluted	35	**3.68**	8.74	**7.78**	6.54

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 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net profit for the financial year		**31,334**	72,510	**63,653**	53,499
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss					
– Actuarial (loss)/gain on defined benefit plan of subsidiaries		**(1,702)**	1,568	**–**	–
Items that will be reclassified subsequently to profit or loss					
– Currency translation differences		**44,027**	127,956	**–**	–
– Net investment hedge	10(i), (ii)	**(7,036)**	(46,699)	**–**	–
– Unrealised net (loss)/gain on revaluation of financial investments AFS		**(6,770)**	10,100	**17,968**	8,627
– Net transfer to income statements on disposal or impairment of financial investments AFS		**(868)**	1,149	**(868)**	205
Income tax relating to components of other comprehensive income	36	**(3,742)**	(2,381)	**(4,101)**	(2,048)
Other comprehensive income, net of tax, for the financial year		**23,909**	91,693	**12,999**	6,784
Total comprehensive income for the financial year		**55,243**	164,203	**76,652**	60,283
Total comprehensive income attributable to:					
– Equity holder of the Bank		**54,118**	162,880	**76,652**	60,283
– Non-controlling interests		**1,125**	1,323	**–**	–
		55,243	164,203	**76,652**	60,283

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 2016

Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	AFS reserves RM'000	Translation reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Total RM'000	Non-controlling interests RM'000	Total RM'000
		← Attributable to Equity Holder of the Bank →									
Balance as at 1 January 2016		818,646	1,515,150	433,545	12,258	116,128	22,615	185,917	3,104,259	7,764	3,112,023
Net profit for the financial year		–	–	–	–	–	–	30,087	30,087	1,247	31,334
Currency translation differences		–	–	–	120	43,778	–	–	43,898	129	44,027
Net Investment hedge	10(i), (ii)	–	–	–	–	(7,036)	–	–	(7,036)	–	(7,036)
Financial investments AFS:											
– Unrealised net loss on revaluation		–	–	–	(6,533)	–	–	–	(6,533)	(237)	(6,770)
– Net transfer to income statements on disposal or impairment		–	–	–	(868)	–	–	–	(868)	–	(868)
Actuarial loss on defined benefit plan of subsidiaries		–	–	–	–	–	–	(1,683)	(1,683)	(19)	(1,702)
Income tax relating to components of other comprehensive income	36	–	–	–	(4,101)	–	–	354	(3,747)	5	(3,742)
Other comprehensive (loss)/income, net of tax, for the financial year		–	–	–	(11,382)	36,742	–	(1,329)	24,031	(122)	23,909
Total comprehensive (loss)/income for the financial year		–	–	–	(11,382)	36,742	–	28,758	54,118	1,125	55,243
Transfer to statutory reserves	25(b)	–	–	16,176	–	–	–	(16,176)	–	–	–
Transfer from regulatory reserves	25(e)	–	–	–	–	–	(1,336)	1,336	–	–	–
Dividends paid to non-controlling interest		–	–	–	–	–	–	–	–	(337)	(337)
Disposal of a subsidiary		–	–	–	–	–	–	–	–	(688)	(688)
Dilution of interest in a subsidiary		–	–	–	–	–	–	(338)	(338)	338	–
Total transactions with owner		–	–	16,176	–	–	(1,336)	(15,178)	(338)	(687)	(1,025)
Balance as at 31 December 2016		818,646	1,515,150	449,721	876	152,870	21,279	199,497	3,158,039	8,202	3,166,241

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

Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	AFS reserves RM'000	Translation reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Total RM'000	Non-controlling interests RM'000	Total RM'000
		<------ Attributable to Equity Holder of the Bank							------>		
Balance as at 1 January 2015		818,646	1,515,150	406,545	3,308	34,972	–	172,467	2,951,088	6,784	2,957,872
Net profit for the financial year		–	–	–	–	–	–	71,543	71,543	967	72,510
Currency translation differences		–	–	–	(212)	127,855	–	–	127,643	313	127,956
Net investment hedge	10(i), (ii)	–	–	–	–	(46,699)	–	–	(46,699)	–	(46,699)
Financial investments AFS:											
– Unrealised net gain on revaluation		–	–	–	10,069	–	–	–	10,069	31	10,100
– Net transfer to income statements on disposal or impairment		–	–	–	1,141	–	–	–	1,141	8	1,149
Actuarial gain on defined benefit plan of subsidiaries		–	–	–	–	–	–	1,563	1,563	5	1,568
Income tax relating to components of other comprehensive income	36	–	–	–	(2,048)	–	–	(332)	(2,380)	(1)	(2,381)
Other comprehensive income, net of tax, for the financial year		–	–	–	8,950	81,156	–	1,231	91,337	356	91,693
Total comprehensive income for the financial year		–	–	–	8,950	81,156	–	72,774	162,880	1,323	164,203
Effect of predecessor accounting	47(d)	–	–	–	–	–	–	(9,730)	(9,730)	–	(9,730)
Transfer to statutory reserves	25(b)	–	–	27,000	–	–	–	(27,000)	–	–	–
Transfer to regulatory reserves	25(e)	–	–	–	–	–	22,615	(22,615)	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	(322)	(322)
Accretion of interest in a subsidiary		–	–	–	–	–	–	21	21	(21)	–
Total transactions with owner		–	–	27,000	–	–	22,615	(59,324)	(9,709)	(343)	(10,052)
Balance as at 31 December 2015		818,646	1,515,150	433,545	12,258	116,128	22,615	185,917	3,104,259	7,764	3,112,023

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 2016

			Non-distributable				Distributable	
Bank	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Statutory reserves RM'000**	**AFS reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
Balance as at 1 January 2016		**818,646**	**1,515,150**	**433,295**	**(5,149)**	**13,405**	**303,449**	**3,078,796**
Net profit for the financial year		**–**	**–**	**–**	**–**	**–**	**63,653**	**63,653**
Financial investments AFS:								
– Unrealised net gain on revaluation		**–**	**–**	**–**	**17,968**	**–**	**–**	**17,968**
– Net transfer to income statement on disposal or impairment		**–**	**–**	**–**	**(868)**	**–**	**–**	**(868)**
Income tax relating to components of other comprehensive income	36	**–**	**–**	**–**	**(4,101)**	**–**	**–**	**(4,101)**
Other comprehensive income, net of tax, for the financial year		**–**	**–**	**–**	**12,999**	**–**	**–**	**12,999**
Total comprehensive income for the financial year		**–**	**–**	**–**	**12,999**	**–**	**63,653**	**76,652**
Transfer to statutory reserves	25(b)	**–**	**–**	**15,913**	**–**	**–**	**(15,913)**	**–**
Transfer from regulatory reserves	25(e)	**–**	**–**	**–**	**–**	**(397)**	**397**	**–**
Total transactions with owner		**–**	**–**	**15,913**	**–**	**(397)**	**(15,516)**	**–**
Balance as at 31 December 2016		**818,646**	**1,515,150**	**449,208**	**7,850**	**13,008**	**351,586**	**3,155,448**

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

			Non-distributable				Distributable	
Bank	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Statutory reserves RM'000**	**AFS reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
Balance as at 1 January 2015		818,646	1,515,150	406,544	(11,933)	–	290,106	3,018,513
Net profit for the financial year		–	–	–	–	–	53,499	53,499
Financial investments AFS:								
– Unrealised net gain on revaluation		–	–	–	8,627	–	–	8,627
– Net transfer to income statement on disposal or impairment		–	–	–	205	–	–	205
Income tax relating to components of other comprehensive income	36	–	–	–	(2,048)	–	–	(2,048)
Other comprehensive income, net of tax, for the financial year		–	–	–	6,784	–	–	6,784
Total comprehensive income for the financial year		–	–	–	6,784	–	53,499	60,283
Transfer to statutory reserves	25(b)	–	–	26,751	–	–	(26,751)	–
Transfer to regulatory reserves	25(e)	–	–	–	–	13,405	(13,405)	–
Total transactions with owner		–	–	26,751	–	13,405	(40,156)	–
Balance as at 31 December 2015		818,646	1,515,150	433,295	(5,149)	13,405	303,449	3,078,796

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 2016

		Group	
	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**73,490**	115,698
Adjustments for:			
Allowance for impairment on loans, advances and other losses		**61,180**	14,206
Property, plant and equipment:			
– Depreciation		**23,929**	25,144
– Gain on disposal		**(113)**	(312)
– Written off		**2,162**	154
– Impairment write back for the year		**–**	(182)
Intangible assets			
– Amortisation		**13,179**	19,919
– Written off		**12**	2,287
– Impairment write back for the year		**–**	(2,283)
Impairment losses charge/(write back) on financial investments AFS and HTM		**5,920**	(44,472)
Interest income from financial assets at FVTPL, financial investments AFS and HTM		**(110,084)**	(176,211)
Net (gain)/loss from sale/redemption of financial assets at FVTPL, financial investments AFS and HTM		**(66,246)**	13,319
Net unrealised (gain)/loss on revaluation of financial instruments at FVTPL and derivatives		**(12,154)**	19,186
Net loss/(gain) from sale of derivatives		**23,759**	(35,434)
Gross dividend income from financial assets at FVTPL and financial investments AFS		**(10,685)**	(16,210)
Share of results of associates		**(319)**	(733)
Share of results of joint ventures		**(724)**	(300)
Gain on redemption of trust fund	49(b)	**(434)**	–
Subordinated obligations interest expenses		**22,233**	27,480
Unrealised foreign exchange loss/(gain)		**27,294**	(140,155)
Impairment losses on investments in an associate		**12,500**	–
Impairment losses of investments in a joint venture		–	7,834
Operating profit/(loss) before working capital changes		**64,899**	(171,065)
(Increase)/Decrease in operating assets:			
Deposits and placements with banks and other financial institutions		**(345,839)**	(5,054)
Financial assets at FVTPL		**(147,371)**	(113,332)
Loans and advances		**203,272**	218,376
Clients' and brokers' balances		**(445,715)**	(130,983)
Derivative assets		**50,581**	(26,438)
Other assets		**(49,549)**	240,685
Statutory deposits		**59,008**	75,685
		(675,613)	258,939

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

		Group	
	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)			
(Decrease)/Increase in operating liabilities:			
Deposits from customers		**(390,165)**	(1,596,511)
Deposits and placements of banks and other financial institutions		**(977,535)**	(296,643)
Obligation on securities sold under repurchase agreements		**(170,568)**	151,658
Obligation on securities borrowed		**(12,202)**	(101,579)
Bills and acceptances payable		**42,137**	1,085
Clients' and brokers' balances		**393,639**	136,083
Derivative liabilities		**(102,710)**	94,669
Other liabilities		**23,317**	86,414
		(1,194,087)	(1,524,824)
Cash used in operations		**(1,804,801)**	(1,436,950)
Net tax paid		**(55,300)**	(100,669)
Net cash used in operating activities		**(1,860,101)**	(1,537,619)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale of financial investments AFS and HTM		**1,723,483**	757,694
Interest income received from financial assets at FVTPL, financial investments AFS and HTM		**125,442**	181,246
Dividend income received from financial assets at FVTPL and financial investments AFS		**10,685**	16,210
Property, plant and equipment:			
– Purchase		**(18,391)**	(20,461)
– Proceeds from disposal		**347**	830
Purchase of software license		**(12,239)**	(15,342)
Dividend income received from an associate		**–**	4,606
Proceed from redemption of trust fund		**845**	–
Net cash inflow from acquisition of a subsidiary	47(d)	**–**	30,446
Net cash generated from investing activities		**1,830,172**	955,229

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 2016

	Note	Group 2016 RM'000	Group 2015 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of subordinated obligations		**–**	200,000
Redemption of subordinated obligations		**(100,000)**	(200,000)
Net drawdown of borrowings		**69,960**	218,571
Dividends paid to non-controlling interests		**(337)**	(322)
Subordinated obligations interest paid		**(23,460)**	(28,098)
Net cash (used in)/generated from financing activities		**(53,837)**	190,151
Net decrease in cash and cash equivalents		**(83,766)**	(392,239)
Effects of exchange rate differences		**16,071**	28,097
Cash and cash equivalents:			
– At the beginning of the financial year		**1,132,078**	1,496,220
– At the end of the financial year		**1,064,383**	1,132,078
Cash and cash equivalents comprise the following:			
Cash and short-term funds	2	**1,064,383**	1,132,078

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 2016

	Note	Bank 2016 RM'000	Bank 2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**93,771**	82,847
Adjustments for:			
Allowance for impairment on loans, advances and other losses		**8,275**	7,502
Property, plant and equipment:			
– Depreciation		**10,149**	11,908
– Gain on disposal		**(49)**	(233)
– Written off		**2,053**	3
Intangible assets			
– Amortisation		**8,182**	15,859
– Written off		**12**	–
Impairment losses made/(write back) on financial investments AFS and HTM		**5,920**	(44,726)
Impairment losses on investments in subsidiaries		**10,500**	52,547
Write back of impairment losses on investments in a joint venture		**–**	(666)
Interest income from financial assets at FVTPL, financial investments AFS and HTM		**(109,595)**	(173,028)
Net gain from sale/redemption of financial assets at FVTPL, financial investments AFS and HTM		**(18,959)**	(4,863)
Net unrealised loss on revaluation of financial assets at FVTPL and derivatives		**15,751**	1,978
Net (gain)/loss from sale of derivatives		**(17,836)**	4,971
Gross dividend income from financial assets at FVTPL and financial investments AFS		**(3,078)**	(568)
Gross dividend income from subsidiaries		**(340)**	(15,322)
Gross dividend income from an associate		**–**	(4,606)
Gain on redemption of trust fund	49(b)	**(1,880)**	–
Subordinated obligations interest expenses		**22,233**	27,480
Unrealised foreign exchange loss/(gain)		**29,272**	(140,863)
Operating profit/(loss) before working capital changes		**54,381**	(179,780)
(Increase)/Decrease in operating assets:			
Deposits and placements with banks and other financial institutions		**(350,065)**	–
Financial assets at FVTPL		**70,392**	(32,819)
Loans and advances		**196,547**	445,161
Clients' and brokers' balances		**(217,404)**	45,090
Derivative assets		**50,704**	(31,352)
Other assets		**47,459**	202,512
Statutory deposits		**63,452**	75,685
		(138,915)	704,277

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 2016

		Bank	
	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)			
(Decrease)/Increase in operating liabilities:			
Deposits from customers		**(388,046)**	(1,597,222)
Deposits and placements of banks and other financial institutions		**(964,097)**	(352,173)
Obligation on securities sold under repurchase agreements		**(170,568)**	170,568
Obligation on securities borrowed		**(12,202)**	(101,579)
Clients' and brokers' balances		**96,300**	1,988
Derivative liabilities		**(66,565)**	55,553
Other liabilities		**(180,544)**	90,995
		(1,685,722)	(1,731,870)
Cash used in operations		**(1,770,256)**	(1,207,373)
Net tax paid		**(42,574)**	(84,062)
Net cash used in operating activities		**(1,812,830)**	(1,291,435)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale of financial investments AFS and HTM		**1,640,749**	686,133
Interest income received from financial assets at FVTPL, financial investments AFS and HTM		**124,953**	178,618
Dividend income received from financial assets at FVTPL and financial investments AFS		**3,078**	568
Property, plant and equipment:			
– Purchase		**(8,657)**	(9,588)
– Proceeds from disposal		**49**	247
Purchase of software license		**(9,750)**	(11,670)
Dividend income received from subsidiaries		**340**	15,322
Dividend income received from an associate		**–**	4,606
Additional investment in subsidiaries		**(60,430)**	(61,797)
Proceed from redemption of trust fund	49(b)	**5,488**	–
Net cash generated from investing activities		**1,695,820**	802,439

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

		Bank	
	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of subordinated obligations		**–**	200,000
Redemption of subordinated obligations		**(100,000)**	(200,000)
Subordinated obligations interest paid		**(23,460)**	(28,098)
Net cash used in financing activities		**(123,460)**	(28,098)
Net decrease in cash and cash equivalents		**(240,470)**	(517,094)
Cash and cash equivalents:			
– At the beginning of the financial year		**718,596**	1,235,690
– At the end of the financial year		**478,126**	718,596
Cash and cash equivalents comprise the following:			
Cash and short-term funds	2	**478,126**	718,596

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 2016

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared in accordance with Malaysian Financial Reporting Standards (‘MFRS’), International Financial Reporting Standards (‘IFRS’) and the requirements of the Companies Act, 1965 in Malaysia.

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

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

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

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

The relevant new accounting standards and amendments to published standards and interpretations to existing accounting standards that are effective for the Group’s and the Bank’s financial year beginning on or after 1 January 2016 are as follows:

(i) Annual Improvements to MFRSs 2012 – 2014 Cycle

(ii) Amendment to MFRS 11 ‘Joint Arrangements’ – Accounting for Acquisition of Interests in Joint Operations

(iii) Amendments to MFRS 101 ‘Presentation of Financial Statements’ – Disclosure Initiative

(iv) Amendments to MFRS 116 ‘Property, Plant and Equipment’ and MFRS 138 ‘Intangible Assets’ – Clarification of Acceptable Methods of Depreciation and Amortisation

(v) Amendments to MFRS 127 ‘Separate Financial Statements’ – Equity Method

(vi) Amendments to MFRS 10, 12 & 128 ‘Consolidated Financial Statements’ and ‘Investments in Associates’ – Applying the Consolidation Exception

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(i) Amendments to MFRS 107 'Statements of Cash Flows' (effective from 1 January 2017). The amendments introduce additional disclosure which require an entity to evaluate changes in liabilities arising from financing activities, including cash flows and non-cash changes.

(ii) Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2017). The amendments clarify the requirements for recognising deferred tax assets on unrealised losses where an asset is measured at fair value and that fair value is below the asset's tax base.

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

The amendments shall be applied retrospectively.

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

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ('OCI'). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Key provisions of the new standard are as follows:

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

(vi) IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' effective for annual periods beginning on or after 1 January 2018. This Interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

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

- MFRS 1 "First-time Adoption of Malaysian Financial Reporting Standards" effective for annual periods beginning on or after 1 January 2018. The amendment deletes short-term exemptions covering transition provisions of MFRS 7, MFRS 10 and MFRS 119. Those reliefs provided were available for entities with reporting periods that had passed and therefore no longer applicable.
- MFRS 12 'Disclosures of Interests in Other Entities' effective for annual periods beginning on or after 1 January 2017. The amendment clarified that:
  - when an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale in accordance with MFRS 5, the entity is not required to disclose summarised financial information of these interests.
  - other disclosure requirements in MFRS 12 remain applicable.
- MFRS 128 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2018. The amendments allow:
  - venture capital organisations, mutual funds, unit trusts and similar entities to elect, on an individual basis, measuring their investments in associates and joint ventures at fair value through profit or loss.
  - an entity that is not an investment entity to retain the fair value measurement applied by its associates or joint ventures (that are investment entities) when applying equity method.

The adoption of the above accounting standards, amendments to published standards and interpretations are not expected to give rise to any material financial impact to the Group and the Bank except for enhanced disclosures. The Group and the Bank are in the process of reviewing the financial impact arising from the requirements of MFRS 9 to identify critical issues and to design robust methodologies arising from the adoption of this standard. The Group and the Bank expect this process to be completed prior to the respective effective dates.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) BASIS OF CONSOLIDATION

(a) Subsidiaries

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

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

(i) Acquisition accounting

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) BASIS OF CONSOLIDATION (CONTINUED)

(a) Subsidiaries (continued)

(ii) Predecessor accounting

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

The acquired entity's results, assets and liabilities are consolidated from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements reflect both entities' full years results. The corresponding amounts for the previous year are restated to reflect the combined results of both entities.

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

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

(c) Disposal of subsidiaries

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

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

(d) Joint ventures

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) BASIS OF CONSOLIDATION (CONTINUED)

(d) Joint ventures (continued)

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

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

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

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

(e) Associates

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

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3) INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In the Bank's separate financial statements, investment in subsidiaries, associates and joint ventures are stated at cost less accumulated impairment losses. At the end of each reporting period, the Group and the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Refer to accounting policy Section A(19) on impairment of non-financial assets.

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

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

4) FINANCIAL ASSETS

(a) Classification

The Group and the Bank classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were required. Management determines the classification at initial recognition.

(i) Financial assets at FVTPL

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

(ii) Loans and receivables

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

(iii) Financial investments AFS

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

(iv) Financial investments HTM

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) FINANCIAL ASSETS (CONTINUED)

(b) Recognition and initial measurement

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

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets 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 – gains and losses

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

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

Changes in the fair value of financial investments AFS are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Section A(17)) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit and 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 AFS are recognised separately in profit or loss. Interest on financial investments AFS calculated using the effective interest method is recognised in profit or loss. Dividend income on financial investments AFS is recognised in non-interest income in profit or loss when the Group's and the Bank's right to receive payments is established.

(d) De-recognition

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) FINANCIAL ASSETS (CONTINUED)

(e) Offsetting financial instruments

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

5) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group and the Bank designate certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge), or (3) net investment hedge. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(b) Cash flow hedge

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

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

When a hedging instrument expires or is sold, or 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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the profit or loss.

(c) Net investment hedge

Net investment hedge is a hedge against the exposure to exchange rate fluctuations on the net assets of the Group's foreign operations/subsidiaries.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in the foreign currency translation reserve in equity via other comprehensive income while any gain or loss relating to the ineffective portion is recognised directly in the profit or loss. On disposal of the foreign operations/subsidiaries, the cumulative value of any such gains or losses recognised in equity is transferred to the profit or loss.

(d) Derivatives that do not qualify for hedge accounting

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

6) GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group and the Bank have a definite useful life. At each date of the consolidated statement of financial positions, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired. Refer to accounting policy Section A(19) on impairment of non-financial assets.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6) GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill

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

Goodwill is stated at cost less accumulated impairment loss and is tested at least annually for impairment. Impairment loss on goodwill (inclusive of impairment losses recognised in a previous interim period) is not reversed. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold. Refer to accounting policy Section A(19) on impairment of non-financial assets.

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

(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 subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 5 to 10 years.

(c) Other intangible assets

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

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

Customer relationship	10 years
Brand	3-10 years

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Renovations	10% to 11%
Office equipment and furniture	20%
Computer equipment	10% to 33 1/3%
Motor vehicles	20%

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

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in 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 Section A(19) on impairment of non-financial assets.

8) FINANCIAL LIABILITIES

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8) FINANCIAL LIABILITIES (CONTINUED)

(b) Other financial liabilities measured at amortised cost

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

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, obligation on securities sold under repurchase agreements, obligation on securities borrowed, bills and acceptances payable, 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 term and short term borrowings from financial institutions and subordinated obligations.

9) LEASES – WHERE THE GROUP IS LESSEE

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

(a) Operating lease

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

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

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

(b) Finance lease

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10) LEASES – WHERE THE GROUP IS LESSOR

(a) Operating lease

When assets are leased out under an operating lease, the asset is included in the statements of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

(b) Finance lease

When assets are leased out under a finance lease, the present value of the lease payment is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the 'net investment' method so as to reflect a constant periodic rate of return.

11) PROVISIONS

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

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

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

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

12) FINANCIAL GUARANTEE CONTRACTS

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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’.

14) SHARE CAPITAL

(a) Classification

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

(b) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

(c) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, net of any related income tax benefit and the corresponding liability is recognised in the period in which the shareholders’ right to receive the dividends are established or the dividends are approved.

15) CASH AND CASH EQUIVALENTS

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16) REVENUE RECOGNITION

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

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

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

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

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

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17) IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

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

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

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

(i) Individual impairment allowance

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

(ii) Collective impairment allowance

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

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

(iii) Regulatory reserve

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(b) Assets classified as AFS

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

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

In the case of equity securities classified as AFS, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in 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 AFS are not reversed through the profit or loss.

18) EMPLOYEE BENEFITS

(a) Short-term employee benefits

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

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

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions to the national pension scheme, the Employees' Provident Fund. The Group's and the Bank's contributions to defined contribution plans are charged to the 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

19) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

The impairment loss is charged to 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 profit or loss.

20) CURRENT AND DEFERRED INCOME TAXES

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

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

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

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

Deferred tax is recognised on temporary differences arising on investment in subsidiaries 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, 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 other operating income.

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

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

(c) Group companies

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

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21) 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 financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, a proportionate share of such exchange differences is recognised in the profit or loss as part of the gain or loss on sale.

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

22) SEGMENT REPORTING

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

23) REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Group and the Bank have purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statements of financial position.

The difference between sale and repurchase price as well as purchase and resale price are amortised as interest income and interest expense respectively on an effective interest rate method.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

1) Allowance for impairment of financial assets

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

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

2) Goodwill impairment

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

3) Impairment of investments in subsidiaries, associates and joint ventures

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

Management has assessed the recoverable amount of the investments based on net assets of the subsidiaries and value in use calculations which approximates fair value as at year end. The impairment charge has been recognised due to the carrying amount of the investments in the separate financial statements exceeding the carrying amount of the subsidiaries' net assets in their financial statements and recoverable amounts. The impairment charge during the financial year is shown in Note 33 to the financial statements.

1 GENERAL INFORMATION

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

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

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

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

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

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Cash and balances with banks and other financial institutions	**958,343**	759,623	**465,804**	371,876
Money at call and deposit placements maturing within one month	**106,040**	372,455	**12,322**	346,720
	1,064,383	1,132,078	**478,126**	718,596

Included in the Group's and the Bank's cash and short term funds are accounts held in trust for remisiers amounting to RM60,060,000 (2015: RM62,824,000).

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Licensed banks	**359,018**	13,179	**350,065**	–

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

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Designated as FVTPL	(a)	**202,854**	170,315	**–**	–
Held-for-trading	(b)	**409,251**	227,812	**54,854**	131,577
		612,105	398,127	**54,854**	131,577

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

	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
At fair value				
Quoted securities:				
In Malaysia				
Unit trusts	**51,343**	51,583	**–**	–
Unquoted securities:				
Outside Malaysia				
Private equity funds	**151,511**	118,732	**–**	–
Total financial assets designated as FVTPL	**202,854**	170,315	**–**	–

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

	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
At fair value				
Quoted securities:				
In Malaysia				
Shares and exchange traded funds	**37,433**	91,389	**37,433**	91,389
Outside Malaysia				
Shares and warrants	**354,397**	96,544	**–**	5,057
Unquoted securities:				
In Malaysia				
Corporate bonds/Sukuk	**17,420**	35,131	**17,420**	35,131
Outside Malaysia				
Corporate bonds	**1**	4,748	**1**	–
Total financial assets held-for-trading	**409,251**	227,812	**54,854**	131,577

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

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

The effects of the reclassification on the income statements for the period from the date of reclassification to 31 December 2016 were as follows:

	Carrying amount		Fair value	
Group and Bank	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Reclassified from financial assets at FVTPL to financial investments AFS				
– Corporate bonds	**15,535**	30,188	**15,478**	30,146

	Group and Bank	
	2016 RM'000	**2015 RM'000**
Fair value loss that would have been recognised if the financial assets at FVTPL had not been reclassified	**(57)**	(42)

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

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At fair value				
Money market instruments:				
Malaysian Government Securities	**217,072**	381,992	**217,072**	381,992
Malaysian Government Investment Issues	**148,794**	415,958	**148,794**	415,958
Cagamas bonds	**–**	35,235	**–**	35,235
Khazanah bonds	**39,468**	51,701	**39,468**	51,701
Negotiable instruments of deposits	**–**	349,010	**–**	349,010
Bankers' acceptance	**–**	58,458	**–**	58,458
Sukuk Perumahan Kerajaan ('SPK')	**68,919**	67,040	**68,919**	67,040
Quoted securities:				
In Malaysia				
Shares	**41**	40	**8**	8
Unit trusts	**14,263**	14,753	**–**	–
Outside Malaysia				
Shares	**1,910**	1,595	**–**	–
Unit trusts	**43,539**	28,562	**39,392**	25,062
Unquoted securities:				
In Malaysia				
Corporate bonds/Sukuk	**927,587**	1,149,697	**927,587**	1,149,697
Shares	**32,341**	99,356	**29,831**	27,767
Loan stocks	**15,612**	14,997	**15,612**	14,997
Prasarana bonds	**25,242**	24,902	**25,242**	24,902
Outside Malaysia				
Corporate bonds	**413,303**	868,056	**413,303**	858,782
Shares	**296**	280	**–**	–
	1,948,387	3,561,632	**1,925,228**	3,460,609
Accumulated impairment losses	**(91,711)**	(149,161)	**(91,710)**	(149,160)
	1,856,676	3,412,471	**1,833,518**	3,311,449

Included in financial investments AFS of the Group and the Bank are corporate bonds outside Malaysia, which are pledged as collateral for obligations on securities sold under repurchase agreements amounted to RM NIL (2015: RM188,814,000).

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

Movement in allowance for impairment losses:

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance as at the beginning of the financial year		**149,161**	162,826	**149,160**	161,129
Allowance made	33	**8,726**	6,348	**8,726**	6,094
Amount written back	33	**(1,007)**	(18,063)	**(1,007)**	(18,063)
Allowance written off		**(65,169)**	(2,147)	**(65,169)**	–
Exchange differences		**–**	197	**–**	–
Balance as at the end of the financial year		**91,711**	149,161	**91,710**	149,160

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

	Group and Bank	
	2016 RM'000	2015 RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Securities	**20,295**	20,370
Malaysian Government Investment Issues	**245,678**	347,678
Khazanah bonds	**11,119**	10,691
Wakala Global Sukuk	**9,810**	9,153
Unquoted Securities:		
In Malaysia		
Corporate bonds/Sukuk	**142,673**	231,756
Credit link notes	**30,047**	30,044
Bonds	**23**	23
Loan stocks	**27,504**	28,433
Prasarana bonds	**20,231**	40,388
Outside Malaysia		
Corporate bonds	**–**	480
	507,380	719,016
Accumulated impairment losses	**(108,816)**	(128,555)
	398,564	590,461

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

Movement in allowance for impairment losses:

		Group and Bank	
	Note	2016 RM'000	2015 RM'000
Balance as at the beginning of the financial year		**128,555**	161,312
Allowance made	33	**1,228**	1,306
Amount written back	33	**(3,027)**	(34,063)
Amount written off		**(17,940)**	–
Balance as at the end of the financial year		**108,816**	128,555

7 LOANS AND ADVANCES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At amortised cost				
Term loans:				
– syndicated term loans	**27,359**	46,402	**27,359**	46,402
– other term loans	**131,448**	442,914	**58,859**	309,136
Share margin financing	**1,687,759**	1,594,074	**999,748**	933,471
Staff loans	**723**	963	**723**	963
Revolving credit	**–**	–	**44,892**	42,965
Gross loans and advances	**1,847,289**	2,084,353	**1,131,581**	1,332,937
Allowance for impaired loans and advances:				
– individual impairment allowance	**(54,887)**	(12,301)	**(9,966)**	(9,711)
– collective impairment allowance	**(230)**	(2,250)	**(452)**	(2,474)
Net loans and advances	**1,792,172**	2,069,802	**1,121,163**	1,320,752

7 LOANS AND ADVANCES (CONTINUED)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
i) By type of customer				
Domestic business enterprises:				
– Small medium enterprises	**211,413**	106,634	**211,413**	106,634
– Others	**175,238**	413,382	**175,238**	413,382
Individuals	**667,490**	663,770	**667,490**	663,770
Foreign entities:				
– Malaysian operations	**32,548**	106,186	**77,440**	149,151
– Singapore operations	**83,987**	222,501	**–**	–
– Hong Kong operations	**368,797**	358,550	**–**	–
– Indonesia operations	**52,511**	28,977	**–**	–
– Thailand operations	**255,305**	184,353	**–**	–
	1,847,289	2,084,353	**1,131,581**	1,332,937
ii) By geographical distribution				
In Malaysia	**1,086,689**	1,289,972	**1,131,581**	1,332,937
Outside Malaysia:				
– Singapore operations	**83,987**	222,501	**–**	–
– Hong Kong operations	**368,797**	358,550	**–**	–
– Indonesia operations	**52,511**	28,977	**–**	–
– Thailand operations	**255,305**	184,353	**–**	–
	1,847,289	2,084,353	**1,131,581**	1,332,937

7 LOANS AND ADVANCES (CONTINUED)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
iii) By interest rate sensitivity				
Fixed rate:				
– Other fixed rate loans	**1,192,689**	1,478,252	**1,056,191**	1,145,621
Variable rate:				
– Cost plus	**27,359**	110,805	**72,251**	153,770
– BLR/BFR plus	**627,241**	495,296	**3,139**	33,546
	1,847,289	2,084,353	**1,131,581**	1,332,937
iv) By purpose				
Purchase of securities	**1,779,291**	1,963,138	**1,018,691**	1,168,757
Purchase of transport vehicles	**53**	72	**53**	72
Purchase of landed property:				
– Residential	**672**	893	**672**	893
– Non-residential	**39,914**	53,842	**39,914**	53,842
Construction	**–**	12,053	**–**	12,053
Working capital	**–**	–	**44,892**	42,965
Other purposes	**27,359**	54,355	**27,359**	54,355
	1,847,289	2,084,353	**1,131,581**	1,332,937
v) By remaining contractual maturities				
Maturity within one year	**1,803,401**	1,956,766	**1,087,693**	1,205,350
One year to three years	**281**	76,517	**281**	76,517
Three years to five years	**43,177**	50,503	**43,177**	50,503
Over five years	**430**	567	**430**	567
	1,847,289	2,084,353	**1,131,581**	1,332,937

7 LOANS AND ADVANCES (CONTINUED)

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
vi) Impaired loans and advances				
a) Movement in impaired loans and advances				
Balance as at the beginning of the financial year	**118,142**	162,785	**115,552**	160,151
Classified as impaired	**179,672**	70,883	**111,203**	68,676
Reclassified as non-impaired	**–**	(15,072)	**–**	(15,072)
Amount recovered	**(168,952)**	(98,847)	**(166,029)**	(98,203)
Amount written off	**(5,252)**	(2,017)	**(4,923)**	–
Exchange differences	**5,556**	410	**–**	–
Balance as at the end of the financial year	**129,166**	118,142	**55,803**	115,552
b) By purpose				
Purchase of securities	**89,252**	32,241	**15,889**	29,651
Purchase of landed property:				
– Non-residential	**39,914**	53,842	**39,914**	53,842
Construction	**–**	12,053	**–**	12,053
Other purposes	**–**	20,006	**–**	20,006
	129,166	118,142	**55,803**	115,552
c) By geographical distribution				
In Malaysia	**55,803**	115,552	**55,803**	115,552
Outside Malaysia:				
– Singapore	**356**	681	**–**	–
– Hong Kong	**73,007**	1,909	**–**	–
	129,166	118,142	**55,803**	115,552

7 LOANS AND ADVANCES (CONTINUED)

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
vi) Impaired loans and advances (continued)					
d) Movement in allowance for impaired loans and advances					
Individual impairment allowance					
Balance as at the beginning of the financial year		**12,301**	7,557	**9,711**	4,924
Net allowance made	32	**47,904**	6,351	**5,178**	4,787
Amount written off		**(5,252)**	(2,017)	**(4,923)**	–
Exchange differences		**(66)**	410	**–**	–
Balance as at the end of the financial year		**54,887**	12,301	**9,966**	9,711
Collective impairment allowance					
Balance as at the beginning of the financial year		**2,250**	10,888	**2,474**	10,888
Net allowance written back	32	**(2,020)**	(8,638)	**(2,022)**	(8,414)
Balance as at the end of the financial year		**230**	2,250	**452**	2,474

8 CLIENTS' AND BROKERS' BALANCES

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Amounts owing by clients	**1,055,739**	806,829	**552,160**	363,591
Allowance for impaired balances:				
– individual impairment allowance	**(16,568)**	(16,480)	**(7,924)**	(6,332)
– collective impairment allowance	**(16,608)**	(6,654)	**(47)**	(2,409)
	1,022,563	783,695	**544,189**	354,850
Amounts owing by brokers	**679,891**	495,821	**107,672**	95,547
Allowance for impaired balances:				
– individual impairment allowance	**–**	(1,297)	**–**	(1,297)
	679,891	494,524	**107,672**	94,250
Amounts owing by clearing houses and stock exchanges	**388,330**	375,994	**138,538**	122,901
	2,090,784	1,654,213	**790,399**	572,001
Individual impairment allowance				
Balance as at the beginning of the financial year	**17,777**	36,814	**7,629**	7,827
Net allowance (written back)/made	**(301)**	4,941	**1,368**	1,783
Amount written off	**(1,073)**	(26,743)	**(1,073)**	(1,981)
Exchange differences	**165**	2,765	**–**	–
Balance as at the end of the financial year	**16,568**	17,777	**7,924**	7,629
Collective impairment allowance				
Balance as at the beginning of the financial year	**6,654**	6,142	**2,409**	4,700
Net allowance made/(written back)	**9,445**	127	**(2,362)**	(2,291)
Exchange differences	**509**	385	**–**	–
Balance as at the end of the financial year	**16,608**	6,654	**47**	2,409

9 OTHER ASSETS

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other receivables	(i)	**67,668**	54,790	**37,950**	25,795
Unit trust fee receivables		**14,804**	11,987	**–**	–
Management fee receivables		**10,831**	5,090	**–**	–
Cash collateral in relation to derivative transactions		**8,532**	72,757	**8,532**	72,757
Deposits		**41,943**	40,221	**6,511**	7,032
Prepayments		**19,302**	21,033	**4,812**	5,102
Amount receivable for release of units from funds		**99,785**	6,311	**–**	–
Amount due from reverse repo transactions		**–**	12,508	**–**	12,508
Transferable memberships		**349**	346	**262**	262
Amount due from former holding company	(ii)	**–**	1	**–**	–
Amount due from holding company	(ii)	**11,075**	–	**11,075**	–
Amount due from subsidiaries	(ii)	**–**	–	**4,636**	3,256
Amount due from related companies	(ii)	**425**	2,535	**69**	821
		274,714	227,579	**73,847**	127,533

(i) Other receivables of the Group and the Bank are stated net of allowance for impairment losses of RM17,029,000 (2015: RM17,129,000) and RM15,745,000 (2015: RM14,179,000) respectively. During the current financial year, there was written off against allowance for impairment losses of the Group and the Bank of RM7,827,000 (2015: RM NIL) and RM5,644,000 (2015: RM NIL) respectively.

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

10 DERIVATIVE ASSETS/(LIABILITIES)

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

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

10 DERIVATIVE ASSET/(LIABILITIES) (CONTINUED)

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Derivative assets				
– trading derivatives	**7,325**	57,906	**7,202**	57,906
Derivative liabilities				
– trading derivatives	**(37,197)**	(127,546)	**(36,425)**	(125,994)
	(29,872)	(69,640)	**(29,223)**	(68,088)

	Group		
2016	**Contract or underlying principal amount RM'000**	**Year-end positive fair value RM'000**	**Year-end negative fair value RM'000**
Trading derivatives			
Foreign exchange related contracts:			
– forwards/swaps	**209,077**	**2,876**	**22,184**
– options	**280,096**	**3,697**	**2,910**
	489,173		
Equity related contracts:			
– options	**14,368**	**123**	**23**
Interest rate related contracts:			
– swaps	**230,000**	**629**	**263**
Structured warrants	**52,380**	**–**	**11,817**
	785,921	**7,325**	**37,197**

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Bank		
2016	**Contract or underlying principal amount RM'000**	**Year-end positive fair value RM'000**	**Year-end negative fair value RM'000**
Trading derivatives			
Foreign exchange related contracts:			
– forwards/swaps	**209,077**	**2,876**	**22,184**
– options	**280,096**	**3,697**	**2,910**
	489,173		
Equity related contracts:			
– options	**9,771**	**–**	**23**
Interest rate related contracts:			
– swaps	**230,000**	**629**	**263**
Structured warrants	**38,772**	**–**	**11,045**
	767,716	**7,202**	**36,425**

	Group		
2015	**Contract or underlying principal amount RM'000**	**Year-end positive fair value RM'000**	**Year-end negative fair value RM'000**
Trading derivatives			
Foreign exchange related contracts:			
– forwards/swaps	852,776	50,526	93,901
– options	673,763	5,162	1,671
	1,526,539		
Equity related contracts:			
– options	303	–	8
– future	12	1	–
	315		
Interest rate related contracts:			
– swaps	1,090,000	2,217	1,928
Structured warrants	87,608	–	30,038
	2,704,462	57,906	127,546

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Bank		
2015	**Contract or underlying principal amount RM'000**	**Year-end positive fair value RM'000**	**Year-end negative fair value RM'000**
Trading derivatives			
Foreign exchange related contracts:			
– forwards/swaps	852,776	50,526	93,901
– options	673,763	5,162	1,671
	1,526,539		
Equity related contracts:			
– options	303	–	8
– future	12	1	–
	315		
Interest rate related contracts:			
– swaps	1,090,000	2,217	1,928
Structured warrants	48,621	–	28,486
	2,665,475	57,906	125,994

(i) Fair value hedges

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

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

	Bank	
	2016 RM'000	**2015 RM'000**
Loss on hedging instruments*	**(7,036)**	(46,699)
Gain on the hedged items attributable to the hedged risk	**7,036**	46,699
	–	–

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

(ii) Net investment hedge

The Group's statements of financial position is affected by gains and losses as a result of the revaluation of net assets of its subsidiary companies denominated in currencies other than its functional currency. The Group hedges its exposures to foreign exchange risk via the designation of foreign currency denominated interbank borrowings and the fair value as at 31 December 2016 amounting to RM278,678,000 (2015: RM267,631,000). The hedging relationship was fully effective for the total hedging period and as of the reporting date. No amounts were withdrawn from equity during the financial year as there was no disposal of foreign operations.

11 STATUTORY DEPOSITS

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Statutory deposits with BNM	(i)	**80,700**	144,152	**80,700**	144,152
Statutory deposits with National Bank of Cambodia ('NBC')	(ii)	**4,444**	4,240	**–**	–
		85,144	148,392	**80,700**	144,152

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

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

12 DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Deferred tax assets	**19,477**	30,601	**7,919**	21,063
Deferred tax liabilities	**(3,189)**	(3,728)	**–**	–
	16,288	26,873	**7,919**	21,063
Deferred tax assets				
– settled more than 12 months	**8,043**	3,908	**–**	1,356
– settled within 12 months	**22,931**	34,649	**15,592**	25,125
Deferred tax liabilities				
– settled more than 12 months	**(7,814)**	(6,241)	**(4,476)**	(1,456)
– settled within 12 months	**(6,872)**	(5,443)	**(3,197)**	(3,962)
	16,288	26,873	**7,919**	21,063

12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

Group	Note	Property, plant and equipment and other intangible assets RM'000	Financial investments AFS RM'000	Tax losses RM'000	Other liabilities RM'000	Other temporary differences RM'000	Total
2016							
Balance as at the beginning of the financial year		**(9,886)**	**731**	**3,439**	**30,072**	**2,517**	**26,873**
Transfer from/(to) income statements	34	**511**	**531**	**3,008**	**(10,662)**	**(105)**	**(6,717)**
Transfer (to)/from equity	36	**–**	**(4,101)**	**–**	**359**	**–**	**(3,742)**
Exchange difference		**(5)**	**–**	**281**	**(402)**	**–**	**(126)**
Balance as at the end of the financial year		**(9,380)**	**(2,839)**	**6,728**	**19,367**	**2,412**	**16,288**
2015							
Balance as at the beginning of the financial year		(14,168)	2,962	–	34,863	864	24,521
Transfer from/(to) income statements	34	4,445	(138)	3,217	(4,926)	1,794	4,392
Transfer to equity	36	–	(2,048)	–	–	(333)	(2,381)
Exchange difference		(163)	(45)	222	135	192	341
Balance as at the end of the financial year		(9,886)	731	3,439	30,072	2,517	26,873

12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

Bank	Note	Property, plant and equipment and other intangible assets RM'000	Financial investments AFS RM'000	Other liabilities RM'000	Total
2016					
Balance as at the beginning of the financial year		**(5,418)**	**1,696**	**24,785**	**21,063**
Transfer from/(to) income statements	34	**151**	**–**	**(9,194)**	**(9,043)**
Transfer to equity	36	**–**	**(4,101)**	**–**	**(4,101)**
Balance as at the end of the financial year		**(5,267)**	**(2,405)**	**15,591**	**7,919**
2015					
Balance as at the beginning of the financial year		(9,139)	3,744	29,286	23,891
Transfer from/(to) income statements	34	3,721	–	(4,501)	(780)
Transfer to equity	36	–	(2,048)	–	(2,048)
Balance as at the end of the financial year		(5,418)	1,696	24,785	21,063

13 INVESTMENTS IN SUBSIDIARIES

	Note	Bank 2016 RM'000	Bank 2015 RM'000
Unquoted shares, at cost			
– in Malaysia		**307,202**	307,202
– outside Malaysia		**1,349,737**	1,297,107
		1,656,939	1,604,309
Fair value changes arising from fair value hedges	10(i)	**53,735**	46,699
		1,710,674	1,651,008
Accumulated impairment losses		**(205,949)**	(199,641)
		1,504,725	1,451,367

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows:

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2016 %	2015 %	Effective equity interest held by the non-controlling interest 2016 %	2015 %	Principal activities
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	10,000	**100**	100	**–**	–	Nominee services for foreign beneficial shareholders
RHB Nominees Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services for foreign beneficial shareholders
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	**100**	100	**–**	–	Nominee and custodian services for Malaysian beneficial shareholders
RHB Asset Management Sdn Bhd	Malaysia	10,000,000	**100**	100	**–**	–	Rendering of investment management services, management of unit trust funds and private retirement schemes and provision of investment advisory services
RHB Islamic International Asset Management Berhad	Malaysia	13,000,000	**100**	100	**–**	–	Rendering of Islamic fund management services and management of Islamic unit trust funds
RHB Research Institute Sdn Bhd	Malaysia	500,000	**100**	100	**–**	–	Providing research services relating to corporate and maintaining data pertaining to public quoted institutions, equities, bonds and all other forms of financial instruments
RHB Private Equity Holdings Sdn Bhd	Malaysia	55,000,002	**100**	100	**–**	–	Investment holding, investment management and other ancillary services for private equity business

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2016 %	Effective equity interest held by the Group 2015 %	Effective equity interest held by the non-controlling interest 2016 %	Effective equity interest held by the non-controlling interest 2015 %	Principal activities
RHB Private Equity Management Ltd	Malaysia	USD1	**100**	100	**–**	–	Investment advisor, investment consultant and other ancillary services only for private funds
RHB Private Equity Fund Ltd [3]	Cayman Islands	USD10,001	**100**	100	**–**	–	Investment company
RHB International Investments Pte Ltd [1]	Singapore	SGD12,000,000	**100**	100	**–**	–	Investment holding
RHB Asset Management Pte Ltd [1]	Singapore	SGD12,100,000	**100**	100	**–**	–	Fund management
RHB Hong Kong Limited [2]	Hong Kong	HKD300,000,000	**100**	100	**–**	–	Investment holding
RHB Securities Hong Kong Limited [2]	Hong Kong	HKD340,000,000	**100**	100	**–**	–	Securities dealing and provision of securities margin financing and advising on securities
RHB Nominees Hong Kong Limited [2,6]	Hong Kong	–	**–**	100	**–**	–	Dissolved
RHB Futures Hong Kong Limited [2]	Hong Kong	HKD35,000,000	**100**	100	**–**	–	Dealing in futures and options contracts
RHB Finance Hong Kong Limited [2]	Hong Kong	HKD1	**100**	100	**–**	–	Money lending
RHB Capital Hong Kong Limited [2]	Hong Kong	HKD10,000,000	**100**	100	**–**	–	Provision of corporate finance advisory services and to engage in securities dealing activities incidental to its corporate finance advisory activities
RHB Fundamental Capital Hong Kong Limited [2]	Hong Kong	HKD10,000,000	**100**	100	**–**	–	Investment activities

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest held by the Group		Effective equity interest held by the non-controlling interest		Principal activities
			2016 %	2015 %	2016 %	2015 %	
RHB Asset Management Limited [2]	Hong Kong	HKD17,000,000	**100**	100	**–**	–	Dealing in securities, advising on securities and provision of asset management services
RHB Wealth Management Hong Kong Limited [2]	Hong Kong	HKD5,000,000	**100**	100	**–**	–	Negotiating or arranging contracts of insurance in or from Hong Kong as the agent of the policy holder or potential policy holder or advising on matters related to insurance
RHB (China) Investment Advisory Co Ltd [2]	People's Republic of China	USD2,000,000	**100**	100	**–**	–	Consulting for investment, business advisory and related services
PT RHB Securities Indonesia [1]	Indonesia	IDR204,082 million	**99**	99	**1**	1	Securities brokerage and underwriting
PT RHB Asset Management Indonesia [1]	Indonesia	IDR50,000 million	**98.62**	98.62	**1.38**	1.38	Investment manager
RHB Securities Singapore Pte. Ltd. [1]	Singapore	SGD75,000,000	**100**	100	**–**	–	Provision of stock and share broking services and corporate finance advisory services
RHB Nominees Singapore Pte. Ltd. [1]	Singapore	SGD2	**100**	100	**–**	–	Inactive
Summit Nominees Pte. Ltd. [1]	Singapore	SGD2,000	**100**	100	**–**	–	Inactive
RHB Research Institute Singapore Pte. Ltd. [1]	Singapore	SGD175,000	**100**	100	**–**	–	Financial advisory services
RHB Securities (Thailand) Public Company Limited [1]	Thailand	THB819,171,600	**99.95**	99.95	**0.05**	0.05	Provision of stock and derivatives broking services

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest held by the Group		Effective equity interest held by the non-controlling interest		Principal activities
			2016 %	2015 %	2016 %	2015 %	
RHB Resources Fund [1,8,^]	Hong Kong	–	**–**	94.3	**–**	5.7	Invest in equity and equity related securities of entities operating in substantially related to natural resources industries
RHB Indochina Securities Plc. [1] *(formerly known as RHB OSK Indochina Securities Limited)*	Cambodia	USD12,500,000	**100**	100	**–**	–	Securities underwriting, dealing, brokerage and investment advisory service
RHB Entrepreneur Fund [1,7,^]	Singapore	–	**49.09**	–	**50.91**	–	Invest in securities of companies that possess entrepreneurial characteristics as determined by the Manager
RHB Trustees Berhad	Malaysia	6,000,000	**80**	80	**20**	20	Professional retail trustee services (will writing, estate planning and private trustees) and corporate trustees services (collective investment schemes)
Malaysian Trustees Berhad	Malaysia	550,000	**80**	80	**20**	20	Engage in the business of trustee agents, executors and administrators pursuant to the Trust Companies Act, 1949

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest held by the Group 2016 %	Effective equity interest held by the Group 2015 %	Effective equity interest held by the non-controlling interest 2016 %	Effective equity interest held by the non-controlling interest 2015 %	Principal activities
Dormant subsidiaries							
RHB Excel Sdn Bhd [5]	Malaysia	200,000,000	**100**	100	**–**	–	Dormant
RHB Progressive Sdn Bhd [5]	Malaysia	13,500,000	**100**	100	**–**	–	Dormant
RHB Marketing Services Sdn Bhd [4]	Malaysia	100,000	**100**	100	**–**	–	Dormant
RHB Unit Trust Management Berhad [5]	Malaysia	5,000,000	**100**	100	**–**	–	Dormant
RHB Futures and Options Sdn Bhd *(formerly known as OSK Futures and Options Sdn Bhd)*	Malaysia	10,000,000	**100**	100	**–**	–	Dormant
RHB Research Sdn Bhd [9] *(formerly known as OSK Research Sdn Bhd)*	Malaysia	500,000	**100**	100	**–**	–	Dormant
RHB International Asset Management Sdn Bhd *(formerly known as RHB OSK International Asset Management Sdn Bhd)*	Malaysia	7,000,000	**100**	100	**–**	–	Dormant
RHBIB Nominees (Tempatan) Sdn Bhd [9] *(formerly known as OSK Nominees (Tempatan) Sdn Berhad)*	Malaysia	3,670,000	**100**	100	**–**	–	Dormant
RHBIB Nominees (Asing) Sdn Bhd [9] *(formerly known as OSK Nominees (Asing) Sdn Berhad)*	Malaysia	2,670,000	**100**	100	**–**	–	Dormant
RHB Islamic Asset Management Sdn Bhd	Malaysia	4,000,000	**100**	100	**–**	–	Dormant
TCL Nominees (Tempatan) Sdn Bhd [9]	Malaysia	644,000	**100**	100	**–**	–	Dormant

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest held by the Group		Effective equity interest held by the non-controlling interest		Principal activities
			2016 %	2015 %	2016 %	2015 %	
Dormant subsidiaries (continued)							
TCL Nominees (Asing) Sdn Bhd [9]	Malaysia	4,000	**100**	100	**–**	–	Dormant
KE-ZAN Nominees (Tempatan) Sdn Bhd [9]	Malaysia	650,000	**100**	100	**–**	–	Dormant
KE-ZAN Nominees (Asing) Sdn Bhd [9]	Malaysia	10,000	**100**	100	**–**	–	Dormant
RHBIM Berhad *(formerly known as OSK Investment Management Berhad)*	Malaysia	10,000,000	**100**	100	**–**	–	Dormant

Notes:

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

2 Subsidiaries audited by a firm other than member firms of PricewaterhouseCoopers International Limited.

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

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

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

6 The company has been dissolved upon its deregistration on 25 November 2016 pursuant to Section 751(3) of the Hong Kong Companies Ordinance, Chapter 622.

7 As set out in Note 49(a) to the financial statements, the Bank has acquired effective control in the Fund via capital injection amounting to SGD5,000,000 (equivalent to RM15,325,000) on 22 January 2016 and additional capital injection of SGD15,000,000 (equivalent to RM45,105,000) on 15 March 2016. The Group is deemed to have de facto control of the Fund even though it has less than 50% of the voting rights.

8 As set out in Note 49(b) to the financial statements, the fund was terminated on 12 August 2016 and was fully redeemed during the financial year.

9 The companies have obtained the respective Board of Directors' approval for commencement of member's voluntary winding up.

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

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Share of net assets of associates	(a)	**40,603**	7,785	**5,028**	5,028
Less: Allowance for impairment loss		**(2,650)**	(2,650)	**–**	–
		37,953	5,135	**5,028**	5,028
Share of net assets of joint ventures	(b)	**30,806**	29,534	**27,399**	27,399
Less: Allowance for impairment loss		**(13,770)**	(13,770)	**(11,370)**	(11,370)
		17,036	15,764	**16,029**	16,029
		54,989	20,899	**21,057**	21,057

(a) Share of net assets of associates

The details of the associates are as follows:

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest 2016 %	Effective equity interest 2015 %	Principal activities
RHB Finexasia.Com Sdn Bhd ('Finexasia')	Malaysia	11,361,111	**40.05**	40.05	Investment holding, development of products and provision of services related to IT
Prostar Capital (Asia-Pacific) Ltd. [1] ('Prostar')	Cayman Islands	USD60	**33.33**	33.33	Investment holding with subsidiaries involved in investment advisory and management of private equity funds
Satin Straits Sdn Bhd [2] ('Satin Straits')	Malaysia	5,000,000	**–**	–	Investment holding

Notes:

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

As the Group's share of cumulative losses of RM2,774,000 (2015: RM1,584000) as at 31 December 2016 has exceeded its interest in Prostar, the Group does not recognise further losses in its financial statements.

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

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

There are no capital commitments or contingent liabilities relating to the Group's interest in the associates as at 31 December 2016.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

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

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

(i) Summarised statements of financial position

	Finexasia		Prostar		Satin Straits		Total	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets								
Cash and cash equivalents	**13,590**	13,132	**287**	331	**53**	–	**13,930**	13,463
Other current assets	**440**	213	**80**	28	**13,774**	–	**14,294**	241
Non current assets	**–**	–	**–**	–	**50,585**	–	**50,585**	–
Total assets	**14,030**	13,345	**367**	359	**64,412**	–	**78,809**	13,704
Liabilities								
Financial liabilities	**(35)**	(97)	**(8,689)**	(5,110)	**(20,225)**	–	**(28,949)**	(5,207)
Other current liabilities	**(379)**	(427)	**–**	–	**(12,807)**	–	**(13,186)**	(427)
Total liabilities	**(414)**	(524)	**(8,689)**	(5,110)	**(33,032)**	–	**(42,135)**	(5,634)
Net Assets/(Liabilities)	**13,616**	12,821	**(8,322)**	(4,751)	**31,380**	–	**36,674**	8,070

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

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

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

(ii) Summarised statements of comprehensive income

	Finexasia		Prostar		Satin Straits		Total	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income	380	551	–	–	–	–	380	551
Interest expense	–	–	–	–	–	–	–	–
Net interest income	380	551	–	–	–	–	380	551
Other operating income	2,633	4,598	10,752	13,107	4,838	–	18,223	17,705
Net operating income	3,013	5,149	10,752	13,107	4,838	–	18,603	18,256
Other operating expenses	(1,953)	(2,677)	(13,855)	(17,426)	(5,958)	–	(21,766)	(20,103)
Including:								
Depreciation and amortisation	(12)	(43)	–	–	(368)	–	(380)	(43)
Profit/(Loss) before taxation	1,060	2,472	(3,103)	(4,319)	(1,120)	–	(3,163)	(1,847)
Taxation	(265)	(640)	–	–	–	–	(265)	(640)
Net profit/(loss) for the financial year	795	1,832	(3,103)	(4,319)	(1,120)	–	(3,428)	(2,487)

14 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

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

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

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

	Finexasia		Prostar		Satin Straits		Total	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Balance as at the beginning of the financial year	**12,821**	22,489	**(4,751)**	–	**–**	–	**8,070**	22,489
Acquisition during the fiancial year	**–**	–	**–**	–	**32,500**	–	**32,500**	–
Net profit/(loss) for the financial year	**795**	1,832	**(3,103)**	(4,319)	**(1,120)**	–	**(3,428)**	(2,487)
Dividend paid	**–**	(11,500)	**–**	–	**–**	–	**–**	(11,500)
Translation reserves	**–**	–	**(468)**	(432)	**–**	–	**(468)**	(432)
Balance as at the end of the financial year	**13,616**	12,821	**(8,322)**	(4,751)	**31,380**	–	**36,674**	8,070
Equity interest attributable to net assets	**5,453**	5,135	**–***	–*	**32,500#**	–	**37,953**	5,135
Goodwill	**2,650**	2,650	**–**	–	**–**	–	**2,650**	2,650
Accumulated impairment loss	**(2,650)**	(2,650)	**–**	–	**–**	–	**(2,650)**	(2,650)
Carrying value	**5,453**	5,135	**–**	–	**32,500**	–	**37,953**	5,135

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

14 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Share of net assets of joint ventures

The details of the joint ventures are as follows:

Name of company	Country of incorporation	Paid-up share capital (in RM unless otherwise stated)	Effective equity interest 2016 %	Effective equity interest 2015 %	Principal activities
Vietnam Securities Corporation ('VSEC')	Vietnam	VND135 billion	**49**	49	Securities brokerage and depository, securities financial and investment consultancy and securities self-trading
RHB GC- Millennium Capital Pte. Ltd. ('RHB GC')	Singapore	SGD10,000	**40**	40	Investment activities

There are no capital commitments or contingent liabilities relating to the Group's interest in the joint ventures as at 31 December 2016.

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

(i) Summarised statements of financial position

	VSEC		RHB GC		Total	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Assets						
Cash and cash equivalents	**33,913**	31,847	**26**	27	**33,939**	31,874
Other current assets	**264**	827	**4**	40	**268**	867
Total assets	**34,177**	32,674	**30**	67	**34,207**	32,741
Liabilities						
Financial liabilities	**(60)**	(177)	**–**	(37)	**(60)**	(214)
Other current liabilities	**(207)**	(47)	**–**	–	**(207)**	(47)
Total liabilities	**(267)**	(224)	**–**	(37)	**(267)**	(261)
Net Assets	**33,910**	32,450	**30**	30	**33,940**	32,480

14 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

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

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

(ii) Summarised statements of comprehensive income

	VSEC		RHB GC		Total	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Interest income	**2,078**	2,270	**–**	–	**2,078**	2,270
Interest expense	**(1)**	(1)	**–**	–	**(1)**	(1)
Net interest income	**2,077**	2,269	**–**	–	**2,077**	2,269
Other operating income/(loss)	**1,036**	(223)	**36**	50	**1,072**	(173)
Net operating income	**3,113**	2,046	**36**	50	**3,149**	2,096
Other operating expenses	**(1,271)**	(1,276)	**(36)**	(50)	**(1,307)**	(1,326)
Including:						
Depreciation and amortisation	**(150)**	(149)	**–**	–	**(150)**	(149)
Profit before taxation	**1,842**	770	**–**	–	**1,842**	770
Taxation	**(364)**	(158)	**–**	–	**(364)**	(158)
Net profit for the financial year	**1,478**	612	**–**	–	**1,478**	612

14 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

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

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

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

	VSEC		RHB GC		Total	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Balance as at the beginning of the financial year	**32,450**	27,399	**30**	28	**32,480**	27,427
Profit for the financial year	**1,478**	612	**–**	–	**1,478**	612
Translation reserves	**(18)**	4,439	**–**	2	**(18)**	4,441
Balance as at the end of the financial year	**33,910**	32,450	**30**	30	**33,940**	32,480
Equity interest attributable to net assets	**16,616**	15,901	**12**	12	**16,628**	15,913
Goodwill	**14,204**	14,204	**–**	–	**14,204**	14,204
Accumulated impairment loss	**(13,770)**	(13,770)	**–**	–	**(13,770)**	(13,770)
Exchange differences	**(26)**	(583)	**–**	–	**(26)**	(583)
Carrying value	**17,024**	15,752	**12**	12	**17,036**	15,764

15 PROPERTY, PLANT AND EQUIPMENT

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

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2015	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost						
Balance as at the beginning of the financial year		98,810	78,104	122,010	13,221	312,145
Effect of predecessor accounting	47(d)	2,003	559	149	130	2,841
Additions		2,439	5,634	11,915	473	20,461
Disposals		–	(759)	(1,276)	(2,628)	(4,663)
Written off		(1,077)	(1,756)	(685)	–	(3,518)
Exchange differences		1,900	2,527	5,772	810	11,009
Balance as at the end of the financial year		104,075	84,309	137,885	12,006	338,275
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		66,302	66,282	101,735	9,757	244,076
Effect of predecessor accounting	47(d)	1,124	315	131	92	1,662
Charge for the financial year	30	5,760	5,199	12,979	1,206	25,144
Disposals		–	(347)	(1,184)	(2,614)	(4,145)
Written off		(1,099)	(656)	(1,609)	–	(3,364)
Exchange differences		980	1,496	4,388	560	7,424
Balance as at the end of the financial year		73,067	72,289	116,440	9,001	270,797
Less: Accumulated impairment loss						
Balance as at the beginning of the financial year		–	–	170	–	170
Reversal of impairment loss	33	–	–	(182)	–	(182)
Exchange differences		–	–	12	–	12
Balance as at the end of the financial year		–	–	–	–	–
Net book value as at the end of the financial year		31,008	12,020	21,445	3,005	67,478

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank 2016	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost						
Balance as at the beginning of the financial year		**80,411**	**55,530**	**80,630**	**4,172**	**220,743**
Additions		**3,917**	**670**	**4,070**	**–**	**8,657**
Disposals		**–**	**(111)**	**(12)**	**(257)**	**(380)**
Written off		**(11,436)**	**(1,856)**	**(1,360)**	**–**	**(14,652)**
Balance as at the end of the financial year		**72,892**	**54,233**	**83,328**	**3,915**	**214,368**
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		**58,556**	**53,807**	**73,325**	**3,708**	**189,396**
Charge for the financial year	30	**3,823**	**1,028**	**5,104**	**194**	**10,149**
Disposals		**–**	**(111)**	**(12)**	**(257)**	**(380)**
Written off		**(9,419)**	**(1,820)**	**(1,360)**	**–**	**(12,599)**
Balance as at the end of the financial year		**52,960**	**52,904**	**77,057**	**3,645**	**186,566**
Net book value as at the end of the financial year		**19,932**	**1,329**	**6,271**	**270**	**27,802**
2015						
Cost						
Balance as at the beginning of the financial year		78,888	54,927	75,127	6,177	215,119
Additions		2,415	1,205	5,968	–	9,588
Disposals		–	–	–	(2,005)	(2,005)
Written off		(892)	(602)	(465)	–	(1,959)
Balance as at the end of the financial year		80,411	55,530	80,630	4,172	220,743
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		55,335	52,801	67,931	5,368	181,435
Charge for the financial year	30	4,111	1,607	5,859	331	11,908
Disposals		–	–	–	(1,991)	(1,991)
Written off		(890)	(601)	(465)	–	(1,956)
Balance as at the end of the financial year		58,556	53,807	73,325	3,708	189,396
Net book value as at the end of the financial year		21,855	1,723	7,305	464	31,347

16 GOODWILL AND OTHER INTANGIBLE ASSETS

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Goodwill on consolidation	(a)	**1,269,934**	1,269,934	**1,118,418**	1,118,418
Other intangible assets	(b)				
Customer relationship		**13,028**	15,262	**3,301**	3,867
Brand		**2,884**	3,379	**–**	–
Trading rights and memberships		**1,430**	1,361	**–**	–
Computer software license		**33,616**	31,441	**23,785**	21,663
		1,320,892	1,321,377	**1,145,504**	1,143,948

(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		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
CGUs				
Investment banking	**374,438**	374,438	**360,875**	360,875
Treasury	**614,176**	614,176	**614,176**	614,176
Asset Management	**143,367**	143,367	**143,367**	143,367
Securities Singapore	**63,948**	63,948	**–**	–
Securities Indonesia	**74,005**	74,005	**–**	–
	1,269,934	1,269,934	**1,118,418**	1,118,418

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets or forecasts approved by Directors covering three-year (2015: three-year). Cash flows beyond the three-year (2015: three-year) period are extrapolated using the estimated growth rates and discounted using pre-tax discount rates which reflect the specific risks relating to the CGU.

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

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill on consolidation (continued)

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

	Discount rate		Growth rate	
	2016 **%**	**2015** **%**	**2016** **%**	**2015** **%**
Investment banking	**10.1**	9.4	**4.0**	4.0
Treasury	**9.9**	9.3	**4.0**	4.0
Asset Management	**10.0**	9.2	**4.0**	4.0
Securities Singapore	**5.3**	6.5	**1.9**	2.0
Securities Indonesia	**9.0**	9.3	**4.7**	5.0

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

(b) Other intangible assets

Group 2016	**Note**	**Customer relationship RM'000**	**Brand RM'000**	**Trading rights and memberships RM'000**	**Computer software license RM'000**	**Total RM'000**
Cost						
Balance as at the beginning of the financial year		**22,333**	**25,098**	**2,650**	**109,636**	**159,717**
Additions		**–**	**–**	**–**	**12,239**	**12,239**
Written off		**–**	**–**	**–**	**(1,352)**	**(1,352)**
Exchange differences		**–**	**–**	**133**	**746**	**879**
Balance as at the end of the financial year		**22,333**	**25,098**	**2,783**	**121,269**	**171,483**
Less: Accumulated amortisation						
Balance as at the beginning of the financial year		**7,071**	**21,719**	**1,289**	**75,270**	**105,349**
Charge for the financial year	30	**2,234**	**495**	**–**	**10,450**	**13,179**
Written off		**–**	**–**	**–**	**(1,340)**	**(1,340)**
Exchange differences		**–**	**–**	**64**	**348**	**412**
Balance as at the end of the financial year		**9,305**	**22,214**	**1,353**	**84,728**	**117,600**
Less: Accumulated impairment loss						
Balance as at the beginning/end of the financial year		**–**	**–**	**–**	**2,925**	**2,925**
Net book value as at the end of the financial year		**13,028**	**2,884**	**1,430**	**33,616**	**50,958**

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets (continued)

Group 2015	Note	Customer relationship RM'000	Brand RM'000	Trading rights and memberships RM'000	Computer software license RM'000	Total RM'000
Cost						
Balance as at the beginning of the financial year		22,333	25,098	2,314	95,346	145,091
Additions		–	–	–	15,342	15,342
Written off		–	–	–	(3,458)	(3,458)
Exchange differences		–	–	336	2,406	2,742
Balance as at the end of the financial year		22,333	25,098	2,650	109,636	159,717
Less: Accumulated amortisation						
Balance as at the beginning of the financial year		4,838	15,626	1,119	64,439	86,022
Charge for the financial year	30	2,233	6,093	–	11,593	19,919
Written off		–	–	–	(1,171)	(1,171)
Exchange differences		–	–	170	409	579
Balance as at the end of the financial year		7,071	21,719	1,289	75,270	105,349
Less: Accumulated impairment loss						
Balance as at the beginning of the financial year		–	–	–	5,056	5,056
Reversal of impairment loss	33	–	–	–	(2,283)	(2,283)
Exchange differences		–	–	–	152	152
Balance as at the end of the financial year		–	–	–	2,925	2,925
Net book value as at the end of the financial year		15,262	3,379	1,361	31,441	51,443

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets (continued)

Bank 2016	Note	Customer relationship RM'000	Brand RM'000	Computer software license RM'000	Total RM'000
Cost					
Balance as at the beginning of the financial year		5,659	20,153	91,916	117,728
Additions		–	–	9,750	9,750
Written off		–	–	(161)	(161)
Balance as at the end of the financial year		5,659	20,153	101,505	127,317
Less: Accumulated amortisation					
Balance as at the beginning of the financial year		1,792	20,153	67,328	89,273
Charge for the financial year	30	566	–	7,616	8,182
Written off		–	–	(149)	(149)
Balance as at the end of the financial year		2,358	20,153	74,795	97,306
Less: Accumulated impairment loss					
Balance as at the beginning/end of the financial year		–	–	2,925	2,925
Net book value as at the end of the financial year		3,301	–	23,785	27,086

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

(b) Other intangible assets (continued)

Bank 2015	Note	Customer relationship RM'000	Brand RM'000	Computer software license RM'000	Total RM'000
Cost					
Balance as at the beginning of the financial year		5,659	20,153	80,246	106,058
Additions		–	–	11,670	11,670
Balance as at the end of the financial year		5,659	20,153	91,916	117,728
Less: Accumulated amortisation					
Balance as at the beginning of the financial year		1,226	14,555	57,633	73,414
Charge for the financial year	30	566	5,598	9,695	15,859
Balance as at the end of the financial year		1,792	20,153	67,328	89,273
Less: Accumulated impairment loss					
Balance as at the beginning/end of the financial year		–	–	2,925	2,925
Net book value as at the end of the financial year		3,867	–	21,663	25,530

17 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
i) By type of deposits				
Short term deposits	**243,406**	460,093	**243,406**	460,093
Fixed/investment deposits	**445,199**	613,657	**460,966**	627,305
Negotiable instruments of deposits	**3,239**	8,259	**3,239**	8,259
	691,844	1,082,009	**707,611**	1,095,657
ii) By type of customer				
Government and statutory bodies	**17,348**	161,872	**17,348**	161,872
Business enterprises	**665,189**	908,304	**680,956**	921,952
Individuals	**9,307**	11,833	**9,307**	11,833
	691,844	1,082,009	**707,611**	1,095,657
iii) By maturity structure of the fixed/investment deposits and negotiable instrument of deposits				
Due within six months	**678,590**	1,072,482	**694,357**	1,086,130
Six months to one year	**13,254**	9,426	**13,254**	9,426
One year to three years	**–**	101	**–**	101
	691,844	1,082,009	**707,611**	1,095,657

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Licensed banks	**2,267,902**	2,206,884	**2,267,902**	2,206,884
Licensed investment banks	**50,140**	140,188	**50,140**	140,188
Other financial institutions	**375,576**	1,324,081	**446,745**	1,374,776
	2,693,618	3,671,153	**2,764,787**	3,721,848

19 OBLIGATION ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statements of financial position.

The carrying value of the financial assets sold under repurchase agreement are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Financial investments AFS	**–**	188,814	**–**	188,814

20 CLIENTS' AND BROKERS' BALANCES

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Amounts due to:				
– Clients	**1,217,592**	998,008	**464,241**	541,482
– Brokers	**298,594**	146,046	**217,832**	44,291
– Clearing houses and stock exchanges	**224,377**	202,870	**–**	–
	1,740,563	1,346,924	**682,073**	585,773

21 OTHER LIABILITIES

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other creditors and accruals		**110,661**	132,056	**46,124**	78,526
Deferred income		**12,961**	13,294	**10,000**	10,438
Remisiers' trust deposits		**60,060**	62,824	**60,060**	62,824
Amount payable for creation of units due to funds		**25,792**	42,017	**–**	–
Amount payable for redemption units		**127,651**	9,333	**–**	–
Short term employee benefits		**101,043**	106,712	**39,393**	55,153
Amount due to holding company	(i)	**17,353**	–	**–**	–
Amount due to subsidiaries	(i)	**–**	–	**3,965**	5,741
Amount due to related companies	(i)	**8,332**	136,858	**224**	127,761
Amount due to an associate company	(i)	**133**	–	**133**	–
		463,986	503,094	**159,899**	340,443

(i) Amount due to holding company, subsidiaries, related and associate company are unsecured, interest free and repayable on demand.

22 BORROWINGS

		Group	
	Note	2016 RM'000	2015 RM'000
Unsecured			
Revolving credits:			
– Hong Kong Dollar ('HKD')	(a)(i)	**185,691**	192,778
– United States Dollar ('USD')	(a)(ii)	**224,218**	221,443
– Thai Baht ('THB')	(a)(iii)	**142,811**	23,809
Term loans:			
– Singapore Dollar ('SGD')	(b)	**–**	19,754
		552,720	457,784

22 BORROWINGS (CONTINUED)

The borrowings of the Group are as follows:

(a) Revolving credits

(i) HKD revolving credits

The unsecured HKD revolving credit facilities of the Group bears interest at rates ranging from 1.56% to 2.56% (2015: 1.55% to 1.95%) per annum.

(ii) USD revolving credits

The unsecured USD revolving credit facilities of the Group which bears interest at rates ranging from 2.33% to 3.10% (2015: 2.11% to 3.02%) per annum and repayable on demand.

(iii) THB revolving credits

The unsecured THB revolving credit facilities of the Group which bears interest at rates ranging from 1.85% to 3.53% (2015: 2.20%) per annum.

(b) Term loan

SGD term loans

The unsecured SGD term loans of the Group in 2015 bears interest at 1.89% per annum.

23 SUBORDINATED OBLIGATIONS

		Group and Bank	
	Note	**2016 RM'000**	**2015 RM'000**
4.40% RM245 million Tier II Subordinated Notes 2012/2022	(a)	**245,561**	245,650
5.20% RM100 million Tier II Subordinated Notes 2011/2021	(b)	**–**	101,112
4.95% RM200 million Tier II Subordinated Notes 2015/2025	(c)	**202,034**	202,060
		447,595	548,822

23 SUBORDINATED OBLIGATIONS (CONTINUED)

(a) 4.40% RM245 million Tier II Subordinated Notes 2012/2022

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

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2012/2022	245	9 December 2022 (Callable on 2017)	4.40% per annum chargeable to 9 December 2022	Accrued and payable semi-annually in arrears

(b) 5.20% RM100 million Tier II Subordinated Notes 2011/2021

On 15 April 2011, the Bank issued RM100 million of Subordinated Notes via direct placement. The tenure of issue is 10 years maturing on 15 April 2021 and callable after a minimum period of 5 years from the issue date (i.e. on 15 April 2016) and on every semi-annual coupon payment date thereafter. These Subordinated Notes carry a yield to maturity of 5.20% per annum and a coupon rate of 5.20% per annum. There will be a step-up coupon from 5.20% to 5.25% per annum on the 5th year from the issuance date until the date of early redemption in full or final maturity, whichever is earlier.

The Bank had fully redeemed the RM100 million Tier II Subordinated Notes 2011/2021 during the current financial year.

(c) 4.95% RM200 million Tier II Subordinated Notes 2015/2025

On 16 April 2015, the Bank issued RM200 million nominal value of Subordinated Notes, being part of its RM1 billion Multi-currency Medium Term Note ('MCMTN') Programme.

Tranche	Principal RM'million	Maturity date	Interest rate	Interest payment
2015/2025	200	16 April 2025 (Callable in 2020)	4.95% per annum chargeable to 16 April 2025	Accrued and payable semi-annually in arrears

24 SHARE CAPITAL

	Group and Bank	
	2016 RM'000	2015 RM'000
Ordinary shares of RM1.00 each		
Authorised:		
Balance as at the beginning/end of the financial year	**1,000,000**	1,000,000
Issued and fully paid:		
Balance as at the beginning/end of the financial year	**818,646**	818,646

25 RESERVES

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Retained profits	(a)	**199,497**	185,917	**351,586**	303,449
Share premium		**1,515,150**	1,515,150	**1,515,150**	1,515,150
Statutory reserves	(b)	**449,721**	433,545	**449,208**	433,295
AFS reserves	(c)	**876**	12,258	**7,850**	(5,149)
Translation reserves	(d)	**152,870**	116,128	**–**	–
Regulatory reserves	(e)	**21,279**	22,615	**13,008**	13,405
		2,339,393	2,285,613	**2,336,802**	2,260,150

(a) Pursuant to the Finance Act, 2007 which was gazetted on 28 November 2007, dividends paid, credited or distributed to shareholders are not tax deductible by the Bank, but are exempted from tax to the shareholders ('single tier system'). As at 31 December 2016, the Bank's retained profits are distributable profits and may be distributed as dividends under the single tier system.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax exempt income of RM57,983,000 (2015: RM57,983,000) under Section 12 of the Income Tax Act (Amendment) Act 1999 to pay dividends out of its retained profits as at 31 December 2016.

(b) The statutory reserves represent non-distributable profits held by:

(i) the Bank in compliance with Section 47(2)(f) of the Financial Services Act 2013, in Malaysia; and

(ii) the Thailand's stockbroking subsidiary in compliance with Section 116 of the Public Limited Company Act B.E. 2535 in Thailand.

The statutory reserve funds are not distributable as cash dividends.

(c) AFS reserves arise from a change in the fair value of financial investments classified as available-for-sale. The unrealised gains or losses are transferred to the income statements upon disposal, derecognition or impairment of such securities.

25 RESERVES (CONTINUED)

(d) Translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and joint ventures, and the effect of the effective portion of the net investment hedges.

(e) Regulatory reserve represents the Group's adoption of BNM's Policy on Classification and Impairment Provisions for Loans/Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment allowances.

26 NON-CONTROLLING INTERESTS ('NCI')

	Group	
	2016 RM'000	**2015 RM'000**
Balance as at the beginning of the financial year	**7,764**	6,784
Share of the profit for the financial year	**1,247**	967
Share of other comprehensive (loss)/income for the financial year	**(122)**	356
Dividends paid to non-controlling interest	**(337)**	(322)
Disposal of a subsidiary	**(688)**	–
Dilution/(Accretion) of interest in subsidiaries	**338**	(21)
Balance as at the end of the financial year	**8,202**	7,764

27 INTEREST INCOME

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Loans and advances	**130,829**	147,527	**78,765**	96,025
Money at call and deposit placements with banks and other financial institutions	**37,056**	38,137	**29,841**	31,520
Financial assets at FVTPL	**367**	1,342	**137**	787
Financial investments AFS	**90,146**	150,295	**89,887**	147,667
Financial investments HTM	**19,571**	24,574	**19,571**	24,574
Others	**21,090**	17,222	**2,559**	2,744
	299,059	379,097	**220,760**	303,317
Of which:				
Interest income accrued on impaired financial assets	**7,652**	8,672	**7,615**	8,672

28 INTEREST EXPENSE

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits and placements of bank and other financial institutions	**98,427**	132,585	**100,042**	134,251
Deposits from customers	**28,307**	63,330	**28,739**	63,778
Subordinated obligations	**22,233**	27,480	**22,233**	27,480
Borrowings	**16,635**	13,301	**–**	–
Others	**1,785**	1,991	**–**	–
	167,387	238,687	**151,014**	225,509

29 FEE AND COMMISSION AND OTHER OPERATING INCOME

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Fee and commission income					
Arrangement fees and underwriting		**45,121**	81,063	**37,065**	65,788
Service charges and fees		**4,720**	5,368	**16**	142
Commission		**6,626**	3,728	**2,613**	3,464
Brokerage income		**290,050**	336,759	**161,643**	198,423
Unit trust fee income		**82,342**	90,109	**–**	–
Corporate advisory fees		**76,156**	51,169	**25,311**	30,261
Fund management fees		**171,959**	134,242	**–**	–
Placement fees		**21,010**	39,268	**11,623**	26,902
Rollover fees		**6,642**	9,651	**6,406**	7,191
Other fee income		**40,378**	51,274	**23,406**	23,651
		745,004	802,631	**268,083**	355,822
(b) Fee and commission expenses					
Unit trust fees		**(84,957)**	(81,396)	**–**	–
Fund management fees		**(55,755)**	(41,180)	**–**	–
		(140,712)	(122,576)	**–**	–

29 FEE AND COMMISSION AND OTHER OPERATING INCOME (CONTINUED)

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
(c) Other operating income					
Net gain/(loss) arising from financial instruments at FVTPL					
– net gain/(loss) on disposal		**61,772**	(15,301)	**14,582**	2,890
– unrealised gain/(loss) on revaluation		**756**	(12,443)	**(20,919)**	3,212
– gross dividend income		**9,749**	14,996	**2,751**	201
		72,277	(12,748)	**(3,586)**	6,303
Net (loss)/gain arising from derivatives		**(12,361)**	28,691	**23,004**	(10,161)
Net gain arising from financial investments AFS					
– net gain on disposal		**4,276**	1,961	**4,179**	1,952
– gross dividend income		**936**	1,214	**327**	367
		5,212	3,175	**4,506**	2,319
Net gain arising from financial investment HTM					
– net gain on redemption		**198**	21	**198**	21
Gross dividend income from subsidiaries in Malaysia		**–**	–	**340**	15,322
Gross dividend income from associate in Malaysia		**–**	–	**–**	4,606
Other income					
Net foreign exchange gain/(loss)					
– realised		**82,765**	(74,673)	**82,308**	(78,086)
– unrealised		**(27,294)**	140,155	**(29,272)**	140,863
Net gain on disposal of property, plant and equipment		**113**	312	**49**	233
Rental income		**–**	–	**–**	31
Gain on redemption of trust fund	49(b)	**434**	–	**1,880**	–
Other operating income		**41,317**	42,559	**37,338**	38,164
Other non-operating income		**668**	1,921	**–**	–
		98,003	110,274	**92,303**	101,205
		163,329	129,413	**116,765**	119,615

30 OTHER OPERATING EXPENSES

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel costs					
– Salaries, bonus, wages and allowances		**343,334**	375,700	**131,789**	172,393
– Defined contribution plan		**34,210**	37,075	**21,216**	23,888
– Career transition scheme	47(j)	**–**	28,498	**–**	24,078
– Other staff related costs		**36,244**	53,461	**16,041**	32,590
		413,788	494,734	**169,046**	252,949
Establishment costs					
– Property, plant and equipment					
– Depreciation	15	**23,929**	25,144	**10,149**	11,908
– Written off	15	**2,162**	154	**2,053**	3
– Intangible assets					
– Amortisation	16	**13,179**	19,919	**8,182**	15,859
– Written off	16	**12**	2,287	**12**	–
– Information technology expenses		**54,045**	52,201	**33,659**	34,155
– Security and escorting charges		**552**	746	**216**	349
– Repair and maintenance		**4,203**	7,222	**3,133**	3,497
– Rental of premises		**52,976**	48,200	**18,785**	19,731
– Water and electricity		**6,595**	6,795	**4,663**	4,807
– Rental of equipment		**1,412**	2,791	**760**	2,146
– Insurance		**8,929**	6,659	**6,432**	4,556
– Others		**13,366**	13,419	**6,814**	6,338
		181,360	185,537	**94,858**	103,349
Marketing expenses					
– Advertisement and publicity		**5,284**	15,021	**4,197**	10,680
– Sales commission		**10,897**	13,682	**7,072**	15,430
– Others		**33,892**	29,950	**6,783**	9,541
		50,073	58,653	**18,052**	35,651
Administration and general expenses					
– Communication expenses		**56,777**	55,129	**21,957**	27,070
– Auditors' remuneration (Note (i))		**1,965**	2,263	**405**	471
– Legal and professional fee		**7,693**	7,655	**1,536**	2,688
– Others		**35,590**	56,503	**30,274**	33,881
		102,025	121,550	**54,172**	64,110
		747,246	860,474	**336,128**	456,059

30 OTHER OPERATING EXPENSES (CONTINUED)

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
(i) Auditors' remuneration				
(a) Audit				
Statutory audit				
– Malaysia	**569**	820	**360**	385
– Overseas	**1,232**	1,263	**–**	–
Limited review	**–**	70	**–**	70
	1,801	2,153	**360**	455
(b) Non-audit				
– Malaysia	**65**	110	**45**	16
– Overseas	**99**	–	**–**	–
	164	110	**45**	16
	1,965	2,263	**405**	471

Included in the personnel costs is the CEO/Managing Director remuneration (excluding benefits-in-kind) totalling RM3,000,000 (2015: RM2,239,000) for the Group and the Bank, as disclosed in Note 31.

Included in administration and general expenses of the Group and the Bank are non-executive directors' remuneration (excluding benefits-in-kind) totalling RM2,650,000 (2015: RM2,170,000) and RM1,244,000 (2015: RM1,344,000) respectively, as disclosed in Note 31.

31 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION

The remuneration of the Chief Executive Officer, Managing Director and Directors of the Group and the Bank are as follows:

	Group and Bank			
2016	**Salary and other remuneration RM'000**	**Benefits-in-kind (based on an estimated monetary value) RM'000**	**Bonus RM'000**	**Total RM'000**
Chief Executive Officer				
Robert Angelo Hendro Santoso Huray (Appointed on 1 July 2016)	**800**	**26**	**866**	**1,692**
Managing Director				
Chan Cheong Yuen (Resigned on 1 July 2016)	**663**	**20**	**671**	**1,354**
2015				
Managing Director/Chief Executive Officer				
Chan Cheong Yuen	1,384	35	855	2,274

31 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of the Managing Director and Directors of the Group and the Bank are as follows:

2016	Group Fees RM'000	Group Benefits-in-kind (based on an estimated monetary value) RM'000	Group Other remuneration RM'000	Group Total RM'000	Bank Fees RM'000	Bank Benefits-in-kind (based on an estimated monetary value) RM'000	Bank Other remuneration RM'000	Bank Total RM'000
Non-executive Directors								
Tan Sri Azlan Zainol (Appointed on 27 June 2016)	177	26	26	229	77	26	21	124
Chin Yoong Kheong (Appointed on 1 August 2016)	230	–	120	350	50	–	42	92
Tan Sri Ong Leong Huat @ Wong Joo Hwa	260	22	34	316	135	22	29	186
Patrick Chin Yoke Chung	524	–	238	762	120	–	115	235
Yap Chee Meng (Appointed on 1 August 2016)	98	–	10	108	50	–	8	58
Tan Sri Dr Rebecca Fatima Sta Maria (Appointed on 6 December 2016)	9	–	4	13	9	–	4	13
Dato' Abdul Rahman Ahmad (Appointed on 1 March 2016 and resigned on 30 September 2016)	90	–	25	115	70	–	19	89
Abdul Aziz Peru Mohamed (Resigned on 6 February 2016)	203	–	63	266	12	–	30	42
Dato' Mohamed Khadar Merican (Resigned on 11 May 2016)	62	–	28	90	43	–	21	64
Lew Foon Keong (Resigned on 11 May 2016)	43	–	136	179	43	–	136	179
Tan Sri Saw Choo Boon (Resigned on 1 August 2016)	126	–	66	192	69	–	63	132
Mohamed Ali Ismaeil Ali AlFahim (Resigned on 1 August 2016)	70	–	8	78	70	–	8	78
	1,892	48	758	2,698	748	48	496	1,292

31 CHIEF EXECUTIVE OFFICER AND DIRECTORS' REMUNERATION (CONTINUED)

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

	Group				Bank			
2015	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
Non-executive Directors								
Tan Sri Ong Leong Huat @ Wong Joo Hwa	268	24	24	316	150	24	20	194
Patrick Chin Yoke Chung	392	24	155	571	120	–	89	209
Dato' Mohamed Khadar Merican	177	–	93	270	120	–	70	190
Lew Foon Keong	120	–	36	156	120	–	36	156
Tan Sri Saw Choo Boon	172	–	171	343	120	–	169	289
Abdul Aziz Peru Mohamed	324	–	100	424	120	–	72	192
Mohamed Ali Ismaeil Ali AlFahim	120	–	18	138	120	–	18	138
	1,573	48	597	2,218	870	24	474	1,368

32 ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND OTHER LOSSES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Allowance for impaired loans and advances:				
– Individual impairment allowance made	**47,904**	6,351	**5,178**	4,787
– Collective impairment allowance write back	**(2,020)**	(8,638)	**(2,022)**	(8,414)
Impaired loans written off	**–**	123	**–**	42
Impaired loans recovered	**(502)**	(487)	**(114)**	(360)
Allowance made for impairment on other receivables and clients' and brokers' balances	**15,798**	16,493	**5,233**	11,129
	61,180	13,842	**8,275**	7,184

33 IMPAIRMENT LOSSES MADE/(WRITTEN BACK) ON OTHER ASSETS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Charge for the financial year:				
– Financial investments AFS	**8,726**	6,348	**8,726**	6,094
– Financial investments HTM	**1,228**	1,306	**1,228**	1,306
– Investments in subsidiaries	**–**	–	**10,500**	52,547
– Investments in a joint venture	**–**	7,834	**–**	–
– Investments in an associate	**12,500**	–	**–**	–
Reversal for the financial year:				
– Financial investments AFS	**(1,007)**	(18,063)	**(1,007)**	(18,063)
– Financial investments HTM	**(3,027)**	(34,063)	**(3,027)**	(34,063)
– Investments in a joint venture	**–**	–	**–**	(666)
– Property, plant and equipment	**–**	(182)	**–**	–
– Other intangible assets	**–**	(2,283)	**–**	–
	18,420	(39,103)	**16,420**	7,155

34 TAXATION

		Group		Bank	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income tax based on profit for the financial year					
– Malaysian income tax		**29,433**	35,660	**17,527**	25,798
– Overseas tax		**2,684**	2,788	**–**	19
Deferred taxation	12	**6,717**	(4,392)	**9,043**	780
Under provision in respect of prior year		**3,322**	9,132	**3,548**	2,751
		42,156	43,188	**30,118**	29,348
Current tax					
Current year		**32,117**	38,448	**17,527**	25,817
Under provision in respect of prior years		**3,322**	9,132	**3,548**	2,751
		35,439	47,580	**21,075**	28,568
Deferred tax					
Origination and reversal of temporary differences	12	**6,717**	(4,392)	**9,043**	780
		6,717	(4,392)	**9,043**	780
		42,156	43,188	**30,118**	29,348

34 TAXATION (CONTINUED)

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the statutory rate is as follows:

	Group		Bank	
	2016 %	2015 %	**2016 %**	2015 %
Tax at Malaysian statutory applicable tax rate	**24.0**	25.0	**24.0**	25.0
Tax effects in respect of:				
– Effect of different tax rates in other countries	**4.9**	1.1	**–**	–
– Income not subject to tax	**(18.8)**	(6.2)	**(1.3)**	(7.9)
– Expenses not deductible for tax purposes	**27.8**	14.7	**5.6**	21.2
– Utilisation of previously unrecognised tax losses	**(1.3)**	(2.2)	**–**	–
– Current year loss not recognised as deferred tax assets during the year	**16.9**	1.6	**–**	–
– Under provision in respect of prior years	**4.5**	7.9	**3.8**	3.3
– Temporary differences not recognised in prior years	**(0.6)**	(5.4)	**–**	(7.3)
– Change in tax rate	**–**	0.8	**–**	1.1
Effective tax rate	**57.4**	37.3	**32.1**	35.4

The unabsorbed tax losses and unabsorbed capital allowances carried forward of the Group are as follows:

	Group	
	2016 RM'000	2015 RM'000
Unabsorbed tax losses carried forward	**83,402**	82,257
Unabsorbed capital allowances carried forward	**677**	724

Deferred tax assets have not been recognised on the above amounts as it is not probable that the relevant subsidiaries will generate sufficient future taxable profits against which the deductible temporary differences can be utilised.

35 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holder of the Group by the weighted average number of ordinary shares in issue during the financial year.

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Net profit attributable to equity holder	**30,087**	71,543	**63,653**	53,499
Weighted average number of ordinary shares in issue ('000)	**818,646**	818,646	**818,646**	818,646
Basic earnings per share (sen)	**3.68**	8.74	**7.78**	6.54

(b) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding as at 31 December 2016 and 31 December 2015. As a result, the diluted earnings per share equal to the basic earnings per share.

36 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE LOSS/(INCOME)

Group **2016**	**Before tax RM'000**	**Tax expense RM'000**	**Net of tax RM'000**
Financial investments AFS			
– net fair value loss and amount transfer to income statements	**(7,638)**	**(4,101)**	**(11,739)**
Actuarial loss on defined benefit plan of subsidiaries			
– net fair value loss and amount transfer to income statements	**(1,702)**	**359**	**(1,343)**
	(9,340)	**(3,742)**	**(13,082)**
2015			
Financial investments AFS			
– net fair value gain and amount transfer to income statements	11,249	(2,048)	9,201
Actuarial gain on defined benefit plan of subsidiaries			
– net fair value gain and amount transfer to income statements	1,568	(333)	1,235
	12,817	(2,381)	10,436
Bank			
2016			
Financial investments AFS			
– net fair value gain and amount transfer to income statements	**17,100**	**(4,101)**	**12,999**
2015			
Financial investments AFS			
– net fair value gain and amount transfer to income statements	8,832	(2,048)	6,784

37 ORDINARY DIVIDENDS

The Bank does not propose any final dividend for the financial year ended 31 December 2016.

Dividends paid by the Bank's subsidiaries to the non-controlling interest amounting to RM337,250 (2015: RM322,000) during the financial year ended 31 December 2016.

38 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

Related parties	Relationships
RHB Bank Berhad	Holding company with effective from 14 April 2016 as disclosed in Note 47(b) to the financial statements
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Employee Provident Fund ('EPF')	Substantial shareholder of the holding company, a fund body that is significantly influenced by the government
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Subsidiaries of the Bank as disclosed in Note 13	Subsidiaries
Key management personnel	The key management personnel of the Group and the Bank consists of: – all Directors of the Bank and its key subsidiaries; and – members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel; and (ii) Entities that are controlled, jointly controlled or significantly influenced, by or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Significant related party balances and transactions

In addition to related party disclosures mentioned in Notes 9 and 21, set out below are other significant related party transactions and balances.

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

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

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

38 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Group 2016	Holding company* RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Interest income on deposits	6,316	–	–	2,198
Interest income on financial investments AFS	1,523	3,284	–	–
Fee income	5,321	11,998	557	1,322
Brokerage income	–	9,832	290	–
Fund management fees	958	–	–	349
Other operating income	29,255	122	55	79
	43,373	25,236	902	3,948
Expenses				
Insurance premium	–	–	–	6,104
Interest expense on deposits and placements	41,027	5,097	373	–
Interest expense of deposits from customers	–	–	–	381
Interest expense on borrowings	821	–	–	8,626
Rental of premises	7,579	–	9,098	57
Personnel costs	207	–	–	–
Establishment costs	–	–	–	1,080
Marketing expenses	11,604	904	–	–
Administration and general expenses	7,143	–	–	3,265
	68,381	6,001	9,471	19,513
Amounts due from				
Cash and short-term funds	821,710	–	–	43,675
Financial investments AFS	–	45,681	–	–
Clients' and brokers' balances	–	–	51	–
Derivative assets	3,811	–	–	–
Other assets	11,075	836	317	425
	836,596	46,517	368	44,100
Amounts due to				
Deposits from customers	–	131,378	1,198	12,137
Deposits and placements of banks and other financial institutions	2,267,902	–	–	–
Clients' and brokers' balances	–	322	8	–
Derivative liabilities	16,223	–	–	–
Borrowings	55,123	–	–	224,218
Other liabilities	17,353	86	17	8,332
	2,356,601	131,786	1,223	244,687

* Kindly refer to Note 47(b) to the financial statements.

38 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Group 2015	Holding company* RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Interest income on deposits	–	–	–	4,282
Interest income on financial investments AFS	–	5,788	–	9,441
Fee income	520	20,189	2,850	4,564
Brokerage income	–	16,389	395	3
Fund management fees	–	–	–	1,007
Other operating income	17	67	38	35,041
	537	42,433	3,283	54,338
Expenses				
Insurance premium	–	–	375	4,600
Interest expense on deposits and placements	–	5,834	526	19,902
Interest expense on borrowings	–	–	–	4,088
Rental of premises	–	–	11,002	8,522
Personnel costs	–	–	–	330
Establishment costs	–	–	–	910
Marketing expenses	–	780	518	7,994
Administration and general expenses	–	–	–	11,865
	–	6,614	12,421	58,211
Amounts due from				
Cash and short-term funds	–	–	–	384,684
Deposits and placements with banks and other financial institutions	–	–	–	5,054
Financial investments AFS	–	80,570	–	–
Clients' and brokers' balances	–	78,001	2,480	–
Derivative assets	–	–	–	3,486
Other assets	1	6,459	5	2,535
	1	165,030	2,485	395,759
Amounts due to				
Deposits from customers	–	114,843	24,863	10,602
Deposits and placements of banks and other financial institutions	–	–	–	1,806,410
Clients' and brokers' balances	–	29,327	–	–
Derivative liabilities	–	–	–	12,695
Borrowings	–	–	–	245,252
Other liabilities	–	–	22	136,858
	–	144,170	24,885	2,211,817

* Kindly refer to Note 47(b) to the financial statements.

38 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Bank 2016	Holding company* RM'000	EPF and EPF Group of companies RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
Income					
Interest income on deposits	6,101	–	–	–	56
Interest on loans and advances	–	–	819	–	–
Interest income on financial investments AFS	1,523	3,284	–	–	–
Fee income	987	11,853	3,783	385	–
Brokerage income	–	9,832	49	189	–
Rental income	–	–	199	–	–
Other operating income	29,255	122	337	55	79
	37,866	25,091	5,187	629	135
Expenses					
Insurance premium	–	–	–	–	5,497
Interest expense on deposits and placements	41,027	5,097	2,072	373	381
Rental of premises	7,105	–	–	7,250	–
Personnel costs	197	–	–	–	–
Establishment costs	–	–	–	–	1,079
Marketing expenses	–	904	–	–	–
Administration and general expenses	50	–	17,746	–	2,905
	48,379	6,001	19,818	7,623	9,862
Amounts due from					
Cash and short-term funds	685,197	–	–	–	–
Financial investments AFS	–	45,681	–	–	–
Loans and advances	–	–	44,892	–	–
Clients' and brokers' balances	–	–	–	51	–
Derivative assets	3,811	–	–	–	–
Other assets	11,075	777	4,636	317	69
	700,083	46,458	49,528	368	69
Amounts due to					
Deposit from customers	–	131,378	15,767	1,198	12,137
Deposits and placements of banks and other financial institutions	2,267,902	–	71,169	–	–
Clients' and brokers' balances	–	322	–	8	–
Derivative liabilities	16,223	–	–	–	–
Other liabilities	–	–	3,965	–	224
	2,284,125	131,700	90,901	1,206	12,361

* Kindly refer to Note 47(b) to the financial statements.

38 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Bank 2015	Holding company* RM'000	EPF and EPF Group of companies RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
Income					
Interest income on deposits	–	–	–	–	3,575
Interest on loans and advances	–	–	775	–	–
Interest income on financial investments AFS	–	5,788	–	–	9,441
Fee income	520	20,002	5,272	2,705	720
Brokerage income	–	16,389	723	392	3
Rental income	–	–	192	–	–
Other operating income	17	67	14,434	38	35,041
	537	42,246	21,396	3,135	48,780
Expenses					
Insurance premium	–	–	–	375	3,948
Interest expense on deposits and placements	–	5,834	2,114	526	19,902
Rental of premises	–	–	–	8,646	8,341
Personnel costs	–	–	–	–	320
Establishment costs	–	–	–	–	910
Marketing expenses	–	780	1,746	518	–
Administration and general expenses	–	–	21,691	–	4,858
	–	6,614	25,551	10,065	38,279
Amounts due from					
Cash and short-term funds	–	–	–	–	293,767
Financial investments AFS	–	80,570	–	–	–
Loans and advances	–	–	42,965	–	–
Clients' and brokers' balances	–	78,001	–	2,480	–
Derivative assets	–	–	–	–	3,486
Other assets	–	6,385	3,256	5	821
	–	164,956	46,221	2,485	298,074
Amounts due to					
Deposits from customers	–	114,843	13,648	24,863	10,602
Deposits and placements of banks and other financial institutions	–	–	50,695	–	1,806,410
Clients' and brokers' balances	–	29,327	–	–	–
Derivative liabilities	–	–	–	–	12,695
Other liabilities	–	–	5,741	–	127,761
	–	144,170	70,084	24,863	1,957,468

* Kindly refer to Note 47(b) to the financial statements.

38 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Short-term employee benefits				
– Fees	**1,892**	1,411	**748**	870
– Salary and other remuneration	**4,934**	3,787	**4,672**	3,686
– Contribution to EPF	**274**	479	**274**	479
– Benefits-in-kind	**88**	83	**88**	59
	7,188	5,760	**5,782**	5,094

The above remuneration includes Directors' remuneration as disclosed in Note 31.

(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	
	2016 RM'000	**2015 RM'000**
Outstanding credit exposure with connected parties (RM'000)	**243,585**	65,639
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**8.16%**	1.72%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	**–**	–

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties, which are effective on 1 January 2008.

39 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to customers. Apart from the allowance for commitments and contingencies already made in the financial statements, no material losses are anticipated as a result of these transactions.

The commitments and contingencies comprise the following:

	Group	
Principal amount	**2016 RM'000**	**2015 RM'000**
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	**–**	195,053
Irrevocable commitments to extend credit:		
– maturity not exceeding one year	**2,067,036**	1,761,866
– maturity exceeding one year	**600**	22
Foreign exchange related contracts: ^		
– less than one year	**351,858**	1,050,731
– one year to less than five years	**–**	198,874
Interest rate related contracts: ^		
– less than one year	**140,000**	860,000
– one year to less than five years	**90,000**	230,000
Equity related contracts: ^		
– less than one year	**14,368**	315
	2,663,862	4,296,861

^ These derivatives are revalued on gross position basis and the unrealised gains or losses have been reflected in Note 10 as derivatives assets or derivative liabilities.

39 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The commitments and contingencies comprise the following: (continued)

	Bank	
Principal amount	**2016 RM'000**	**2015 RM'000**
Direct credit substitutes#	**184,222**	800,539
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	**–**	195,053
Irrevocable commitments to extend credit:		
– maturity not exceeding one year	**357,990**	314,781
– maturity exceeding one year	**22**	22
Foreign exchange related contracts: ^		
– less than one year	**351,858**	1,050,731
– one year to less than five years	**–**	198,874
Interest rate related contracts: ^		
– less than one year	**140,000**	860,000
– one year to less than five years	**90,000**	230,000
Equity related contracts: ^		
– less than one year	**9,771**	315
	1,133,863	3,650,315

Included in direct credit substitutes is financial guarantee contract of RM184,222,000 (2015: RM800,539,000).

^ These derivatives are revalued on gross position basis and the unrealised gains or losses have been reflected in Note 10 as derivative assets or derivative liabilities.

40 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases, is as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Within one year	**42,458**	39,557	**14,204**	19,425
Between one to five years	**63,133**	36,920	**20,479**	19,638
More than five years	**561**	54	**11**	54
	106,152	76,531	**34,694**	39,117

41 CAPITAL COMMITMENTS

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Capital expenditure for property, plant and equipment:				
– Authorised and contracted for	**26,113**	38,881	**10,321**	30,480
– Authorised but not contracted for	**24,611**	21,465	**13,423**	18,584
	50,724	60,346	**23,744**	49,064

42 FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Objectives and Policies

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Group is exposed to a range of other risk types such as market, liquidity, operational, legal, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Group's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group, as follows:

1. It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

2. It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

1. Risk Governance from the Boards of Directors of Various Operating Entities within the Group

   The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

   The Board Risk Committee ('BRC') is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

   The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising Senior Management of the Group and which reports to the BRC, Islamic Risk Management Committee and the Group Management Committee. There are other committees set up to manage specific areas of risks in the Group.

2. Clear Understanding of Risk Management Ownership

   Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group.

   The Strategic Business Units ('SBUs') and Strategic Functional Units ('SFUs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are: (continued)

3. Institutionalisation of a Risk-focused Organisation

   In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.

   Group Risk and Credit Management is independent of the business function to ensure that the necessary balance in risk and return decisions is not compromised by short term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

   The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

   The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

4. Alignment of Risk Management to Business Strategies

   The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

   Risk appetite is set by the Board and reported through various metrics that enable the Group and the Bank to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Group and the Bank are prepared to accept in delivering its strategy.

5. Optimisation of Risk-adjusted Return

   One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

   The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

The main areas of financial risks faced by the Group and the Bank and the policies to address these financial risks are set out below:

Major Areas of Risk

As a banking institution with key activities covering corporate banking and advisory services, treasury products and services, and securities and futures related business, the Group and the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

(i) Market risk - the risk of loss arising from adverse movements in market indicators, such as interest rates, credit spreads, equity prices, currency exchange rates and commodity prices.

(ii) Liquidity risk - the risk of the Group and the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iii) Credit risk - the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's and the Bank's lending/financing/underwriting, investment and trading activities from both on- and off-balance sheet transactions.

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk.

To mitigate the various business risks of the Group and the Bank, the following has been put in place:

Market Risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Group's and the Bank's financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.

- The Group Asset and Liability Committee ('Group ALCO') performs a critical role in the oversight of the management of market risk and supports the BRC in the overall market risk management.

- The Group Risk Management function forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

- The Group and the Bank apply risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.

- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

- Periodic stress testing are applied to the Group and the Bank to ascertain market risk under abnormal market conditions.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

To mitigate the various business risks of the Group and the Bank, the following has been put in place: (continued)

Liquidity Risk

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

- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.

- Defined liquidity management ratios are maintained and monitored.

- The Group and the Bank has established a Group Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

Credit Risk

- The Group and the Bank abides to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well-diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses.

- International best practices are incorporated into this policy.

- The Group Investment Underwriting Committee ('GIUC') deliberates and approves investment banking related proposals such as equity underwriting, equity capital market activities and share margin financing cases. The Group Credit Committee ('GCC') deliberates and approves credit lending related proposals including structured products and bonds purchase. GIUC and GCC submit to the Board Credit Committee ('BCC') for affirmation or veto if the proposals exceed a pre-defined threshold.

- The Group and the Bank also ensures that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated prior to submission to the relevant committees for approval.

- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

- Counterparty, industry and product exposure limits/directions are set and risk reward relationship are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management Objectives and Policies (continued)

To mitigate the various business risks of the Group, the following has been put in place: (continued)

Operational Risk

- The Group Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the control tools used includes Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management.

- The Group's and the Bank's operational risk management system has integrated applications to support the operational risk management process. This system facilitates the Group's and the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

- The Group and the Bank has Business Continuity Planning ('BCP') programmes for the major critical business operations and activities at the Head Office, data centre, and branch locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality.

- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.

- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

Group 2016	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-term funds	1,064,383	–	–	–	1,064,383
Deposits and placements with banks and other financial institutions	359,018	–	–	–	359,018
Financial assets at FVTPL	–	612,105	–	–	612,105
Financial investments AFS	–	–	1,856,676	–	1,856,676
Financial investments HTM	–	–	–	398,564	398,564
Loans and advances	1,792,172	–	–	–	1,792,172
Clients' and brokers' balances	2,090,784	–	–	–	2,090,784
Other assets	255,412	–	–	–	255,412
Derivative assets	–	7,325	–	–	7,325
	5,561,769	619,430	1,856,676	398,564	8,436,439

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	691,844	691,844
Deposits and placements of banks and other financial institutions	–	2,693,618	2,693,618
Bills and acceptances payable	–	180,931	180,931
Clients' and brokers' balances	–	1,740,563	1,740,563
Other liabilities	–	447,278	447,278
Puttable financial instruments	68,706	–	68,706
Derivative liabilities	37,197	–	37,197
Borrowings	–	552,720	552,720
Subordinated obligations	–	447,595	447,595
	105,903	6,754,549	6,860,452

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

Group 2015	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-termfunds	1,132,078	–	–	–	1,132,078
Deposits and placements with banks and other financial institutions	13,179	–	–	–	13,179
Financial assets at FVTPL	–	398,127	–	–	398,127
Financial investments AFS	–	–	3,412,471	–	3,412,471
Financial investments HTM	–	–	–	590,461	590,461
Loans and advances	2,069,802	–	–	–	2,069,802
Clients' and brokers' balances	1,654,213	–	–	–	1,654,213
Other assets	206,500	–	–	–	206,500
Derivative assets	–	57,906	–	–	57,906
	5,075,772	456,033	3,412,471	590,461	9,534,737

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	1,082,009	1,082,009
Deposits and placements of banks and other financial institutions	–	3,671,153	3,671,153
Obligation on securities sold under repurchase agreements	–	170,568	170,568
Obligation on securities borrowed	–	12,202	12,202
Bills and acceptances payable	–	138,794	138,794
Clients' and brokers' balances	–	1,346,924	1,346,924
Other liabilities	–	489,800	489,800
Derivative liabilities	127,546	–	127,546
Borrowings	–	457,784	457,784
Subordinated obligations	–	548,822	548,822
	127,546	7,918,056	8,045,602

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

Bank 2016	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-term funds	478,126	–	–	–	478,126
Deposits and placements with banks and other financial institutions	350,065	–	–	–	350,065
Financial assets at FVTPL	–	54,854	–	–	54,854
Financial investments AFS	–	–	1,833,518	–	1,833,518
Financial investments HTM	–	–	–	398,564	398,564
Loans and advances	1,121,163	–	–	–	1,121,163
Clients' and brokers' balances	790,399	–	–	–	790,399
Other assets	69,035	–	–	–	69,035
Derivative assets	–	7,202	–	–	7,202
	2,808,788	62,056	1,833,518	398,564	5,102,926

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	707,611	707,611
Deposits and placements of banks and other financial institutions	–	2,764,787	2,764,787
Clients' and brokers' balances	–	682,073	682,073
Other liabilities	–	146,898	146,898
Derivative liabilities	36,425	–	36,425
Subordinated obligations	–	447,595	447,595
	36,425	4,748,964	4,785,389

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

Bank 2015	Loans and receivables RM'000	Assets at fair value through profit or loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Financial assets					
Cash and short-term funds	718,596	–	–	–	718,596
Financial assets at FVTPL	–	131,577	–	–	131,577
Financial investments AFS	–	–	3,311,449	–	3,311,449
Financial investments HTM	–	–	–	590,461	590,461
Loans and advances	1,320,752	–	–	–	1,320,752
Clients' and brokers' balances	572,001	–	–	–	572,001
Other assets	122,431	–	–	–	122,431
Derivative assets	–	57,906	–	–	57,906
	2,733,780	189,483	3,311,449	590,461	6,825,173

	Liabilities at fair value through profit or loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Financial liabilities			
Deposits from customers	–	1,095,657	1,095,657
Deposits and placements of banks and other financial institutions	–	3,721,848	3,721,848
Obligation on securities sold under repurchase agreements	–	170,568	170,568
Obligation on securities borrowed	–	12,202	12,202
Clients' and brokers' balances	–	585,773	585,773
Other liabilities	–	330,005	330,005
Derivative liabilities	125,994	–	125,994
Subordinated obligations	–	548,822	548,822
	125,994	6,464,875	6,590,869

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Bank as at 31 December 2016.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. The Group and the Bank seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

(i) Interest rate sensitivity analysis

The interest rate sensitivity results below shows the impact on profit after tax and equity of financial assets and financial liabilities bearing floating interest rates and fixed rate financial assets and financial liabilities.

		Group		Bank
2016	**Impact on profit after tax RM'000**	**Impact on equity RM'000**	**Impact on profit after tax RM'000**	**Impact on equity RM'000**
+100 bps	**(14,579)**	**(42,348)**	**(16,803)**	**(42,348)**
-100 bps	**14,580**	**44,719**	**16,803**	**44,719**
2015				
+100 bps	(19,595)	(75,000)	(20,959)	(75,000)
-100 bps	19,595	79,204	20,959	79,204

The results above represent financial assets and liabilities that have been prepared on the following basis:

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and movement for all short term interest rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term interest rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2015: 100 bps) interest rate change impact. For assets and liabilities with non fixed maturity, certain assumptions are made to reflect the actual sensitivity behaviour of these interest bearing assets and liabilities.

Impact on equity represents the changes in fair values of fixed income instruments held in the AFS portfolio arising from the shift in the interest rate.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates (mainly consists of United States Dollar ('USD') and Singapore Dollar ('SGD')) on the consolidated currency position, while other variables remain constant.

2016	Group Impact on profit after tax RM'000	Bank Impact on profit after tax RM'000
+10%	**38,701**	**46,505**
-10%	**(38,701)**	**(46,505)**
2015		
+10%	7,437	11,719
-10%	(7,437)	(11,719)

Impact on the profit after taxation is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates:

Group 2016	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	873,394	–	–	–	–	–	190,989	–	1,064,383
Deposits and placements with banks and other financial institutions	–	350,466	–	8,487	–	–	65	–	359,018
Financial assets at FVTPL	–	–	–	–	–	–	–	612,105	612,105
Financial investments AFS	1,085	12,327	22,641	207,219	509,865	983,280	120,259	–	1,856,676
Financial investments HTM	–	30,000	–	20,055	141,130	203,899	3,480	–	398,564
Loans and advances									
– performing	1,714,222	–	–	3,138	281	443	39	–	1,718,123
– impaired	–	–	–	–	–	–	74,049*	–	74,049
Clients' and brokers' balances	286,643	–	–	–	–	–	1,804,141	–	2,090,784
Other assets	6,475	100	100	–	–	3,260	264,779	–	274,714
Derivative assets	–	–	–	–	–	–	–	7,325	7,325
Statutory deposits	–	–	–	–	–	–	85,144	–	85,144
Tax recoverable	–	–	–	–	–	–	61,528	–	61,528
Deferred tax assets	–	–	–	–	–	–	19,477	–	19,477
Investments in associates and joint ventures	–	–	–	–	–	–	54,989	–	54,989
Property, plant and equipment	–	–	–	–	–	–	60,402	–	60,402
Goodwill and other intangible assets	–	–	–	–	–	–	1,320,892	–	1,320,892
TOTAL ASSETS	2,881,819	392,893	22,741	238,899	651,276	1,190,882	4,060,233	619,430	10,058,173

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Group 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	548,536	99,749	28,372	13,179	–	–	2,008	–	691,844
Deposits and placements of banks and other financial institutions	1,894,993	785,584	100	9,000	–	–	3,941	–	2,693,618
Bills and acceptances payable	68,789	87,359	24,783	–	–	–	–	–	180,931
Clients' and brokers' balances	–	–	–	–	–	–	1,740,563	–	1,740,563
Other liabilities	–	–	–	–	–	–	463,986	–	463,986
Puttable financial instruments	–	–	–	–	–	–	68,706	–	68,706
Derivative liabilities	–	–	–	–	–	–	–	37,197	37,197
Tax liabilities	–	–	–	–	–	–	11,583	–	11,583
Deferred tax liabilities	–	–	–	–	–	–	3,189	–	3,189
Borrowings	552,720	–	–	–	–	–	–	–	552,720
Subordinated obligations	–	–	–	245,000	–	200,000	2,595	–	447,595
TOTAL LIABILITIES	3,065,038	972,692	53,255	267,179	–	200,000	2,296,571	37,197	6,891,932
Shareholders' funds	–	–	–	–	–	–	3,158,039	–	3,158,039
Non-controlling interests	–	–	–	–	–	–	8,202	–	8,202
TOTAL LIABILITIES AND EQUITY	3,065,038	972,692	53,255	267,179	–	200,000	5,462,812	37,197	10,058,173
On-balance sheet interest sensitivity gap	(183,219)	(579,799)	(30,514)	(28,280)	651,276	990,882			
Off-balance sheet interest sensitivity gap	–	–	(40,000)	–	60,000	–			
TOTAL INTEREST-SENSITIVITY GAP	(183,219)	(579,799)	(70,514)	(28,280)	711,276	990,882			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Group 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	930,247	–	–	–	–	–	201,831	–	1,132,078
Deposits and placements with banks and other financial institutions	–	4,508	537	8,121	–	–	13	–	13,179
Financial assets at FVTPL	–	–	–	–	–	–	–	398,127	398,127
Financial investments AFS	58,458	361,241	51,821	181,122	791,760	1,766,842	201,227	–	3,412,471
Financial investments HTM	–	10,002	30,012	125,150	166,656	228,705	29,936	–	590,461
Loans and advances									
– performing	1,852,079	13,044	100,001	–	8	956	123	–	1,966,211
– impaired	–	–	–	–	–	–	103,591*	–	103,591
Clients' and brokers' balances	12,111	–	–	–	–	–	1,642,102	–	1,654,213
Other assets	12,510	100	100	–	–	3,263	211,606	–	227,579
Derivative assets	–	–	–	–	–	–	–	57,906	57,906
Statutory deposits	–	–	–	–	–	–	148,392	–	148,392
Tax recoverable	–	–	–	–	–	–	38,979	–	38,979
Deferred tax assets	–	–	–	–	–	–	30,601	–	30,601
Investments in associates and joint ventures	–	–	–	–	–	–	20,899	–	20,899
Property, plant and equipment	–	–	–	–	–	–	67,478	–	67,478
Goodwill and other intangible assets	–	–	–	–	–	–	1,321,377	–	1,321,377
TOTAL ASSETS	2,865,405	388,895	182,471	314,393	958,424	1,999,766	4,018,155	456,033	11,183,542

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Group	**Up to 1 month**	**>1-3 months**	**>3-6 months**	**>6-12 months**	**>1-3 years**	**Over 3 years**	**Non-interest sensitive**	**Trading book**	**Total**
2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
LIABILITIES									
Deposits from customers	830,873	130,889	107,608	9,362	100	–	3,177	–	1,082,009
Deposits and placements of banks and other financial institutions	2,723,559	873,245	48,656	19,000	–	–	6,693	–	3,671,153
Obligation on securities sold under repurchase agreements	–	170,393	–	–	–	–	175	–	170,568
Obligation on securities borrowed	–	–	–	–	–	12,168	34	–	12,202
Bills and acceptances payable	83,220	35,574	20,000	–	–	–	–	–	138,794
Clients' and brokers' balances	–	–	–	–	–	–	1,346,924	–	1,346,924
Other liabilities	–	–	–	–	–	–	503,094	–	503,094
Derivative liabilities	–	–	–	–	–	–	–	127,546	127,546
Tax liabilities	–	–	–	–	–	–	8,895	–	8,895
Deferred tax liabilities	–	–	–	–	–	–	3,728	–	3,728
Borrowings	323,897	132,844	–	–	–	–	1,043	–	457,784
Subordinated obligations	–	–	100,000	–	245,000	200,000	3,822	–	548,822
TOTAL LIABILITIES	3,961,549	1,342,945	276,264	28,362	245,100	212,168	1,877,585	127,546	8,071,519
Shareholders' funds	–	–	–	–	–	–	3,104,259	–	3,104,259
Non-controlling interests	–	–	–	–	–	–	7,764	–	7,764
TOTAL LIABILITIES AND EQUITY	3,961,549	1,342,945	276,264	28,362	245,100	212,168	4,989,608	127,546	11,183,542
On-balance sheet interest sensitivity gap	(1,096,144)	(954,050)	(93,793)	286,031	713,324	1,787,598			
Off-balance sheet interest sensitivity gap	–	(40,000)	–	60,000	(110,000)	–			
TOTAL INTEREST-SENSITIVITY GAP	(1,096,144)	(994,050)	(93,793)	346,031	603,324	1,787,598			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates:

	Non-trading book								
Bank 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	477,883	–	–	–	–	–	243	–	478,126
Deposits and placements with banks and other financial institutions	–	350,000	–	–	–	–	65	–	350,065
Financial assets at FVTPL	–	–	–	–	–	–	–	54,854	54,854
Financial investments AFS	1,085	12,327	22,641	207,219	509,865	983,280	97,101	–	1,833,518
Financial investments HTM	–	30,000	–	20,055	141,130	203,899	3,480	–	398,564
Loans and advances									
– performing	1,071,877	–	–	3,138	281	443	39	–	1,075,778
– impaired	–	–	–	–	–	–	45,385*	–	45,385
Clients' and brokers' balances	10,723	–	–	–	–	–	779,676	–	790,399
Other assets	–	–	–	–	–	3,260	70,587	–	73,847
Derivative assets	–	–	–	–	–	–	–	7,202	7,202
Statutory deposits	–	–	–	–	–	–	80,700	–	80,700
Tax recoverable	–	–	–	–	–	–	58,393	–	58,393
Deferred tax assets	–	–	–	–	–	–	7,919	–	7,919
Investments in subsidiaries	–	–	–	–	–	–	1,504,725	–	1,504,725
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	–	21,057
Property, plant and equipment	–	–	–	–	–	–	27,802	–	27,802
Goodwill and other intangible assets	–	–	–	–	–	–	1,145,504	–	1,145,504
TOTAL ASSETS	1,561,568	392,327	22,641	230,412	651,276	1,190,882	3,842,676	62,056	7,953,838

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Bank 2016	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	564,303	99,749	28,372	13,179	–	–	2,008	–	707,611
Deposits and placements of banks and other financial institutions	1,966,161	785,584	100	9,000	–	–	3,942	–	2,764,787
Clients' and brokers' balances	–	–	–	–	–	–	682,073	–	682,073
Other liabilities	–	–	–	–	–	–	159,899	–	159,899
Derivative liabilities	–	–	–	–	–	–	–	36,425	36,425
Subordinated obligations	–	–	–	245,000	–	200,000	2,595	–	447,595
TOTAL LIABILITIES	2,530,464	885,333	28,472	267,179	–	200,000	850,517	36,425	4,798,390
Total equity	–	–	–	–	–	–	3,155,448	–	3,155,448
TOTAL LIABILITIES AND EQUITY	2,530,464	885,333	28,472	267,179	–	200,000	4,005,965	36,425	7,953,838
On-balance sheet interest sensitivity gap	(968,896)	(493,006)	(5,831)	(36,767)	651,276	990,882			
Off-balance sheet interest sensitivity gap	–	–	(40,000)	–	60,000	–			
TOTAL INTEREST-SENSITIVITY GAP	(968,896)	(493,006)	(45,831)	(36,767)	711,276	990,882			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

	Non-trading book								
Bank 2015	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	716,928	–	–	–	–	–	1,668	–	718,596
Financial assets at FVTPL	–	–	–	–	–	–	–	131,577	131,577
Financial investments AFS	58,458	361,241	51,822	171,847	788,260	1,766,842	112,979	–	3,311,449
Financial investments HTM	–	10,002	30,012	125,150	166,656	228,705	29,936	–	590,461
Loans and advances									
– performing	1,103,222	13,044	100,002	–	8	956	153	–	1,217,385
– impaired	–	–	–	–	–	–	103,367*	–	103,367
Clients' and brokers' balances	12,111	–	–	–	–	–	559,890	–	572,001
Other assets	12,509	–	–	–	–	3,262	111,762	–	127,533
Derivative assets	–	–	–	–	–	–	–	57,906	57,906
Statutory deposits	–	–	–	–	–	–	144,152	–	144,152
Tax recoverable	–	–	–	–	–	–	36,894	–	36,894
Deferred tax assets	–	–	–	–	–	–	21,063	–	21,063
Investments in subsidiaries	–	–	–	–	–	–	1,451,367	–	1,451,367
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	–	21,057
Property, plant and equipment	–	–	–	–	–	–	31,347	–	31,347
Goodwill and other intangible assets	–	–	–	–	–	–	1,143,948	–	1,143,948
TOTAL ASSETS	1,903,228	384,287	181,836	296,997	954,924	1,999,765	3,769,583	189,483	9,680,103

* This represents outstanding impaired loans after deducting individual impairment allowance and collective impairment allowance.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (continued)

Bank 2015	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	844,521	130,889	107,608	9,362	100	–	3,177	–	1,095,657
Deposits and placements of banks and other financial institutions	2,774,254	873,245	48,656	19,000	–	–	6,693	–	3,721,848
Obligation on securities sold under repurchase agreements	–	170,393	–	–	–	–	175	–	170,568
Obligation on securities borrowed	–	–	–	–	–	12,169	33	–	12,202
Clients' and brokers' balances	–	–	–	–	–	–	585,773	–	585,773
Other liabilities	–	–	–	–	–	–	340,443	–	340,443
Derivative liabilities	–	–	–	–	–	–	–	125,994	125,994
Subordinated obligations	–	–	100,000	–	245,000	200,000	3,822	–	548,822
TOTAL LIABILITIES	3,618,775	1,174,527	256,264	28,362	245,100	212,169	940,116	125,994	6,601,307
Total equity	–	–	–	–	–	–	3,078,796	–	3,078,796
TOTAL LIABILITIES AND EQUITY	3,618,775	1,174,527	256,264	28,362	245,100	212,169	4,018,912	125,994	9,680,103
On-balance sheet interest sensitivity gap	(1,715,547)	(790,240)	(74,428)	268,635	709,824	1,787,596			
Off-balance sheet interest sensitivity gap	–	(40,000)	–	60,000	(110,000)	–			
TOTAL INTEREST-SENSITIVITY GAP	(1,715,547)	(830,240)	(74,428)	328,635	599,824	1,787,596			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Group has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Group continues to report Net Stable Funding Ratio under the Basel lll observation reporting to BNM.

The Group and the Bank seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity:

Group 2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	945,278	119,105	–	–	–	–	–	1,064,383
Deposits and placements with banks and other financial institutions	–	–	350,531	–	8,487	–	–	359,018
Financial assets at FVTPL	–	–	–	21	1,000	16,399	594,685	612,105
Financial investments AFS	2,552	2,163	21,493	25,993	207,219	1,506,363	90,893	1,856,676
Financial investments HTM	203	127	30,910	1,657	20,055	345,612	–	398,564
Loans and advances	1,660,322	52,525	2,458	47,301	8,086	21,480	–	1,792,172
Clients' and brokers' balances	1,463,549	627,235	–	–	–	–	–	2,090,784
Other assets	94,126	121,979	19,970	5,296	5,446	4,247	23,650	274,714
Derivative assets	16	1,059	5,256	394	–	600	–	7,325
Statutory deposits	–	–	–	–	–	–	85,144	85,144
Tax recoverable	–	–	–	–	–	–	61,528	61,528
Deferred tax assets	–	–	–	–	–	–	19,477	19,477
Investments in associates and joint ventures	–	–	–	–	–	–	54,989	54,989
Property, plant and equipment	–	–	–	–	–	–	60,402	60,402
Goodwill and other intangible assets	–	–	–	–	–	–	1,320,892	1,320,892
TOTAL ASSETS	4,166,046	924,193	430,618	80,662	250,293	1,894,701	2,311,660	10,058,173

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Group 2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	310,593	239,364	100,061	28,572	13,254	–	–	691,844
Deposits and placements of banks and other financial institutions	763,013	1,134,243	787,239	102	9,021	–	–	2,693,618
Bills and acceptances payable	–	68,789	87,359	24,783	–	–	–	180,931
Clients' and brokers' balances	1,262,838	477,725	–	–	–	–	–	1,740,563
Other liabilities	189,462	177,025	50,524	6,848	8,324	5,845	25,958	463,986
Puttable financial instruments	68,706	–	–	–	–	–	–	68,706
Derivative liabilities	7	2,291	33,702	257	901	39	–	37,197
Tax liabilities	–	–	–	–	–	–	11,583	11,583
Deferred tax liabilities	–	–	–	–	–	–	3,189	3,189
Borrowings	481,344	71,376	–	–	–	–	–	552,720
Subordinated obligations	–	–	–	–	245,561	202,034	–	447,595
TOTAL LIABILITIES	3,075,963	2,170,813	1,058,885	60,562	277,061	207,918	40,730	6,891,932
Total equity	–	–	–	–	–	–	3,166,241	3,166,241
TOTAL LIABILITIES AND EQUITY	3,075,963	2,170,813	1,058,885	60,562	277,061	207,918	3,206,971	10,058,173

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Group 2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	1,043,894	88,184	–	–	–	–	–	1,132,078
Deposits and placements with banks and other financial institutions	–	–	4,508	537	8,125	–	9	13,179
Financial assets at FVTPL	–	4,748	–	–	–	35,132	358,247	398,127
Financial investments AFS	19,025	44,487	374,066	58,718	181,125	2,591,961	143,089	3,412,471
Financial investments HTM	194	211	11,058	32,383	127,129	419,486	–	590,461
Loans and advances	617,643	1,119,106	47,644	105,916	136,322	43,171	–	2,069,802
Clients' and brokers' balances	1,142,772	511,441	–	–	–	–	–	1,654,213
Other assets	80,708	19,171	28,276	40,998	29,802	18,650	9,974	227,579
Derivative assets	452	1,038	3,748	22,175	15,091	15,402	–	57,906
Statutory deposits	–	–	–	–	–	–	148,392	148,392
Tax recoverable	–	–	–	–	–	–	38,979	38,979
Deferred tax assets	–	–	–	–	–	–	30,601	30,601
Investments in associates and joint ventures	–	–	–	–	–	–	20,899	20,899
Property, plant and equipment	–	–	–	–	–	–	67,478	67,478
Goodwill and other intangible assets	–	–	–	–	–	–	1,321,377	1,321,377
TOTAL ASSETS	2,904,688	1,788,386	469,300	260,727	497,594	3,123,802	2,139,045	11,183,542

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Group 2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	283,549	548,845	131,470	108,619	9,426	100	–	1,082,009
Deposits and placements of banks and other financial institutions	2,066,571	661,498	875,099	48,891	19,094	–	–	3,671,153
Obligation on securities sold under repurchase agreements	–	–	170,568	–	–	–	–	170,568
Obligation on securities borrowed	–	–	34	–	–	12,168	–	12,202
Bills and acceptances payable	23,798	59,421	35,574	20,001	–	–	–	138,794
Clients' and brokers' balances	753,499	593,425	–	–	–	–	–	1,346,924
Other liabilities	134,587	293,935	51,732	4,691	9,261	534	8,354	503,094
Derivative liabilities	324	673	9,676	57,461	34,601	24,811	–	127,546
Tax liabilities	–	–	–	–	–	–	8,895	8,895
Deferred tax liabilities	–	–	–	–	–	–	3,728	3,728
Borrowings	236,341	87,702	133,741	–	–	–	–	457,784
Subordinated obligations	–	–	–	101,111	–	447,711	–	548,822
TOTAL LIABILITIES	3,498,669	2,245,499	1,407,894	340,774	72,382	485,324	20,977	8,071,519
Total equity	–	–	–	–	–	–	3,112,023	3,112,023
TOTAL LIABILITIES AND EQUITY	3,498,669	2,245,499	1,407,894	340,774	72,382	485,324	3,133,000	11,183,542

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Bank 2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	465,804	12,322	–	–	–	–	–	478,126
Deposits and placements with banks and other financial institutions	–	–	350,065	–	–	–	–	350,065
Financial assets at FVTPL	–	–	–	21	1,000	16,399	37,434	54,854
Financial investments AFS	2,552	2,163	21,493	25,993	207,219	1,506,363	67,735	1,833,518
Financial investments HTM	203	127	30,910	1,657	20,055	345,612	–	398,564
Loans and advances	1,041,824	14	2,458	47,301	8,086	21,480	–	1,121,163
Clients' and brokers' balances	553,279	237,120	–	–	–	–	–	790,399
Other assets	62,057	537	7,713	60	211	3,269	–	73,847
Derivative assets	16	1,059	5,133	394	–	600	–	7,202
Statutory deposits	–	–	–	–	–	–	80,700	80,700
Tax recoverable	–	–	–	–	–	–	58,393	58,393
Deferred tax assets	–	–	–	–	–	–	7,919	7,919
Investments in subsidiaries	–	–	–	–	–	–	1,504,725	1,504,725
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	21,057
Property, plant and equipment	–	–	–	–	–	–	27,802	27,802
Goodwill and other intangible assets	–	–	–	–	–	–	1,145,504	1,145,504
TOTAL ASSETS	2,125,735	253,342	417,772	75,426	236,571	1,893,723	2,951,269	7,953,838

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Bank 2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	326,360	239,364	100,061	28,572	13,254	–	–	707,611
Deposits and placements of banks and other financial institutions	834,182	1,134,243	787,239	102	9,021	–	–	2,764,787
Clients' and brokers' balances	477,451	204,622	–	–	–	–	–	682,073
Other liabilities	4,322	155,577	–	–	–	–	–	159,899
Derivative liabilities	7	2,291	32,930	257	901	39	–	36,425
Subordinated obligations	–	–	–	–	245,561	202,034	–	447,595
TOTAL LIABILITIES	1,642,322	1,736,097	920,230	28,931	268,737	202,073	–	4,798,390
Total equity	–	–	–	–	–	–	3,155,448	3,155,448
TOTAL LIABILITIES AND EQUITY	1,642,322	1,736,097	920,230	28,931	268,737	202,073	3,155,448	7,953,838

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Bank 2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	718,596	–	–	–	–	–	–	718,596
Financial assets at FVTPL	–	–	–	–	–	35,132	96,445	131,577
Financial investments AFS	19,025	44,487	374,065	58,719	171,851	2,591,961	51,341	3,311,449
Financial investments HTM	194	211	11,059	32,382	127,129	419,486	–	590,461
Loans and advances	81,922	905,776	47,644	105,916	136,323	43,171	–	1,320,752
Clients' and brokers' balances	400,401	171,600	–	–	–	–	–	572,001
Other assets	51,675	389	5,186	32,774	19,893	17,616	–	127,533
Derivative assets	452	1,038	3,748	22,175	15,091	15,402	–	57,906
Statutory deposits	–	–	–	–	–	–	144,152	144,152
Tax recoverable	–	–	–	–	–	–	36,894	36,894
Deferred tax assets	–	–	–	–	–	–	21,063	21,063
Investments in subsidiaries	–	–	–	–	–	–	1,451,367	1,451,367
Investments in associates and joint ventures	–	–	–	–	–	–	21,057	21,057
Property, plant and equipment	–	–	–	–	–	–	31,347	31,347
Goodwill and other intangible assets	–	–	–	–	–	–	1,143,948	1,143,948
TOTAL ASSETS	1,272,265	1,123,501	441,702	251,966	470,287	3,122,768	2,997,614	9,680,103

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity: (continued)

Bank 2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	283,549	562,493	131,470	108,619	9,426	100	–	1,095,657
Deposits and placements of banks and other financial institutions	2,113,057	665,707	875,099	48,891	19,094	–	–	3,721,848
Obligation on securities sold under repurchase agreements	–	–	170,568	–	–	–	–	170,568
Obligation on securities borrowed	–	–	34	–	–	12,168	–	12,202
Clients' and brokers' balances	410,041	175,732	–	–	–	–	–	585,773
Other liabilities	133,502	206,941	–	–	–	–	–	340,443
Derivative liabilities	324	673	8,981	56,755	34,450	24,811	–	125,994
Subordinated obligations	–	–	–	101,111	–	447,711	–	548,822
TOTAL LIABILITIES	2,940,473	1,611,546	1,186,152	315,376	62,970	484,790	–	6,601,307
Total equity	–	–	–	–	–	–	3,078,796	3,078,796
TOTAL LIABILITIES AND EQUITY	2,940,473	1,611,546	1,186,152	315,376	62,970	484,790	3,078,796	9,680,103

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the cash outflows for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

Group 2016	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
LIABILITIES							
Deposits from customers	550,489	129,583	13,492	–	–	–	693,564
Deposits and placements of banks and other financial institutions	1,898,618	790,930	9,342	–	–	–	2,698,890
Bills and acceptances payable	68,895	112,738	–	–	–	–	181,633
Clients' and brokers' balances	1,740,563	–	–	–	–	–	1,740,563
Other liabilities	392,202	57,612	8,350	5,846	–	–	464,010
Puttable financial instruments	68,706	–	–	–	–	–	68,706
Derivative liabilities:							
– Gross settled derivatives							
– Inflow	(911)	(20,806)	–	–	–	–	(21,717)
– Outflow	1,880	42,022	–	–	–	–	43,902
– Net settled derivatives	1,389	12,339	1,133	151	–	–	15,012
Borrowings	552,720	–	–	–	–	–	552,720
Subordinated obligations	–	–	265,623	–	224,764	–	490,387
TOTAL FINANCIAL LIABILITIES	5,274,551	1,124,418	297,940	5,997	224,764	–	6,927,670

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the cash outflows for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments: (continued)

Group 2015	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
LIABILITIES							
Deposits from customers	860,959	243,296	9,802	102	–	–	1,114,159
Deposits and placements of banks and other financial institutions	2,831,493	929,914	19,761	–	–	–	3,781,168
Obligation on securities sold under repurchase agreements	–	170,793	–	–	–	–	170,793
Obligation on securities borrowed	–	131	131	526	526	13,351	14,665
Bills and acceptances payable	139,267	–	–	–	–	–	139,267
Clients' and brokers' balances	1,346,924	–	–	–	–	–	1,346,924
Other liabilities	436,452	35,712	8,748	529	–	8,359	489,800
Derivative liabilities:							
– Gross settled derivatives							
– Inflow	(57,967)	(320,569)	(95,035)	(103,237)	–	–	(576,808)
– Outflow	58,290	370,594	114,663	127,161	–	–	670,708
– Net settled derivatives	674	17,111	14,973	886	–	–	33,644
Borrowings	324,125	134,350	–	–	–	–	458,475
Subordinated obligations	–	–	113,030	280,960	219,827	–	613,817
TOTAL FINANCIAL LIABILITIES	5,940,217	1,581,332	186,073	306,927	220,353	21,710	8,256,612

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments:

Bank 2016	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
LIABILITIES							
Deposits from customers	566,256	129,583	13,492	–	–	–	709,331
Deposits and placements of banks and other financial institutions	1,969,786	790,930	9,342	–	–	–	2,770,058
Clients' and brokers' balances	682,073	–	–	–	–	–	682,073
Other liabilities	159,899	–	–	–	–	–	159,899
Derivative liabilities:							
– Gross settled derivatives							
– Inflow	(911)	(20,806)	–	–	–	–	(21,717)
– Outflow	1,880	42,022	–	–	–	–	43,902
– Net settled derivatives	1,330	11,972	900	39	–	–	14,241
Subordinated obligations	–	–	265,623	–	224,764	–	490,387
TOTAL FINANCIAL LIABILITIES	3,380,313	953,701	289,357	39	224,764	–	4,848,174

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments: (continued)

Bank 2015	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
LIABILITIES							
Deposits from customers	847,298	243,296	9,802	102	–	–	1,100,498
Deposits and placements of banks and other financial institutions	2,780,782	929,914	19,761	–	–	–	3,730,457
Obligation on securities sold under repurchase agreements	–	170,793	–	–	–	–	170,793
Obligation on securities borrowed	–	131	131	526	526	13,351	14,665
Clients' and brokers' balances	585,773	–	–	–	–	–	585,773
Other liabilities	330,005	–	–	–	–	–	330,005
Derivative liabilities:							
– Gross settled derivatives							
– Inflow	(57,967)	(320,569)	(95,035)	(103,237)	–	–	(576,808)
– Outflow	58,290	370,594	114,663	127,161	–	–	670,708
– Net settled derivatives	674	15,711	14,822	886	–	–	32,093
Subordinated obligations	–	–	113,030	280,960	219,827	–	613,817
TOTAL FINANCIAL LIABILITIES	4,544,855	1,409,870	177,174	306,398	220,353	13,351	6,672,001

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's commitments and contingencies:

Group 2016	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Irrevocable commitments to extend credit	**2,067,036**	**600**	**2,067,636**
TOTAL COMMITMENTS AND CONTINGENCIES	**2,067,036**	**600**	**2,067,636**
2015			
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	195,053	–	195,053
Irrevocable commitments to extend credit	1,761,866	22	1,761,888
TOTAL COMMITMENTS AND CONTINGENCIES	1,956,919	22	1,956,941

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

Bank 2016	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	**184,222**	**–**	**184,222**
Irrevocable commitments to extend credit	**357,990**	**22**	**358,012**
TOTAL COMMITMENTS AND CONTINGENCIES	**542,212**	**22**	**542,234**
2015			
Direct credit substitutes	800,539	–	800,539
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	195,053	–	195,053
Irrevocable commitments to extend credit	314,781	22	314,803
TOTAL COMMITMENTS AND CONTINGENCIES	1,310,373	22	1,310,395

Undrawn loans commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group and the Bank. The Group and the Bank expect that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as off balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Group and the Bank:

	Group	
	2016 RM'000	**2015 RM'000**
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**1,064,215**	1,131,888
Deposits and placements with banks and other financial institutions	**359,018**	13,179
Financial assets and investments portfolios (exclude equity instruments):		
– Fair value through profit or loss	**17,421**	39,880
– Available-for-sale	**1,765,783**	3,269,382
– Held-to-maturity	**398,564**	590,461
Loans and advances	**1,792,172**	2,069,802
Clients' and brokers' balances	**2,090,784**	1,654,213
Other assets	**255,412**	206,500
Derivative assets	**7,325**	57,906
	7,750,694	9,033,211
Credit risk exposure relating to off-balance sheet items:		
Commitments and contingencies	**2,067,636**	1,956,941
Total maximum credit risk exposure	**9,818,330**	10,990,152

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(i) Maximum exposure to credit risk (continued)

	Bank	
	2016 RM'000	**2015 RM'000**
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**478,051**	718,507
Deposits and placements with banks and other financial institutions	**350,065**	–
Financial assets and investments portfolios (exclude equity instruments):		
– Fair value through profit or loss	**17,421**	35,131
– Available-for-sale	**1,765,783**	3,260,108
– Held-to-maturity	**398,564**	590,461
Loans and advances	**1,121,163**	1,320,752
Clients' and brokers' balances	**790,399**	572,001
Other assets	**69,035**	122,431
Derivative assets	**7,202**	57,906
	4,997,683	6,677,297
Credit risk exposure relating to off-balance sheet items:		
Commitments and contingencies	**542,234**	1,310,395
Total maximum credit risk exposure	**5,539,917**	7,987,692

(ii) Collaterals

The main types of collateral obtained by the Group and the Bank are as follows:

(a) Fixed deposits and cash deposits/margin
(b) Land and buildings
(c) Quoted shares, warrants and unquoted securities

The Group and the Bank also accepts non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, which are subject to internal guidelines on eligibility.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for loans and advances as at 31 December 2016 for the Group and the Bank are 99.4% (2015: 99.7%) and 95.2% (2015: 96.3%) respectively and clients' and brokers' balances as at 31 December 2016 for the Group and the Bank are 96.0% (2015: 97.4%) and 98.0% (2015: 97.6%) respectively. The financial effect of collateral held for the other financial assets are insignificant.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality

The Group and the Bank assess credit quality of loans and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
– Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Group and Bank
– Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Group and Bank
– No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system

The credit quality of financial assets other than loans and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

(a) Loans and advances

Loans and advances are summarised as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Neither past due nor impaired	**1,718,123**	1,966,211	**1,075,778**	1,217,385
Individually impaired	**129,166**	118,142	**55,803**	115,552
Gross loans and advances	**1,847,289**	2,084,353	**1,131,581**	1,332,937
Less: Individual impairment allowance	**(54,887)**	(12,301)	**(9,966)**	(9,711)
Collective impairment allowance	**(230)**	(2,250)	**(452)**	(2,474)
Net loans and advances	**1,792,172**	2,069,802	**1,121,163**	1,320,752

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(a) Loans and advances (continued)

(i) Loans and advances neither past due nor impaired

Analysis of loans and advances that are neither past due nor impaired analysed based on the Group's and the Bank's internal credit grading system is as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Good	**399,620**	653,475	**75,388**	296,833
No Rating	**1,318,503**	1,312,736	**1,000,390**	920,552
	1,718,123	1,966,211	**1,075,778**	1,217,385

Loans and advances classified as non-rated mainly comprise of loans under the standardised approach for credit risk including share margin financing and staff loans.

(ii) Loans and advances that are individually determined to be impaired are as follows:

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Individually impaired loans	**129,166**	118,142	**55,803**	115,552

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, derivative assets and other assets are summarised as follows:

Group 2016	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Derivative assets RM'000
Neither past due nor impaired	1,423,233	17,421	1,750,013	398,004	2,054,376	254,648	7,325
Past due but not impaired	–	–	–	–	36,050	764	–
Impaired	–	–	105,984	109,376	33,534	17,029	–
	1,423,233	17,421	1,855,997	507,380	2,123,960	272,441	7,325
Less: Impairment losses	–	–	(90,214)	(108,816)	(33,176)	(17,029)	–
	1,423,233	17,421	1,765,783	398,564	2,090,784	255,412	7,325
2015							
Neither past due nor impaired	1,145,067	39,880	3,229,389	566,360	1,618,055	201,355	57,906
Past due but not impaired	–	–	–	–	26,748	3,198	–
Impaired	–	–	187,658	152,656	33,841	19,076	–
	1,145,067	39,880	3,417,047	719,016	1,678,644	223,629	57,906
Less: Impairment losses	–	–	(147,665)	(128,555)	(24,431)	(17,129)	–
	1,145,067	39,880	3,269,382	590,461	1,654,213	206,500	57,906

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, derivative assets and other assets are summarised as follows: (continued)

Bank 2016	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Derivative assets RM'000
Neither past due nor impaired	**828,116**	**17,421**	**1,750,013**	**398,004**	**790,399**	**69,035**	**7,202**
Impaired	**–**	**–**	**105,984**	**109,376**	**7,971**	**15,745**	**–**
	828,116	**17,421**	**1,855,997**	**507,380**	**798,370**	**84,780**	**7,202**
Less: Impairment losses	**–**	**–**	**(90,214)**	**(108,816)**	**(7,971)**	**(15,745)**	**–**
	828,116	**17,421**	**1,765,783**	**398,564**	**790,399**	**69,035**	**7,202**
2015							
Neither past due nor impaired	718,507	35,131	3,220,115	566,360	572,001	119,685	57,906
Past due but not impaired	–	–	–	–	–	2,746	–
Impaired	–	–	187,658	152,656	10,038	14,179	–
	718,507	35,131	3,407,773	719,016	582,039	136,610	57,906
Less: Impairment losses	–	–	(147,665)	(128,555)	(10,038)	(14,179)	–
	718,507	35,131	3,260,108	590,461	572,001	122,431	57,906

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows:

Group 2016	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Derivative assets RM'000
AAA to AA3	–	30	846,438	45,739	–	–	477
AA	–	–	–	–	–	–	3,012
A1 to A3	–	–	263,881	9,810	–	–	–
Baa1 to Baa3	–	1	40,442	–	–	–	–
P1 to P3	1,374,243	1,000	–	–	–	19,896	3,713
Non-rated including:	48,990	16,390	599,252	342,455	2,054,376	234,752	123
– Malaysian Government Securities	–	–	217,072	20,295	–	–	–
– Malaysian Government Investment Issues	–	–	148,794	245,678	–	–	–
– Corporate bonds	–	16,390	124,999	65,363	–	–	–
– SPK Bonds	–	–	68,919	–	–	–	–
– Khazanah bonds	–	–	39,468	11,119	–	–	–
– Others	48,990	–	–	–	2,054,376	234,752	123
	1,423,233	17,421	1,750,013	398,004	2,054,376	254,648	7,325

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows: (continued)

Group 2015	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Derivative assets RM'000
AAA to AA3	–	–	1,035,076	96,266	–	–	56,781
A1 to A3	–	–	498,926	9,153	–	–	722
Baa1 to Baa3	–	–	128,230	–	–	–	–
P1 to P3	1,135,289	–	–	–	–	86,746	362
C to D	–	–	453	–	–	–	–
Non-rated including:	9,778	39,880	1,566,704	460,941	1,618,055	114,609	41
– Malaysian Government Securities	–	–	381,992	20,370	–	–	–
– Malaysian Government Investment Issues	–	–	415,958	347,678	–	–	–
– Corporate bonds	–	4,749	207,310	82,202	–	–	–
– SPK Bonds	–	–	67,040	–	–	–	–
– Cagamas Bonds	–	–	35,235	–	–	–	–
– Bankers' acceptances & Islamic accepted notes	–	–	58,458	–	–	–	–
– Khazanah bonds	–	–	51,701	10,691	–	–	–
– Negotiable instruments of deposits	–	–	349,010	–	–	–	–
– Others	9,778	35,131	–	–	1,618,055	114,609	41
	1,145,067	39,880	3,229,389	566,360	1,618,055	201,355	57,906

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows: (continued)

Bank 2016	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Derivative assets RM'000
AAA to AA3	–	30	846,438	45,739	–	–	477
AA	–	–	–	–	–	–	3,012
A1 to A3	–	–	263,881	9,810	–	–	–
Baa1 to Baa3	–	1	40,442	–	–	–	–
P1 to P3	828,116	1,000	–	–	–	19,676	3,713
Non-rated including:	–	16,390	599,252	342,455	790,399	49,359	–
– Malaysian Government Securities	–	–	217,072	20,295	–	–	–
– Malaysian Government Investment Issues	–	–	148,794	245,678	–	–	–
– Corporate bonds	–	16,390	124,999	65,363	–	–	–
– SPK Bonds	–	–	68,919	–	–	–	–
– Khazanah bonds	–	–	39,468	11,119	–	–	–
– Others	–	–	–	–	790,399	49,359	–
	828,116	17,421	1,750,013	398,004	790,399	69,035	7,202

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative assets that are neither past due nor impaired by rating agency definition are as follows: (continued)

Bank 2015	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Derivative assets RM'000
AAA to AA3	–	–	1,025,802	96,266	–	–	56,781
A1 to A3	–	–	498,926	9,153	–	–	722
Baa1 to Baa3	–	–	128,230	–	–	–	–
P1 to P3	718,507	–	–	–	–	88,367	362
C to D	–	–	453	–	–	–	–
Non-rated including:	–	35,131	1,566,704	460,941	572,001	31,318	41
– Malaysian Government Securities	–	–	381,992	20,370	–	–	–
– Malaysian Government Investment Issues	–	–	415,958	347,678	–	–	–
– Corporate bonds	–	–	207,310	82,202	–	–	–
– SPK Bonds	–	–	67,040	–	–	–	–
– Cagamas Bonds	–	–	35,235	–	–	–	–
– Bankers' acceptances & Islamic accepted notes	–	–	58,458	–	–	–	–
– Khazanah bonds	–	–	51,701	10,691	–	–	–
– Negotiable instruments of deposits	–	–	349,010	–	–	–	–
– Others	–	35,131	–	–	572,001	31,318	41
	718,507	35,131	3,220,115	566,360	572,001	119,685	57,906

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

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

Group 2016	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture	–	–	19,711	–	27,359	–	–	47,070
Mining and quarrying	–	–	–	–	232	–	3,267	3,499
Manufacturing	–	16,390	24,301	560	3,524	714	6,093	51,582
Electricity, gas and water	–	1,030	45,342	30,302	–	–	–	76,674
Construction	–	–	222,703	5,304	3,137	–	1	231,145
Real estate	–	–	–	–	–	–	278	278
Purchase of landed property	–	–	–	–	672	–	18	690
Wholesale & retail trade and restaurants & hotel	–	–	–	–	–	–	3,614	3,614
Transport, storage and communication	–	–	139,761	–	–	142	–	139,903
Finance, insurance and business services	1,160,908	1	879,180	86,615	372,229	8,012	456,373	2,963,318
Government and government agencies	–	–	434,785	265,973	–	–	–	700,758
Purchase of securities	–	–	–	–	1,366,279	2,107,515	1,522,518	4,996,312
Purchase of transport vehicles	–	–	–	–	53	–	–	53
Others	262,325	–	–	9,810	18,917	253,746	75,474	620,272
	1,423,233	17,421	1,765,783	398,564	1,792,402	2,370,129	2,067,636	9,835,168

~ Excludes equity instrument amounting to RM444,402,000.

@ Excludes equity instrument amounting to RM90,983,000.

Excludes collective impairment allowance amounting to RM230,000.

* Excludes collective impairment allowance amounting to RM16,608,000. Other financial assets include other assets and derivative assets.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

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

Group 2015	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture	–	–	24,523	–	34,349	1,921	–	60,793
Mining and quarrying	–	–	–	–	3,423	–	719	4,142
Manufacturing	–	35,131	41,726	1,788	11,164	–	2,087	91,896
Electricity, gas and water	–	–	45,326	45,416	–	551	–	91,293
Construction	–	–	277,192	5,350	60,680	–	–	343,222
Real estate	–	–	–	–	31	–	260	291
Purchase of landed property	–	–	–	–	891	–	18	909
Transport, storage and communication	–	4,749	168,881	22,312	–	–	196	196,138
Finance, insurance and business services	1,145,067	–	1,846,209	136,727	533,026	69,381	10	3,730,420
Government and government agencies	–	–	864,990	367,736	–	–	–	1,232,726
Purchase of securities	–	–	–	–	1,410,255	1,660,867	659,408	3,730,530
Purchase of transport vehicles	–	–	–	–	72	–	–	72
Consumption credit	–	–	–	–	–	–	1,292,985	1,292,985
Others	–	–	535	11,132	18,161	192,553	1,258	223,639
	1,145,067	39,880	3,269,382	590,461	2,072,052	1,925,273	1,956,941	10,999,056

~ Excludes equity instrument amounting to RM358,246,000.

@ Excludes equity instrument amounting to RM143,089,000.

Excludes collective impairment allowance amounting to RM2,250,000.

* Excludes collective impairment allowance amounting to RM6,654,000. Other financial assets include other assets and derivative assets.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

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

Bank 2016	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture	–	–	19,711	–	27,359	–	–	47,070
Mining and quarrying	–	–	–	–	232	–	3,267	3,499
Manufacturing	–	16,390	24,301	560	3,524	714	6,093	51,582
Electricity, gas and water	–	1,030	45,342	30,302	–	–	–	76,674
Construction	–	–	222,703	5,304	3,137	–	1	231,145
Real estate	–	–	–	–	–	–	278	278
Purchase of landed property	–	–	–	–	672	–	18	690
Wholesale & retail trade and restaurants & hotel	–	–	–	–	–	–	144	144
Transport, storage and communication	–	–	139,761	–	–	142	–	139,903
Finance, insurance and business services	828,116	1	879,180	86,615	400,954	7,975	220,046	2,422,887
Government and government agencies	–	–	434,785	265,973	–	–	–	700,758
Purchase of securities	–	–	–	–	666,767	790,446	311,304	1,768,517
Purchase of transport vehicles	–	–	–	–	53	–	–	53
Others	–	–	–	9,810	18,917	67,406	1,083	97,216
	828,116	17,421	1,765,783	398,564	1,121,615	866,683	542,234	5,540,416

~ Excludes equity instrument amounting to RM37,433,000.

@ Excludes equity instrument amounting to RM67,735,000.

Excludes collective impairment allowance amounting to RM452,000.

* Excludes collective impairment allowance amounting to RM47,000. Other financial assets include other assets and derivative assets.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

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

Bank 2015	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets at FVTPL~ RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Loans and advances# RM'000	Clients' and brokers' balances and other assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture	–	–	24,523	–	34,349	1,921	–	60,793
Mining and quarrying	–	–	–	–	3,423	–	719	4,142
Manufacturing	–	35,131	41,726	1,788	11,164	–	2,088	91,897
Electricity, gas and water	–	–	45,326	45,416	–	551	–	91,293
Construction	–	–	277,192	5,350	60,680	–	–	343,222
Real estate	–	–	–	–	31	–	260	291
Purchase of landed property	–	–	–	–	891	–	18	909
Transport, storage and communication	–	–	168,881	22,312	–	–	196	191,389
Finance, insurance and business services	718,507	–	1,836,935	136,727	454,123	75,241	429,360	3,650,893
Government and government agencies	–	–	864,990	367,736	–	–	–	1,232,726
Purchase of securities	–	–	–	–	740,332	574,410	601,601	1,916,343
Purchase of transport vehicles	–	–	–	–	72	–	–	72
Consumption credit	–	–	–	–	–	–	274,895	274,895
Others	–	–	535	11,132	18,161	102,624	1,258	133,710
	718,507	35,131	3,260,108	590,461	1,323,226	754,747	1,310,395	7,992,575

~ Excludes equity instrument amounting to RM96,444,000.

@ Excludes equity instrument amounting to RM51,341,000.

Excludes collective impairment allowance amounting to RM2,474,000.

* Excludes collective impairment allowance amounting to RM2,409,000. Other financial assets include other assets and derivative assets.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting financial assets and financial liabilities

The Group and the Bank reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table shows the impact of netting arrangement on:

i. all financial assets and liabilities that are reported on the statements of financial position; and
ii. all derivative financial instruments and reverse repurchase agreement and borrowing arrangements (offsetting arrangement and financial collateral) but do not qualify for netting.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Effects of offsetting on the statements of financial position		Related amounts not offset		
Group 2016	**Gross amounts RM'000**	**Net amounts reported on statements of financial position RM'000**	**Financial instruments RM'000**	**Financial collateral RM'000**	**Net amount RM'000**
Financial assets					
Derivative assets	7,325	7,325	(3,813)	–	3,512
Financial liabilities					
Derivative liabilities	37,197	37,197	(3,813)	(7,789)	25,595

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting financial assets and financial liabilities (continued)

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements: (continued)

	Effects of offsetting on the statements of financial position		Related amounts not offset		
Group 2015	Gross amounts RM'000	Net amounts reported on statements of financial position RM'000	Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
Financial assets					
Amount due from reverse repo transactions	12,508	12,508	(12,202)	(1,504)	(1,198)
Derivative assets	57,906	57,906	(12,903)	–	45,003
	70,414	70,414	(25,105)	(1,504)	43,805
Financial liabilities					
Obligation on securities sold under repurchase agreements	170,568	170,568	(188,814)	–	(18,246)
Obligation on securities borrowed	12,202	12,202	(12,202)	–	–
Derivative liabilities	127,546	127,546	(12,903)	(70,655)	43,988
	310,316	310,316	(213,919)	(70,655)	25,742

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Offsetting financial assets and financial liabilities (continued)

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements: (continued)

	Effects of offsetting on the statements of financial position		Related amounts not offset		
Bank **2016**	**Gross amounts** **RM'000**	**Net amounts reported on statements of financial position** **RM'000**	**Financial instruments** **RM'000**	**Financial collateral** **RM'000**	**Net amount** **RM'000**
Financial assets					
Derivative assets	**7,202**	**7,202**	**(3,813)**	**–**	**3,389**
Financial liabilities					
Derivative liabilities	**36,425**	**36,425**	**(3,813)**	**(7,789)**	**24,823**

	Effects of offsetting on the statements of financial position		Related amounts not offset		
Bank **2015**	**Gross amounts** **RM'000**	**Net amounts reported on statements of financial position** **RM'000**	**Financial instruments** **RM'000**	**Financial collateral** **RM'000**	**Net amount** **RM'000**
Financial assets					
Amount due from reverse repo transactions	12,508	12,508	(12,202)	(1,504)	(1,198)
Derivative assets	57,906	57,906	(12,903)	–	45,003
	70,414	70,414	(25,105)	(1,504)	43,805
Financial liabilities					
Obligation on securities sold under repurchase agreements	170,568	170,568	(188,814)	–	(18,246)
Obligation on securities borrowed	12,202	12,202	(12,202)	–	–
Derivative liabilities	125,994	125,994	(12,903)	(70,655)	42,436
	308,764	308,764	(213,919)	(70,655)	24,190

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement

The Group and the Bank analyse their financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

Group 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at FVTPL	443,173	1,031	167,901	612,105
– quoted securities	443,173	–	–	443,173
– unquoted securities	–	1,031	167,901	168,932
Financial investments AFS	59,753	1,750,013	46,910	1,856,676
– money market instruments	–	474,253	–	474,253
– quoted securities	59,753	–	–	59,753
– unquoted securities	–	1,275,760	46,910	1,322,670
Derivative assets	–	7,325	–	7,325
	502,926	1,758,369	214,811	2,476,106
Financial liabilities				
Derivative liabilities	11,817	25,380	–	37,197
Puttable financial instruments	68,706	–	–	68,706
	80,523	25,380	–	105,903

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy: (continued)

Group 2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at FVTPL	239,516	4,748	153,863	398,127
– quoted securities	239,516	–	–	239,516
– unquoted securities	–	4,748	153,863	158,611
Financial investments AFS	44,950	3,247,450	120,071	3,412,471
– money market instruments	–	1,359,394	–	1,359,394
– quoted securities	44,950	–	–	44,950
– unquoted securities	–	1,888,056	120,071	2,008,127
Derivative assets	–	57,906	–	57,906
	284,466	3,310,104	273,934	3,868,504
Financial liabilities				
Derivative liabilities	30,038	97,508	–	127,546

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement (continued)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy: (continued)

Bank 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at FVTPL	**37,433**	**1,031**	**16,390**	**54,854**
– quoted securities	**37,433**	**–**	**–**	**37,433**
– unquoted securities	**–**	**1,031**	**16,390**	**17,421**
Financial investments AFS	**39,400**	**1,750,013**	**44,105**	**1,833,518**
– money market instruments	**–**	**474,253**	**–**	**474,253**
– quoted securities	**39,400**	**–**	**–**	**39,400**
– unquoted securities	**–**	**1,275,760**	**44,105**	**1,319,865**
Derivative assets	**–**	**7,202**	**–**	**7,202**
	76,833	**1,758,246**	**60,495**	**1,895,574**
Financial liabilities				
Derivative liabilities	**11,045**	**25,380**	**–**	**36,425**

Bank 2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets at FVTPL	96,446	–	35,131	131,577
– quoted securities	96,446	–	–	96,446
– unquoted securities	–	–	35,131	35,131
Financial investments AFS	25,070	3,238,177	48,202	3,311,449
– money market instruments	–	1,359,394	–	1,359,394
– quoted securities	25,070	–	–	25,070
– unquoted securities	–	1,878,783	48,202	1,926,985
Derivative assets	–	57,906	–	57,906
	121,516	3,296,083	83,333	3,500,932
Financial liabilities				
Derivative liabilities	28,486	97,508	–	125,994

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value measurement (continued)

There were no transfers between Level 1 and Level 2 during the financial year.

Qualitative disclosures of valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include quoted securities and unit trusts.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio-economic reasons and unquoted corporate loan stocks. Fair values for shares held for socio-economic reasons are based on the net tangible assets of the affected companies. For unquoted corporate loan stocks, discounted cash flow analysis has been performed to determine the recoverability of the instrument.

Reconciliation of fair value measurements in Level 3:

The following represents the changes in Level 3 instruments for the Group and the Bank:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance as at the beginning of the financial year	**273,934**	163,896	**83,333**	91,602
Total (losses)/gains recognised in other comprehensive income	**(19,451)**	1,864	**3,679**	1,864
Total losses recognised in income statements				
– Other operating income	**(4,936)**	(19,038)	**(17,791)**	(4,039)
– Impairment losses made	**(8,726)**	(6,348)	**(8,726)**	(6,094)
– Reversal of impairment losses	**640**	–	**640**	–
Purchases	**252,043**	133,731	**–**	–
Settlements	**(239,217)**	(190)	**(640)**	–
Transfer to investments in associates	**(45,000)**	–	**–**	–
Exchange differences	**5,524**	19	**–**	–
Balance as at the end of the financial year	**214,811**	273,934	**60,495**	83,333

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Group		Bank	
2016	**Carrying value RM'000**	**Fair value RM'000**	**Carrying value RM'000**	**Fair value RM'000**
Financial assets				
Financial investments HTM	**398,564**	**394,990**	**398,564**	**394,990**
Loans and advances	**1,792,172**	**1,792,172**	**1,121,163**	**1,121,163**
	2,190,736	**2,187,162**	**1,519,727**	**1,516,153**
Financial liabilities				
Deposits from customers	**691,844**	**691,834**	**707,611**	**707,601**
Deposits and placements of banks and other financial institutions	**2,693,618**	**2,693,627**	**2,764,787**	**2,764,795**
Subordinated obligations	**447,595**	**444,393**	**447,595**	**444,393**
	3,833,057	**3,829,854**	**3,919,993**	**3,916,789**
2015				
Financial assets				
Financial investments HTM	590,461	585,500	590,461	585,500
Loans and advances	2,069,802	2,069,802	1,320,752	1,320,752
	2,660,263	2,655,302	1,911,213	1,906,252
Financial liabilities				
Deposits from customers	1,082,009	1,081,711	1,095,657	1,095,359
Deposits and placements of banks and other financial institutions	3,671,153	3,670,510	3,721,848	3,721,205
Subordinated obligations	548,822	544,433	548,822	544,433
	5,301,984	5,296,654	5,366,327	5,360,997

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy the Group's and the Bank's assets and liabilities not measured at fair value at 31 December 2016 but for which fair value is disclosed:

Group 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial investments HTM	**–**	**394,407**	**583**	**394,990**
Loans and advances	**–**	**1,792,172**	**–**	**1,792,172**
	–	**2,186,579**	**583**	**2,187,162**
Financial liabilities				
Deposits from customers	**–**	**691,834**	**–**	**691,834**
Deposits and placements of banks and other financial institutions	**–**	**2,693,627**	**–**	**2,693,627**
Subordinated obligations	**–**	**444,393**	**–**	**444,393**
	–	**3,829,854**	**–**	**3,829,854**
2015				
Financial assets				
Financial investments HTM	–	561,376	24,124	585,500
Loans and advances	–	2,069,802	–	2,069,802
	–	2,631,178	24,124	2,655,302
Financial liabilities				
Deposits from customers	–	1,081,711	–	1,081,711
Deposits and placements of banks and other financial institutions	–	3,670,510	–	3,670,510
Subordinated obligations	–	544,433	–	544,433
	–	5,296,654	–	5,296,654

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy the Group's and the Bank's assets and liabilities not measured at fair value at 31 December 2016 but for which fair value is disclosed: (continued)

Bank 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial investments HTM	**–**	**394,407**	**583**	**394,990**
Loans and advances	**–**	**1,121,163**	**–**	**1,121,163**
	–	**1,515,570**	**583**	**1,516,153**
Financial liabilities				
Deposits from customers	**–**	**707,601**	**–**	**707,601**
Deposits and placements of banks and other financial institutions	**–**	**2,764,795**	**–**	**2,764,795**
Subordinated obligations	**–**	**444,393**	**–**	**444,393**
	–	**3,916,789**	**–**	**3,916,789**
2015				
Financial assets				
Financial investments HTM	–	561,376	24,124	585,500
Loans and advances	–	1,320,752	–	1,320,752
	–	1,882,128	24,124	1,906,252
Financial liabilities				
Deposits from customers	–	1,095,359	–	1,095,359
Deposits and placements of banks and other financial institutions	–	3,721,205	–	3,721,205
Subordinated obligations	–	544,433	–	544,433
	–	5,360,997	–	5,360,997

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(i) Cash and short-term funds and deposits and placements with financial institutions

For cash and short-term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Financial assets at FVTPL, financial investments HTM and AFS

The estimated fair value of financial assets at FVTPL, financial investments HTM and AFS is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicate yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for similar instrument at the date of statement of financial position.

(iii) Loans and advances

For floating rate loans, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risk and maturities.

The fair values of impaired loans are represented by their carrying value, net of impairment allowance.

(iv) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in “other assets and liabilities” are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

(v) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(vi) Deposits and placements of banks and other financial institutions, obligations on securities sold under repurchase agreements ('repos'), obligations on securities borrowed and bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions, repos, obligations on securities borrowed and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

(vii) Borrowings

For floating rate borrowings, the carrying value is generally a reasonable estimate of fair value.

The estimated fair values of other borrowings with maturities of less than six months approximate the carrying values. For other borrowings with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

(viii) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statements of financial position.

(ix) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(x) Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group or the Bank would receive to sell or pay to transfer the contracts at the date of statements of financial position.

44 CONTINGENT LIABILITIES

	Group	
	2016 RM'000	2015 RM'000
Corporate guarantee issued in favour of Standard Chartered Bank (Hong Kong) Limited in relation to facilities granted to RHB Securities Hong Kong Limited and RHB Futures Hong Kong	–	168,955
Corporate guarantee issued in favour of Malayan Banking Berhad in relation to facilities granted to RHB Hong Kong Limited	**28,920**	27,698
Corporate guarantee issued in favour of China Construction Bank (Asia) Corporation Limited in relation to facilities granted to RHB Securities Hong Kong Limited	–	11,079
Corporate guarantee issued in favour of RHB Bank (L) Ltd in relation to facilities granted to RHB Private Equity Fund Ltd	–	429,350
Corporate guarantee issued in favour of the Monetary Authority of Singapore ('MAS') in relation to undertaking for RHB Securities Singapore Pte Ltd and RHB Research Institute Singapore Pte Ltd	**155,302**	–
Bank guarantee for lease of premises provided by RHB Securities Singapore Pte Ltd	–	1,809
	184,222	638,891

	Bank	
	2016 RM'000	2015 RM'000
Corporate guarantee issued in favour of Standard Chartered Bank (Hong Kong) Limited in relation to facilities granted to RHB Securities Hong Kong Limited and RHB Futures Hong Kong	–	168,955
Corporate guarantee issued in favour of Malayan Banking Berhad in relation to facilities granted to RHB Hong Kong Limited	**28,920**	27,698
Corporate guarantee issued in favour of China Construction Bank (Asia) Corporation Limited in relation to facilities granted to RHB Securities Hong Kong Limited	–	11,079
Corporate guarantee issued in favour of RHB Bank (L) Ltd in relation to facilities granted to RHB Private Equity Fund Ltd	–	429,350
Corporate guarantee issued in favour of the Monetary Authority of Singapore ('MAS') in relation to undertaking for RHB Securities Singapore Pte Ltd and RHB Research Institute Singapore Pte Ltd	**155,302**	–
	184,222	637,082

The Bank has given a corporate guarantee to Securities and Exchange Commission of Thailand ('SECT') on behalf of RHB Securities (Thailand) Public Company Limited, a subsidiary of the Bank for the issuance of warrants on the SECT.

45 CAPITAL ADEQUACY RATIO

BNM guidelines on capital adequacy requires the Group and the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Common Equity Tier I ('CET I')/Tier I Capital				
Paid-up ordinary share capital	**818,646**	818,646	**818,646**	818,646
Share premium	**1,515,150**	1,515,150	**1,515,150**	1,515,150
Retained profits	**199,497**	185,917	**351,586**	303,449
Other reserves	**602,591**	549,673	**449,208**	433,295
AFS reserves	**876**	12,258	**7,850**	(5,149)
	3,136,760	3,081,644	**3,142,440**	3,065,391
Less: Goodwill	**(1,269,934)**	(1,269,934)	**(1,118,418)**	(1,118,418)
Investments in subsidiaries, associates and joint ventures (portion deducted from CET I Capital)*	**(32,993)**	(8,359)	**(915,469)**	(588,970)
Other intangible assets (include associated deferred tax liabilities)	**(50,958)**	(51,443)	**(27,086)**	(25,530)
55% of cumulative gains of AFS financial instruments	**(482)**	(6,741)	**(4,318)**	–
Other deductions	**(29)**	(84)	**(29)**	(84)
Deferred tax assets	**(19,477)**	(30,601)	**(7,919)**	(21,063)
Reduction in excess of Tier II Capital due to insufficient Tier II Capital#	**–**	–	**(151,853)**	(322,564)
Total CET I Capital	**1,762,887**	1,714,482	**917,348**	988,762
Qualifying non-controlling interests recognised as Tier I Capital	**12,321**	843	**–**	–
Total Tier I Capital	**1,775,208**	1,715,325	**917,348**	988,762
Tier II Capital				
Subordinated obligations**	**245,000**	345,000	**245,000**	345,000
Subordinated obligations meeting all relevant criteria	**200,000**	200,000	**200,000**	200,000
Qualifying non-controlling interests recognised as Tier II Capital	**2,822**	118	**–**	–
Collective impairment allowance and regulatory reserves^	**29,873**	29,121	**13,460**	15,890
	477,695	574,239	**458,460**	560,890
Less: Investments in subsidiaries, associates and joint ventures*	**(21,996)**	(12,540)	**(458,460)**	(560,890)
Total Tier II Capital	**455,699**	561,699	**–**	–
Total Capital	**2,230,907**	2,277,024	**917,348**	988,762

45 CAPITAL ADEQUACY RATIO (CONTINUED)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Capital ratios				
Before proposed dividends:				
CET I Capital Ratio	**30.376%**	30.483%	**29.623%**	22.917%
Tier I Capital Ratio	**30.588%**	30.498%	**29.623%**	22.917%
Total Capital Ratio	**38.440%**	40.485%	**29.623%**	22.917%
After proposed dividends:				
CET I Capital Ratio	**30.376%**	30.483%	**29.623%**	22.917%
Tier I Capital Ratio	**30.588%**	30.498%	**29.623%**	22.917%
Total Capital Ratio	**38.440%**	40.485%	**29.623%**	22.917%

* Investment in subsidiaries are subject to gradual deduction in the calculation under CET l Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Capital Adequacy Framework (Capital Components).

\# The remaining portion of regulatory adjustments not deducted in the calculation of Tier II Capital shall be deducted in the next higher tier of capital as prescribed under paragraph 31.1 of the BNM's Capital Adequacy Framework (Capital Components).

** Subordinated obligations that are recognised as Tier II Capital instruments are subject to the gradual phase-out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM Guidelines Capital Adequacy Framework (Capital Components).

^ Excludes collective impairment allowance attributable to loans and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on 'Classification and Impairment Provisions for Loans/Financing'.

Includes the qualifying regulatory reserves for non-impaired loans of the Group and the Bank of RM21,279,000 (2015: RM22,615,000) and RM13,008,000 (2015: RM13,405,000) respectively.

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Credit risk	**2,389,833**	2,962,955	**1,269,201**	2,640,434
Market risk	**1,485,510**	578,405	**676,232**	469,440
Operational risk	**1,928,196**	2,083,014	**1,151,279**	1,204,734
Total risk-weighted assets	**5,803,539**	5,624,374	**3,096,712**	4,314,608

The total risk-weighted assets of the Group and the Bank are computed based on BNM's Guidelines on Risk Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

46 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined RHB Banking Group's Management Committee as its chief operating decision-maker.

The business segment results are prepared based on the Group's internal management reporting, which reflects the organisation's management reporting structure. Internal allocation of costs for example back office support, centralised cost, funding centre and the application of transfer pricing, where appropriate, has been used in preparing the segmental reporting.

The Group's business segments are organised into the following main segments reflecting the Group's internal reporting structure:

(a) Investment Banking

Investment banking provides services for advisory, fund raising in the structuring and issuance of debt securities and capital market instruments, corporate and debt restructuring, mergers and acquisitions, private placements, underwriting, structuring of bilateral lending, project financing, loans syndication, infrastructure financing, initial public offerings of equity related instruments, private placements and underwriting. This segment also covers facilities for equity share trading in local and foreign markets, share margin financing, futures broking products and services, custodian and nominees services, investment cash management and unit trust funds.

Included in Investment Banking are Stockbroking and Investment Banking products and services to RHB regional customers in Singapore, Hong Kong, Indonesia and Thailand.

(b) Treasury

Treasury and money market operations 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, as well as funding centre.

(c) Asset Management

Asset Management business focuses on providing investment management services, unit trust fund management services, Islamic funds management services, wills and trustee services.

During the financial year, no one group of related customers accounted for more than 10% of the Group's revenue.

46 SEGMENT REPORTING (CONTINUED)

(a) Segment analysis

Group 2016	Investment Banking RM'000	Treasury RM'000	Asset Management RM'000	Others and Elimination RM'000	Total RM'000
External revenue	686,459	80,857	133,326	(1,349)	899,293
Inter-segment revenue	34,139	–	–	(34,139)	–
Segment revenue	720,598	80,857	133,326	(35,488)	899,293
Other operating expenses:	(681,111)	(20,330)	(79,944)	34,139	(747,246)
Including:					
Depreciation of property, plant and equipment	(22,731)	(251)	(947)	–	(23,929)
Amortisation of intangible assets	(11,155)	(1,643)	(381)	–	(13,179)
Allowance for impairment on loans, advances and other losses	(60,544)	–	(636)	–	(61,180)
Impairment losses (made)/written back on other assets	(20,427)	(8,493)	–	10,500	(18,420)
	(41,484)	52,034	52,746	9,151	72,447
Share of results of associates					319
Share of results of joint ventures					724
Profit before taxation					73,490
Taxation					(42,156)
Net profit for the financial year					31,334
Segment assets	6,023,122	3,875,168	527,415	(1,773,460)	8,652,245
Goodwill	512,391	614,176	143,367	–	1,269,934
Investments in associates and joint ventures					54,989
Tax recoverable					61,528
Deferred tax assets					19,477
Total assets					10,058,173
Segment liabilities	2,467,929	3,206,326	310,963	(108,373)	5,876,845
Tax liabilities					11,583
Deferred tax liabilities					3,189
Borrowings					552,720
Subordinated obligations					447,595
Total liabilities					6,891,932
Other segment items					
Capital expenditure	27,939	–	2,691	–	30,630

46 SEGMENT REPORTING (CONTINUED)

(a) Segment analysis (continued)

Group 2015	Investment Banking RM'000	Treasury RM'000	Asset Management RM'000	Others and Elimination RM'000	Total RM'000
External revenue	756,721	85,268	128,781	(20,892)	949,878
Inter-segment revenue	27,866	–	–	(27,866)	–
Segment revenue	784,587	85,268	128,781	(48,758)	949,878
Other operating expenses:	(729,781)	(33,069)	(96,991)	(633)	(860,474)
Including:					
Depreciation of property, plant and equipment	(23,288)	(885)	(971)	–	(25,144)
Amortisation of intangible assets	(17,606)	(2,003)	(310)	–	(19,919)
Career transition scheme	–	–	–	(28,498)	(28,498)
(Allowance)/Write back for impairment on loans, advances and other losses	(14,814)	–	972	–	(13,842)
Impairment losses (made)/written back on other assets	(37,920)	32,975	–	44,048	39,103
	2,072	85,174	32,762	(5,343)	114,665
Share of results of associates					733
Share of results of joint ventures					300
Profit before taxation					115,698
Taxation					(43,188)
Net profit for the financial year					72,510
Segment assets	5,375,615	5,815,299	284,162	(1,651,947)	9,823,129
Goodwill	512,391	614,176	143,367	–	1,269,934
Investments in associates and joint ventures					20,899
Tax recoverable					38,979
Deferred tax assets					30,601
Total assets					11,183,542
Segment liabilities	2,193,056	4,819,561	187,896	(148,223)	7,052,290
Tax liabilities					8,895
Deferred tax liabilities					3,728
Borrowings					457,784
Subordinated obligations					548,822
Total liabilities					8,071,519
Other segment items					
Capital expenditure	34,508	172	1,123	–	35,803

46 SEGMENT REPORTING (CONTINUED)

(b) The geographical information is prepared based on the location of the assets:

2016	Revenue RM'000	Segment assets RM'000	Capital expenditure RM'000
Attributed to the country of domicile:			
– Malaysia	529,628	7,105,059	20,333
Attributed to foreign countries:			
– Singapore	153,510	1,216,825	4,842
– Hong Kong	59,923	508,255	1,756
– Indonesia	84,167	417,600	1,262
– Thailand	70,398	764,482	2,366
– Cambodia	1,667	45,952	71
	899,293	10,058,173	30,630
2015			
Attributed to the country of domicile:			
– Malaysia	613,690	8,808,160	22,076
Attributed to foreign countries:			
– Singapore	107,007	968,963	2,913
– Hong Kong	84,417	507,375	1,040
– Indonesia	73,352	294,301	4,002
– Thailand	71,412	560,643	5,772
– Cambodia	–	44,100	–
	949,878	11,183,542	35,803

47 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR AND PRECEDING FINANCIAL YEAR

(a) Proposed Subscription in Digital Financial Lab Limited ('DFLL'), by RHB Finexasia.Com Sdn Bhd ('RHB Finex') and Silverlake International Capital Market Solution Limited ('Silverlake Capital')

RHB Finex, a company in which RHB Bank Berhad ('RHB Bank') holds a 100% effective equity interest through its 59.95% direct shareholding (following the transfer of the 59.95% shareholding of the former holding company, RHB Capital Berhad to RHB Bank effective 14 April 2016 under the group internal reorganisation) and a 40.05% indirect shareholding through the Bank, which in turn is a wholly-owned subsidiary of RHB Bank, had on 6 August 2015 entered into a subscription agreement ('Agreement') with Silverlake International Capital Market Solution Limited ('Silverlake Capital'), to each subscribe for 50% redeemable convertible preference shares ('RCPS') of USD1.00 each at par in DFLL for RM10 million each ('Proposed Subscription'). The Agreement is conditional on the fulfilment of certain terms and conditions, including regulatory approval.

Pursuant to the Agreement, RHB Finex and Silverlake Capital will each subscribe for 50% RCPS in DFLL for RM10 million each ('Proposed Subscription'). The Proposed Subscription by RHB Finex will be funded by its internally generated funds. The RCPS shall rank pari passu with the existing ordinary shares of USD1.00 each ('Ordinary Shares') in DFLL in respect with the rights attached to the Ordinary Shares and shall be convertible at any time into Ordinary Shares at no extra cost.

Further to discussions with our local regulator, certain terms of the proposal have been reviewed and the revised proposal is currently being evaluated by the regulator.

(b) Group Internal Reorganisation

Upon completion of the Group Internal Reorganisation on 14 April 2016, the Bank is wholly-owned by RHB Bank Berhad and the Directors regard RHB Bank Berhad, a listed company incorporated in Malaysia, as the holding company.

(c) RHB Nominees Hong Kong Limited, an wholly-owned subsidiary of the Bank, has been dissolved upon its deregistration on 25 November 2016 pursuant to Section 751(3) of the Hong Kong Companies Ordinance, Chapter 622.

(d) Internal reorganisation exercise involving the acquisition of the entire equity interest in RHB OSK Indochina Securities Limited ('RHBISL') from RHB Indochina Bank Limited

On 1 October 2014, the Bank has entered into a share sale agreement with RHB Indochina Bank Limited ('RHBIBL') for the acquisition of the entire equity interest in RHBISL from RHBIBL for a consideration of USD12,500,000.

RHBISL was incorporated in Cambodia and is registered with the Securities and Exchange Commission of Cambodia ('SECC') as a licensed security firm undertaking securities underwriting business.

Approvals from BNM, Securities Commission of Malaysia ('SC'), SECC (in principle) and the National Bank of Cambodia have been obtained on 25 June 2014, 1 July 2014, 2 March 2015 and 7 May 2015 respectively.

On 9 December 2015, RHBISL's shares were registered under the Bank, and on 25 December 2015, the share sale agreement is concluded upon the issuance of SECC's final approval.

47 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR AND PRECEDING FINANCIAL YEAR (CONTINUED)

(d) Internal reorganisation exercise involving the acquisition of the entire equity interest in RHB OSK Indochina Securities Limited ('RHBISL') from RHB Indochina Bank Limited (continued)

The financial position of RHBISL as at the date of acquisition is as follows:

	2015 RM'000
At carrying value:	
Cash and short term funds	30,446
Deposits and placements with banks and other financial institutions	8,125
Other assets	4,350
Property, plant and equipment	1,179
Other liabilities	(449)
Net assets acquired	43,651
Effect of predecessor accounting	9,730
Total purchase consideration	53,381
Less: Amount due to related company*	(53,381)
Add: Cash and cash equivalents acquired	30,446
Net cash inflow on acquisition	30,446

Upon completion of the acquisition, RHBISL is wholly-owned of the Bank. The acquisition did not have any significant impact on the results of the Group for the financial year ended 31 December 2015.

* The purchase consideration is satisfied wholly in cash on 4 January 2016.

(e) Subscription of SGD3,000,000 ordinary shares in RHB International Investments Pte Ltd ('RII')

On 30 June 2015, the Bank subscribed for SGD3,000,000 (equivalent to RM8,416,000) new ordinary shares in RII. The issued and paid-up share capital of RII increased from SGD9,000,000 to SGD12,000,000. The rationale for the increase is to facilitate the subscription of additional shares in RHB Asset Management Pte Ltd ('RAM') as disclosed in Note 47(f).

(f) Subscription of SGD3,000,000 ordinary shares in RAM by RII

On 30 June 2015, RII subscribed for SGD3,000,000 new ordinary shares in RAM. The issued and paid-up share capital of RAM increased from SGD9,100,000 to SGD12,100,000 with details as follows:

i) SGD1,000,000 of Base Capital Requirement as set out by Monetary Authority of Singapore ('MAS') for applying the Capital Market Service Licence under the Securities and Futures Act; and

ii) SGD2,000,000 for working capital to support the growth and establishment of Singapore as a Regional Hub for Group Asset Management.

RAM is a wholly-owned subsidiary of RII which in turn is a wholly-owned subsidiary of the Bank. Upon completion of the subscription, the equity interest held by RII in RAM remains the same.

47 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR AND PRECEDING FINANCIAL YEAR (CONTINUED)

(g) Subscription of 33.33% equity interest in Prostar Capital (Asia-Pacific) Ltd

On 12 March 2015, RHB Private Equity Management Ltd ('RHBPEM'), a wholly-owned indirect subsidiary of the Bank, has entered into a Shareholders Agreement with Prostar Capital Management Ltd., an exempted company with limited liability incorporated under the laws of the Cayman Islands, in relation to the subscription for 33.33% equity interest of Prostar Capital (Asia-Pacific) Ltd. (the 'Associate Company') and the participation and management of the business and affairs of the Associate Company.

The subscription for 33.33% equity interest in the Associate Company was completed on 12 March 2015. The Associate Company is an exempted company with limited liability incorporated under the laws of Cayman Islands and was formed for the purpose of undertaking the establishment, management and/or operations of private equity funds.

(h) Subscription of HKD3,000,000 ordinary shares in RHB Asset Management Limited by RHB Hong Kong Limited

On 18 December 2015, RHB Hong Kong Limited subscribed for HKD3,000,000 new ordinary shares in RHB Asset Management Limited for additional working capital purpose. The issued and paid-up share capital of RHB Asset Management Limited increased from HKD14,000,000 to HKD17,000,000.

RHB Asset Management Limited is a wholly-owned subsidiary of RHB Hong Kong Limited. Upon completion of the subscription, the equity interest held by RHB Hong Kong Limited in RHB Asset Management Limited remains the same.

(i) Career Transition Scheme ('CTS') for Employees

As part of the Group's rationalisation exercise, the Group and the Bank has on 30 September 2015 completed the CTS in Malaysia with a payout amounting to RM28.5 million and RM24.1 million respectively, as disclosed in Note 30.

48 SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

The Bank is proposing to undertake an internal reorganisation which includes the following:

i) Proposed Transfer of Treasury Business;
ii) Proposed Transfer of Structured Lending;
iii) Proposed Transfer of Private Equity Group; and
iv) Proposed Capital Repayment.

(collectively, to be referred to as the 'Proposals')

The Proposed Transfer of Treasury Business and Proposed Transfer of Structured Lending Business entail the transfer of certain portion of the treasury business and all assets and liabilities under the structured lending business of the Bank to the RHB Bank Berhad ('RHB Bank') by way of a business transfer scheme pursuant to Section 100 of the Financial Services Act, 2013 ('FSA') and the Order of the High Court of Malaya pursuant to Sections 102 and 104 of the FSA.

The Proposed Transfer of Private Equity Group entails the transfer of the entire issued and paid-up share capital of RHB Private Equity Holdings Sdn Bhd ('RHBPE'), a wholly-owned subsidiary of the Bank to RHB Bank via a share sale agreement.

48 SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR (CONTINUED)

Subject to the completion of the Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business, Proposed Transfer of Private Equity Group and to obtain all requisite approvals, the Bank shall undertake a capital repayment exercise via a reduction of the issued and paid-up share capital and share premium account pursuant to Sections 60(2) and 64 of the Companies Act, 1965 ('Act').

The rationale for the Proposals are as follows:

i) The Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business and Proposed Transfer of Private Equity Group will enable the optimisation of operations of RHB Group and are expected to achieve business and operational synergies, economies of scale in resource utilisation and cost savings;

ii) The Proposed Transfer of Structured Lending Business enables the business unit to leverage on the established clientele base and resources in the RHB Group to market its services;

iii) With a larger capital base, the RHB Bank is able to support relatively more capital intensive businesses (i.e. Private Equity). This would provide a greater platform for RHBPE to undertake more investment opportunities in the future; and

iv) The Proposed Capital Repayment reflects the continuous effort of the RHB Group to achieve an efficient capital structure.

The Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business and Proposed Transfer of Private Equity Group are not inter-conditional upon each other and are not conditional upon the Proposed Capital Repayment. However, the Proposed Capital Repayment will only be implemented if at least one of the Proposed Transfer of Treasury Business, Proposed Transfer of Structured Lending Business and Proposed Transfer of Private Equity Group is implemented.

Approval from Bank Negara Malaysia ('BNM') for the Proposals has been obtained on 6 January 2017. The Proposals are now subject to the following approvals being obtained:

i) sanction of the High Court of Malaya pursuant to Sections 102 and 104 of the FSA for the Proposed Transfer of Treasury Business and Proposed Transfer of Structured Lending Business;

ii) sanction of the High Court of Malaya pursuant to Sections 60(2) and Section 64 of the Act for the reduction of share capital and share premium pursuant to the Proposed Capital Repayment;

iii) approvals of the lenders of the Bank and RHBPE Group, if required; and

iv) approvals, waivers and/or consents of any other relevant authorities and/or parties, if required.

49 CHANGE OF COMPOSITION OF THE GROUP

(a) Acquisition of RHB Entrepreneur Fund ('Fund')

During the financial year, the Bank acquired the effective control in the Fund which is managed by RHB Asset Management Pte Ltd, a subsidiary of the Bank, via:

(i) injection of capital amounting to SGD5,000,000, equivalent to RM15,325,000 on 22 January 2016; and

(ii) additional capital injection of SGD15,000,000, equivalent to RM45,105,000 on 15 March 2016.

The Group has consolidated the Fund in accordance with MFRS 10 'Consolidated Financial Statements' as a subsidiary of the Bank with effective equity interest of 48.92% as at 31 December 2016.

(b) Gain on redemption of RHB Resources Fund

On 12 August 2016, the Bank has fully redeemed its entire investment in RHB Resources Fund, a subsidiary of the Bank, and received proceeds of RM5.5 million.

	2016 RM'000
Proceeds from redemption of trust fund	5,488
Carrying value of trust fund	(3,608)
Gain on redemption of trust fund	1,880

(c) Dilution of interest of investment in associate

Held through RHBPE, a wholly-owned subsidiary of RHB Investment Bank. The effective equity interest in Satin Straits is Nil as RHBPE has only subscribed for RM45 million of Redeemable Convertible Preference Shares, RHBPE is entitled for full principal repayment upon maturity and with upside potential upon the trade sales or listing of the company.

The Group has amounted for this as an associate as the Group is deemed to have significant influence with MFRS 10 'Consolidated Financial Statements'.

50 COMPARATIVE INFORMATION

The following comparative balances have been reclassified to comfort to current year's presentation which more accurately reflect the nature of the relevant transactions. The Bank's prior results are not affected by these reclassification.

	Group		
	As previously reported RM'000	Reclassification RM'000	As restated RM'000
Statements of Financial Position			
Other assets	231,819	(4,240)	227,579
Statutory deposits	144,152	4,240	148,392
Income Statements			
Fee and commission income	–	802,631	802,631
Fee and commission expenses	–	(122,576)	(122,576)
Other operating income	939,193	(809,780)	129,413
Other operating expenses	(990,199)	129,725	(860,474)

51 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2017.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Tan Sri Azlan Zainol and Chin Yoong Kheong, 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 64 to 237 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2016 and of the results and cash flows of the Group and of the Bank for the financial year ended 31 December 2016 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

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

TAN SRI AZLAN ZAINOL
CHAIRMAN

CHIN YOONG KHEONG
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Kuala Lumpur
28 February 2017

STATUTORY DECLARATION

PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Tan Boon Ching, being 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 64 to 237 are, in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

TAN BOON CHING

Subscribed and solemnly declared by the abovenamed Tan Boon Ching at Kuala Lumpur in Wilayah Persekutuan on 28 February 2017.

COMMISSIONER FOR OATHS
Kuala Lumpur
28 February 2017

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF RHB INVESTMENT BANK BERHAD
(Incorporated in Malaysia) (Company No. 19663-P)

GOVERNANCE
FINANCIAL STATEMENTS
BRANCH NETWORK

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Investment Bank Berhad ('the Bank') and its subsidiaries ('the Group') give a true and fair view of the financial position of the Group and the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and the Bank, which comprise the statements of financial position as at 31 December 2016 of the Group and the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 64 to 237.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ('By-Laws') and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report and Statement by Directors which we obtained prior to the date of this auditors' report, and the 2016 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Group and the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and the Bank, the Directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and the Bank, including the disclosures, and whether the financial statements of the Group and the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 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 of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.

(c) 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.

(d) The auditor' 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 members 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

SOO HOO KHOON YEAN
(No. 2682/10/17(J))
Chartered Accountant

Kuala Lumpur
28 February 2017

BASEL II PILLAR 3 DISCLOSURES

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LIST OF TABLES

STATEMENT BY CHIEF EXECUTIVE OFFICER

In accordance with the requirements of Bank Negara Malaysia's Guideline on Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), and on behalf of the Board of Directors and Senior Management of RHB Investment Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of RHB Investment Bank Berhad for the year ended 31 December 2016 is accurate and complete.

ROBERT ANGELO HENDRO SANTOSO HURAY
Chief Executive Officer

BASEL II
PILLAR 3 DISCLOSURES

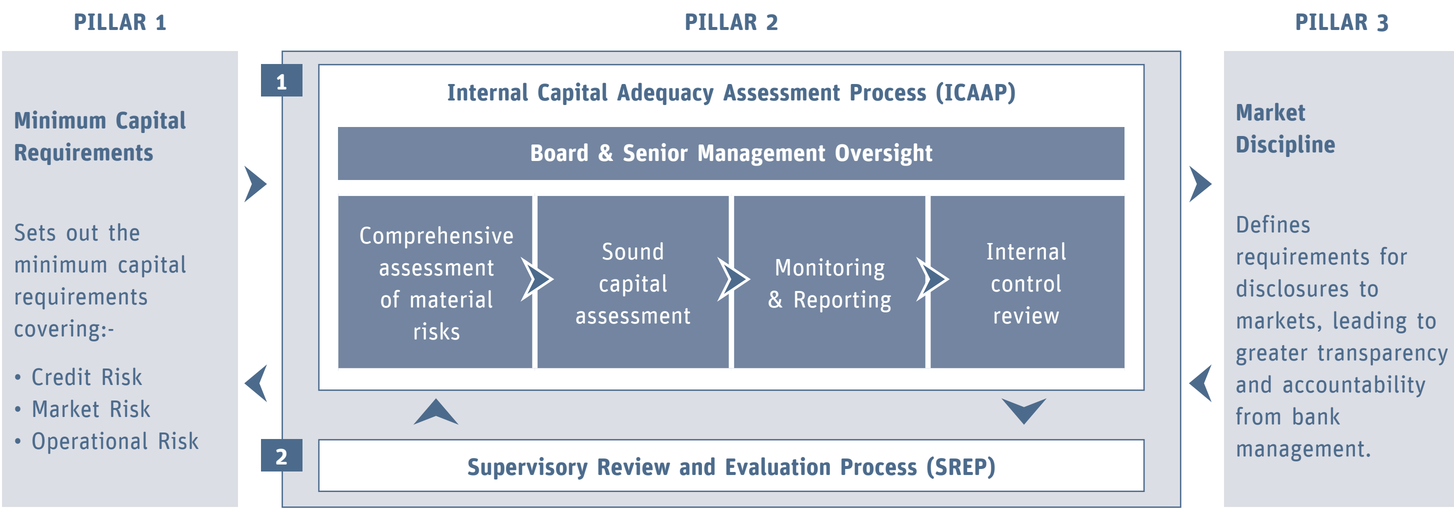
1.0 INTRODUCTION

This document describes RHB Investment Bank Berhad's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) issued by Bank Negara Malaysia (BNM).

BNM's guidelines on Capital Adequacy Framework (Basel II – Risk-Weighted Assets) provide and specify the approaches for quantifying the risk-weighted assets for credit risk, market risk and operational risk.

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

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



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

For the purpose of complying with regulatory requirements under Basel II Pillar 1, the approaches adopted by the Bank is as follows:

Entity	Credit Risk	Market Risk	Operational Risk
RHB Investment Bank Berhad	Standardised Approach	Standardised Approach	Basic Indicator Approach

Pillar 2 comprises two components as follows:

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

1.0 INTRODUCTION (CONTINUED)

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

The annual Pillar 3 disclosure report is published in accordance with the Pillar 3 Guideline issued by BNM. This disclosure report has been verified and approved internally in line with the RHB Banking Group: Basel II Pillar 3 Disclosure Policy.

This document covers the qualitative and quantitative information for financial year ended 31 December 2016 with comparative quantitative information of the preceding financial year 2015.

RHB Investment Bank Berhad's Pillar 3 disclosure report is made available under the Investor Relations section of RHB Banking Group's website at www.rhbgroup.com as a separate report in the annual report 2016, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Investment Bank Berhad's information is presented on a consolidated basis, ie RHB Investment Bank Berhad with its overseas operations, its subsidiaries, and its overseas joint venture company, and is referred to as "RHB Investment Bank Group" or "the Bank".

In April 2016, RHB Capital Berhad completed an internal reorganisation which entailed the transfer by RHB Capital Berhad of its entire equity interests in, and certain assets and liabilities of its subsidiaries to its wholly-owned subsidiary, RHB Bank Berhad (RHB Bank) which resulted in RHB Bank being the new holding company of RHB Banking Group.

The Bank's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, except where the types of investment to be deducted from eligible capital are required under Part C of BNM's Guideline on Capital Adequacy Framework (Capital Components).

The Bank also offers advisory and fund raising services and issuances of various forms of debt securities comprising bonds, commercial papers and medium term notes, and asset-backed securities for Islamic finance facilities. The Bank also distributes a full array of domestic and global unit trust funds including Shariah compliant funds, derivatives and structured products.

The transfer of funds for regulatory capital within the RHB Investment Bank Group is subject to shareholders' and regulatory approval.

During the financial year 2016, there were no capital deficiencies in RHB Investment Bank Berhad or in any of its subsidiaries and its associate company.

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to manage capital prudently to maintain a strong capital position to drive sustainable business growth and seek strategic opportunities to enhance shareholders' value, and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting regulatory requirements.

With a comprehensive capital management, the Bank aims to have a sound capital management practice that is aligned to BNM's ICAAP requirements.

The management of capital involves capital strategy, capital planning and capital allocation/structuring/optimisation.

- **Capital Strategy**

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

- **Capital Planning**

  Based on strategic direction and regulatory requirements, the Bank formulates a comprehensive and forward looking capital plan to:

  (i) support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate and aligned with the Bank's risk appetite;

  (ii) provide adequate capital for business growth, changes in asset mix or to cover unanticipated losses.

  The capital plan describes the actions required to raise capital in a timely manner in both normal and stressed conditions as assumed in the stress scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Bank maintains adequate capital on a forward-looking basis. The Bank also establishes a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer and deliberated at the Group Capital and Risk Committee (GCRC) for endorsement, and submitted to Board Risk Committee (BRC) and the Board for approval.

- **Capital Allocation/Structuring/Optimisation**

  The Bank determines the amount of capital allocated to each entity and business line based on capital performance target and available funding. An efficient allocation of capital drives returns for the Bank's shareholders.

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

  The Bank optimises its capital by integrating risk-based capital into strategy and aligning this with performance measurement.

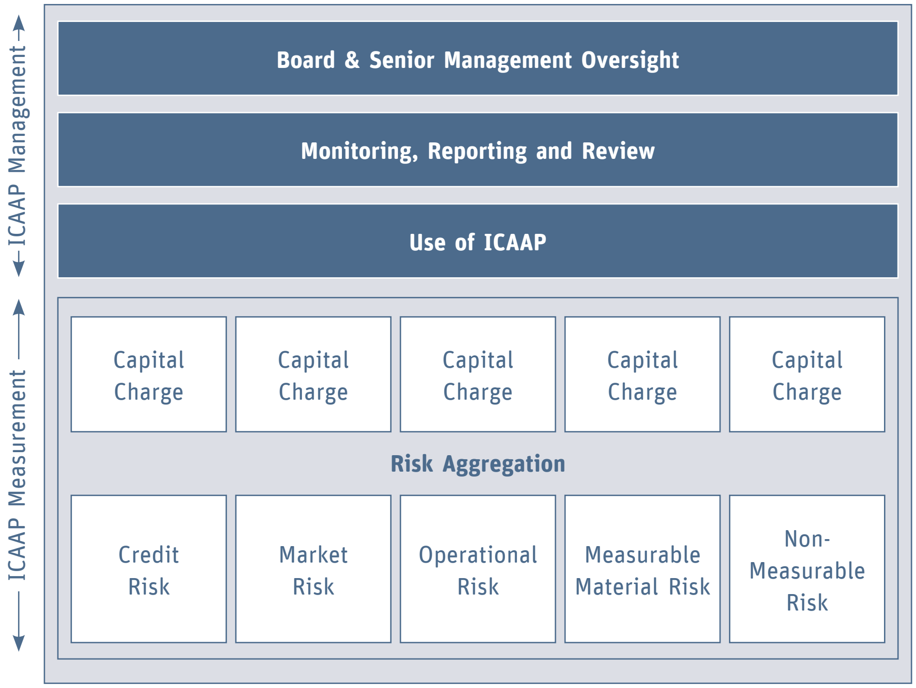
  The Bank also aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

In line with BNM's Guideline on ICAAP under the Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has implemented ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy is assessed in relation to the Bank's risk profile, and strategies are in place to maintain appropriate capital levels.

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



Key Requirements

- Establish rigorous corporate governance and senior management oversight.
- Establish risk-based strategy including defining and setting the Bank's appetite and tolerance for risk.
- Access and measure all material risks inherent in the Group's business.
- Review, monitor, control and report on all material risks.
- Demonstrate that ICAAP forms and integral part of day-to-day management process and decision making culture of the Group.
- Relate capital to level of risk and ensure capital adequacy using scenario analysis and stress testing methods.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.2 Basel III Implementation

The implementation of Basel III for capital components by BNM in Malaysia has commenced with effect from 1 January 2013. Under the Basel III rules, banking institutions are required to strengthen the quality of their capital by maintaining higher minimum capital requirements and holding capital buffers namely the capital conservation buffer and the countercyclical capital buffer. However, the requirements are subject to a series of transitional arrangements with a gradual phase-in commencing 2013.

The Bank has implemented BNM's liquidity standards on Liquidity Coverage Ratio (LCR) effective from 1 June 2015 after reporting the LCR under observation since June 2012. BNM has adopted the phase-in arrangement for Malaysian banking institutions to comply with the minimum requirement of 60% in 2015 with incremental of 10% each year thereafter until 100% from 1 January 2019 onwards. Banking institutions continue to report on Net Stable Funding Ratio (NSFR) under observation. The result produced during the observation period facilitates the Bank's strategy in managing the appropriate balance sheet structure for achieving optimal NSFR.

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework (Capital Components) sets out the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital. Banking institutions are required to maintain, at all times, the following minimum capital adequacy ratios:

Calendar Year	Common Equity Tier I (CET I) Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
2013	3.50%	4.50%	8.00%
2014	4.00%	5.50%	8.00%
2015 onwards	4.50%	6.00%	8.00%

In addition, the Bank is required to maintain additional capital buffers in the form of CET I Capital above the minimum CET I, Tier I and Total Capital Ratios set out above. The capital buffers shall comprise of Capital Conservation Buffer (CCB) and countercyclical capital buffer (CCyB). The CCB is intended to enable the banking system to withstand future periods of stress and will be phased-in as follows:

Calendar Year	CCB
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

CCyB is determined based on the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Group has credit exposures. This buffer is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. Application of CCyB above the minimum capital ratios is in the range of 0.0% to 2.5%. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

The capital ratios of RHB Investment Bank Berhad on consolidated basis (RHB Investment Bank Group), and on global basis (RHB Investment Bank) as at 31 December 2016 and 31 December 2015 are as follows:

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios (Continued)

Table 1: Capital Adequacy Ratios

	RHB Investment Bank Group		RHB Investment Bank	
	2016	**2015**	**2016**	**2015**
Before proposed dividends				
Common Equity Tier I Capital Ratio	**30.376%**	30.483%	**29.623%**	22.917%
Tier I Capital Ratio	**30.588%**	30.498%	**29.623%**	22.917%
Total Capital Ratio	**38.440%**	40.485%	**29.623%**	22.917%
After proposed dividends				
Common Equity Tier I Capital Ratio	**30.376%**	30.483%	**29.623%**	22.917%
Tier I Capital Ratio	**30.588%**	30.498%	**29.623%**	22.917%
Total Capital Ratio	**38.440%**	40.485%	**29.623%**	22.917%

The above capital ratios are above the minimum level required by BNM.

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

The following table shows the breakdown of RWA by risk types as at 31 December 2016 and 31 December 2015:

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

	RHB Investment Bank Group		RHB Investment Bank	
Risk Types	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Credit RWA	**2,389,833**	2,962,955	**1,269,201**	2,640,434
Market RWA	**1,485,510**	578,405	**676,232**	469,440
Operational RWA	**1,928,196**	2,083,014	**1,151,279**	1,204,734
Total	**5,803,539**	**5,624,374**	**3,096,712**	**4,314,608**

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.4 Minimum Capital Requirements and Risk-Weighted Assets (RWA) (Continued)

The following tables show the breakdown of RWA by risk types and the corresponding capital requirement as at 31 December 2016 and 31 December 2015:

Table 3a: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31 December 2016

	RWA		Minimum Capital Requirements	
Risk Types	RHB Investment Bank Group RM'000	RHB Investment Bank RM'000	RHB Investment Bank Group RM'000	RHB Investment Bank RM'000
Credit Risk				
Under Standardised Approach	**2,389,833**	**1,269,201**	**191,187**	**101,536**
Market Risk				
Under Standardised Approach	**1,485,510**	**676,232**	**118,841**	**54,099**
Operational Risk				
Under Basic Indicator Approach	**1,928,196**	**1,151,279**	**154,256**	**92,102**
Total	**5,803,539**	**3,096,712**	**464,284**	**247,737**

Table 3b: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements as at 31 December 2015

	RWA		Minimum Capital Requirements	
Risk Types	RHB Investment Bank Group RM'000	RHB Investment Bank RM'000	RHB Investment Bank Group RM'000	RHB Investment Bank RM'000
Credit Risk				
Under Standardised Approach	2,962,955	2,640,434	237,036	211,235
Market Risk				
Under Standardised Approach	578,405	469,440	46,272	37,555
Operational Risk				
Under Basic Indicator Approach	2,083,014	1,204,734	166,641	96,379
Total	**5,624,374**	**4,314,608**	**449,949**	**345,169**

Capital requirement for the three risk types is derived by multiplying the risk-weighted assets by 8%.

The decrease in Credit RWA was mainly due to reduction in bond and loan exposures. Market RWA has increased arising from increased in equity holdings and trust funds.

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on Capital Adequacy Framework (Capital Components) Parts B and C. These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Bank. Tier I capital consists primarily of ordinary share capital, share premium, retained profits, other reserves and hybrid Tier I capital securities. Tier II capital consists of subordinated obligations and collective impairment allowance. Refer to Note 45 to the Financial Statements for the terms of these capital instruments.

The following table represents the capital position of RHB Investment Bank Group and RHB Investment Bank as at 31 December 2016 and 31 December 2015:

Table 4: Capital Structure

	RHB Investment Bank Group		RHB Investment Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Common Equity Tier I Capital/Tier I Capital				
Paid up ordinary share capital	**818,646**	818,646	**818,646**	818,646
Share premium	**1,515,150**	1,515,150	**1,515,150**	1,515,150
Retained profits	**199,497**	185,917	**351,586**	303,449
Other reserves	**602,591**	549,673	**449,208**	433,295
Available for sale ('AFS') reserves	**876**	12,258	**7,850**	(5,149)
Less:				
Goodwill	**(1,269,934)**	(1,269,934)	**(1,118,418)**	(1,118,418)
Investments in subsidiaries, associates and joint ventures (portion deducted from CET I Capital)*	**(32,993)**	(8,359)	**(915,469)**	(588,970)
Intangible assets	**(50,958)**	(51,443)	**(27,086)**	(25,530)
55% of cumulative gains arising from change in value of AFS instruments	**(482)**	(6,741)	**(4,318)**	–
Other deductions	**(29)**	(84)	**(29)**	(84)
Deferred tax assets	**(19,477)**	(30,601)	**(7,919)**	(21,063)
Reduction in excess of Tier II Capital due to insufficient Tier II Capital#	**–**	–	**(151,853)**	(322,564)
Total Common Equity Tier I Capital	**1,762,887**	**1,714,482**	**917,348**	**988,762**
Qualifying non controlling interest recognised as Tier I Capital	**12,321**	843	**–**	–
Total Tier I Capital	**1,775,208**	**1,715,325**	**917,348**	**988,762**

4.0 CAPITAL STRUCTURE (CONTINUED)

Table 4: Capital Structure (Continued)

	RHB Investment Bank Group		RHB Investment Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Tier II Capital				
Subordinated obligations subject to gradual phase out treatment**	**245,000**	345,000	**245,000**	345,000
Subordinated obligations meeting all relevant criteria	**200,000**	200,000	**200,000**	200,000
Qualifying non controlling interest recognised as Tier II Capital	**2,822**	118	**–**	–
Collective impairment allowances and regulatory reserves^	**29,873**	29,121	**13,460**	15,890
Less:				
Investments in subsidiaries, associates and joint ventures	**(21,996)**	(12,540)	**(458,460)**	(560,890)
Total Tier II Capital	**455,699**	**561,699**	**–**	**–**
Total Capital	**2,230,907**	**2,277,024**	**917,348**	**988,762**

* Investments in subsidiaries are subject to gradual deduction using the corresponding deduction approach under CET I Capital effective from 1 January 2014 as prescribed under paragraph 37.11 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

The remaining portion of regulatory adjustments not deducted in calculation of Tier II Capital shall be deducted in the next higher tier of capital as prescribed under paragraph 31.1 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

** Subordinated obligations that are recognised as Tier II capital instruments are subject to gradual phase out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Guideline on Capital Adequacy Framework (Capital Components).

^ Excludes collective assessment impairment allowance attributable to loans, advances, and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Advances.

Includes the qualifying regulatory reverses for loans of the Group and the Bank of RM13,082,000 (31 December 2015: RM22,615,000) and RM13,008,000 (31 December 2015: RM13,405,000) respectively.

5.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group (the Group), as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The following sections describe some of these risk management content areas.

OVERARCHING RISK MANAGEMENT PRINCIPLES

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:

- Risk governance from the Boards of Directors of various operating entities within the Group;
- Clear understanding of risk management ownership;
- Institutionalisation of a risk-focused organisation;
- Alignment of risk management to business strategies; and
- Optimisation of risk-adjusted returns.

Principle 1: Risk Governance from the Boards of Directors of various operating entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

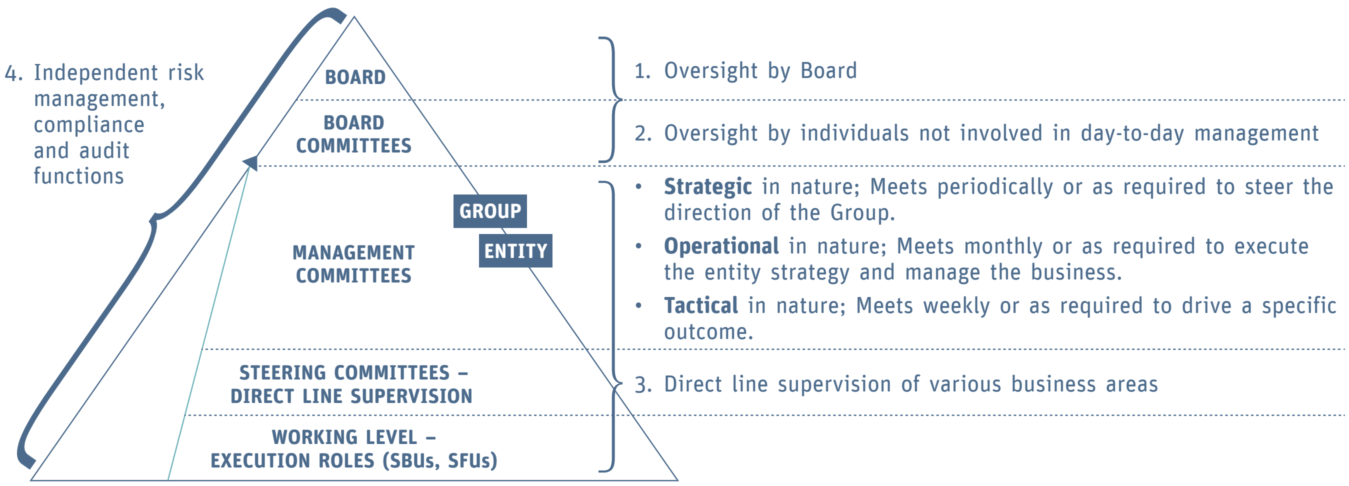
RISK GOVERNANCE AND ORGANISATION

The Board of Directors (Board), through the BRC, GCRC and the Group Risk & Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board Committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (Continued)

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports to the BRC/Islamic Risk Management Committee and the Group Management Committee (GMC). There are other committees set up to manage specific areas of risks in the Group. An overview of this governance framework at Group level is as below:



Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group.

The Strategic Business Units (SBUs) and Strategic Functional Units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.

Principle 3: Institutionalisation of a Risk-Focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.

Central Risk Management Function

Group Risk & Credit Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Management Function (Continued)

The roles and responsibilities of the Group Chief Risk Officer include:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing a pro-active, balanced and risk-attuned culture within the Group;
- Advising Senior Management, the GCRC, BRC and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies; and
- Administering the delegation of discretionary powers to Management personnel within the Group.

Group Risk & Credit Management consisting of Group Risk Management, Group Credit Management and Group Risk Operations provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Key areas for which Group Risk Management is responsible include the Group's risk policy and framework, day-to-day risk measurement and monitoring, providing timely risk analysis to management, and ensuring compliance to regulatory risk reporting requirements.

Group Credit Management oversees the Group-wide credit evaluation and assessment, approval and credit monitoring functions by providing credit risk assessment assurance on credit proposals, highlighting key risks and potential problematic accounts, and improving credit process efficiency.

Group Risk Operations is responsible for strategising and implementing a comprehensive enterprise-wide risk governance framework, and managing the development of robust risk management infrastructure and tools, aligned with the Group's strategy for growth and keeping pace with the market requirements and competitive business environment. Group Risk Operations drives the operationalisation of the Group's risk transformation initiatives in establishing risk management as a valuable business partner.

Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

5.0 RISK MANAGEMENT (CONTINUED)

Principle 4: Alignment of Risk Management to Business Strategies

The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite is set by the Board and reported through various metrics that enable the Group to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Group is prepared to accept in delivering its strategy.

Principle 5: Optimisation of Risk-Adjusted Returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance with the agreed terms. It stems primarily from the Group's lending/financing/underwriting, investment and trading activities from both on and off-balance sheet transactions.

6.1 Credit Risk Management Oversight and Organisation

The Group Investment Underwriting Committee (GIUC) deliberates and approves investment banking related proposals such as equity underwriting, Equity Capital Markets activities and share margin financing cases. The Group Credit Committee (GCC) deliberates and approves credit lending related proposals including structured products and bond purchase. GIUC and GCC submit proposals to the Board Credit Committee (BCC) for affirmation or veto if the proposals exceed a pre-defined threshold.

The BCC's main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC and/or GIUC, and (ii) overseeing the management of impaired and high risk accounts. BCC also endorses policy financing and financing required by BNM to be referred to the respective Boards for approval.

In line with best practices, credit lending-related applications are independently evaluated by Group Credit Management and Investment Bank Credit Control for margin finance prior to submission to the relevant committees for approval.

Within Group Risk Management, the Group Credit Risk Management has the functional responsibility for credit risk management, portfolio risk monitoring and risk reporting. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the GCRC, BRC and the Board. These reports include various credit risk aspects such as portfolio quality, and concentration risk exposures by business portfolio. Such reporting allows Senior Management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach

The Bank's credit risk management framework is founded upon guidelines issued by BNM (such as Guideline on Best Practices for the Management of Credit Risk, Guidelines on Investment Banks and Single Counterparty Exposures Limit) and industry best practices. The Bank abides by its Credit Risk Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Industry's best practices are instilled in the continual updating of the Credit Risk Policy.

The Bank ensures that internal processes and credit underwriting standards are adhered to before financing proposals are approved. All financing proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit evaluation and decided upon by the management.

All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review by Group Internal Audit.

The Bank's Credit Management Operations Manual sets out the operational procedures and guidelines governing the credit management processes for the Bank's Structured Lending, Debt/Equity Capital Markets and Treasury Business operations. The manual has been designed to ensure that:

- The process of credit initiation, administration, supervision and management of corporate financing, credit counterparty lines, subscription and/or underwriting of Equity and Bonds are carried out consistently and uniformly by the relevant business origination and other credit support functions.
- Procedures and guidelines governing the credit function are in compliance with the credit policies of the Group.

Lending/Financing to Corporate and Institutional Customers

Loans/financing to corporate and institutional customers are undertaken in the course of its share margin/trading or investment banking activities in derivatives and debt securities. 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 risk from trading, derivative and equity/ debt securities activities. Relevant credit guidelines are established to govern the credit risk via guidance on derivatives, hedging and investment related activities of the different exposures.

Lending/Financing to Share Margin Financing

Loans/financing to share margin clients are based on credit/financing facilities made available to these clients for trading or redemption of securities that are listed in Bursa Malaysia Berhad in accordance with the Bursa Securities Rules.

For Share Margin Financing, credit risk is mitigated through the establishment of appropriate approving authority structure/matrix for the extension of trading/credit limits. Within clearly defined guidelines approved by the Board and in line with applicable laws and regulations, credit risk management also encompasses the systematic credit assessment, close monitoring of limits, exposures and concentration risk to counterparties or 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 the Bank is in accordance to the credit risk management approach as set out under Section 6.2 of this document:

- Underwriting commitments in respect of the Bank's debt capital or equity capital market activities;
- Commitments to extend credit/financing including the unutilised or undrawn portions of credit facilities; and
- Principal or notional amount of derivative financial instruments.

Counterparty Credit Risk

Counterparty Credit Risk is the risk that the entity with whom one has entered into a financial contract (the counterparty to the contract) will fail to fulfil their side of the contractual agreement (eg they default). Counterparty risk is typically defined as arising from two broad classes of financial products:

- Over-the-counter derivatives such as interest rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and lending/financing.

Derivative financial instruments are primarily entered into for hedging purposes. The Bank may also take trading derivative positions, within pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

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

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches

The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2016 compared with 31 December 2015, segregated by:

- the various types of asset classes, showing details of the exposures by type of approaches, before and after Credit Risk Mitigation (CRM), the corresponding RWA and capital requirements;
- disclosure on off-balance sheet and counterparty credit risk;
- geographical distribution;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights. 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 by Portfolio and Approaches (Continued)

Table 5a: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2016

RHB Investment Bank Group Exposure Class	Gross Exposures/EAD before CRM RM'000	Net Exposures/EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement RM'000
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns & Central Banks	744,001	744,001	1,962	157
Banks, Development Financial Institutions & MDBs	1,946,684	1,946,684	484,671	38,774
Insurance Cos, Securities Firms & Fund Managers	613,755	613,755	613,755	49,100
Corporates	2,706,122	1,029,732	239,560	19,165
Residential Mortgages	566	566	198	16
Higher Risk Assets	28	28	42	3
Other Assets	1,936,121	1,936,121	727,363	58,189
Securitisation Exposures	–	–	–	–
Equity Exposures	33,091	33,091	48,665	3,893
Defaulted Exposures	96,198	78,462	106,323	8,506
Total On-Balance Sheet Exposures	8,076,566	6,382,440	2,222,539	177,803
Off-Balance Sheet Exposures				
OTC Derivatives	13,380	12,794	2,662	213
Off-balance sheet exposures other than OTC derivatives or credit derivatives	413,707	164,628	164,632	13,171
Defaulted Exposures	–	–	–	–
Total Off-Balance Sheet Exposures	427,087	177,422	167,294	13,384
Total On and Off-Balance Sheet Exposures	8,503,653	6,559,862	2,389,833	191,187

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 5b: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2015

RHB Investment Bank Group Exposure Class	Gross Exposures/EAD before CRM RM'000	Net Exposures/EAD after CRM RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement RM'000
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns & Central Banks	1,386,439	1,386,439	1,830	146
Banks, Development Financial Institutions & MDBs	2,372,870	2,361,046	640,952	51,276
Insurance Cos, Securities Firms & Fund Managers	452,107	452,107	452,107	36,169
Corporates	3,310,944	1,543,301	577,983	46,238
Residential Mortgages	783	783	274	22
Higher Risk Assets	30	30	44	4
Other Assets	1,662,452	1,662,452	721,981	57,758
Securitisation Exposures	–	–	–	–
Equity Exposures	99,775	99,775	99,775	7,982
Defaulted Exposures	198,721	179,777	241,948	19,356
Total On-Balance Sheet Exposures	**9,484,121**	**7,685,710**	**2,736,894**	**218,951**
Off-Balance Sheet Exposures				
OTC Derivatives	87,897	87,839	64,023	5,122
Off-balance sheet exposures other than OTC derivatives or credit derivatives	546,315	188,687	160,916	12,873
Defaulted Exposures	1,122	1,122	1,122	90
Total Off-Balance Sheet Exposures	**635,334**	**277,648**	**226,061**	**18,085**
Total On and Off-Balance Sheet Exposures	**10,119,455**	**7,963,358**	**2,962,955**	**237,036**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 6a: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2016

RHB Investment Bank Group

Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	–		–	–
NIFs and obligations under underwriting agreement	–		–	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo style transactions	–		–	–
Foreign exchange related contracts	351,858	6,573	10,725	2,241
1 year or less	*351,858*	*6,573*	*10,725*	*2,241*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Interest rate related contracts	230,000	629	1,669	340
1 year or less	*140,000*	*29*	*169*	*40*
Over 1 year to 5 years	*90,000*	*600*	*1,500*	*300*
Over 5 years	–	–	–	–
Equity related contracts	14,368	125	987	80
1 year or less	*14,368*	*125*	*987*	*80*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and credit lines, with original maturity of over 1 year	600		300	15
Other commitments, such as formal standby facilities and credit lines, with original maturity of up to 1 year	2,067,036		413,407	164,617
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	–		–	–
Total	2,663,862	7,327	427,088	167,293

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 6b: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2015

RHB Investment Bank Group

Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	–		–	–
NIFs and obligations under underwriting agreement	–		–	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo style transactions	195,053		195,053	6,944
Foreign exchange related contracts	1,249,605	55,683	80,460	62,365
1 year or less	*1,050,731*	*41,257*	*56,091*	*42,557*
Over 1 year to 5 years	*198,874*	*14,426*	*24,369*	*19,808*
Over 5 years	–	–	–	–
Interest rate related contracts	1,090,000	2,217	7,417	1,656
1 year or less	*860,000*	*1,240*	*3,240*	*761*
Over 1 year to 5 years	*230,000*	*977*	*4,177*	*895*
Over 5 years	–	–	–	–
Equity related contracts	315	1	20	2
1 year or less	*315*	*1*	*20*	*2*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and credit lines, with original maturity of over 1 year	22		11	15
Other commitments, such as formal standby facilities and credit lines, with original maturity of up to 1 year	1,761,866		352,373	155,079
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	**4,296,861**	**57,901**	**635,334**	**226,061**

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Geographical Distribution as at 31 December 2016

RHB Investment Bank Group

Exposure Class	Malaysia RM'000	Singapore RM'000	Hong Kong RM'000	Indonesia RM'000	Thailand RM'000	Cambodia RM'000	Total RM'000
Exposures under Standardised Approach							
Sovereigns & Central Banks	739,557	–	–	–	–	4,444	744,001
Banks, Development Financial Institutions & MDBs	1,555,638	172,203	52,485	93,733	44,628	40,390	1,959,077
Insurance Cos, Securities Firms & Fund Managers	41,536	554,104	15,453	1	2,661	–	613,755
Corporates	2,158,244	112,668	597,592	59,595	288,506	–	3,216,605
Residential Mortgages	566	–	–	–	–	–	566
Higher Risk Assets	36	–	–	–	–	–	36
Other Assets	1,081,519	295,707	65,464	264,649	228,064	1,119	1,936,522
Total	**5,577,096**	**1,134,682**	**730,994**	**417,978**	**563,859**	**45,953**	**8,470,562**

Note: This table excludes equity and securitisation exposures.

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Geographical Distribution as at 31 December 2015

RHB Investment Bank Group

Exposure Class	Malaysia RM'000	Singapore RM'000	Hong Kong RM'000	Indonesia RM'000	Thailand RM'000	Cambodia RM'000	Total RM'000
Exposures under Standardised Approach							
Sovereigns & Central Banks	1,386,439	–	–	–	–	–	1,386,439
Banks, Development Financial Institutions & MDBs	2,330,429	27,593	72,471	42,047	88,169	38,571	2,599,280
Insurance Cos, Securities Firms & Fund Managers	51,833	379,628	12,969	695	6,982	–	452,107
Corporates	2,828,069	263,340	579,364	40,892	206,917	–	3,918,582
Residential Mortgages	783	–	–	–	–	–	783
Higher Risk Assets	37	–	–	–	–	–	37
Other Assets	869,069	339,041	43,729	207,315	197,769	5,529	1,662,452
Total	**7,466,659**	**1,009,602**	**708,533**	**290,949**	**499,837**	**44,100**	**10,019,680**

Note: This table excludes equity and securitisation exposures.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2016

RHB Investment Bank Group

Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	43,243	700,758	-	-	744,001
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,959,077	-	-	-	1,959,077
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	613,755	-	-	-	613,755
Corporates	75,678	886	45,995	45,414	195,390	114,084	85,126	1,097,295	61,299	1,495,438	-	3,216,605
Residential Mortgages	-	-	-	-	-	-	-	-	-	566	-	566
Higher Risk Assets	-	-	-	-	-	-	-	-	-	36	-	36
Other Assets	-	-	-	-	-	-	-	455,486	-	-	1,481,036	1,936,522
Total	75,678	886	45,995	45,414	195,390	114,084	85,126	4,168,856	762,057	1,496,040	1,481,036	8,470,562

Note: This table excludes equity and securitisation exposures.

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2015

RHB Investment Bank Group

Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	153,400	1,233,039	-	-	1,386,439
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	2,599,280	-	-	-	2,599,280
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	452,107	-	-	-	452,107
Corporates	66,757	3,567	112,540	45,432	340,998	89,910	60,950	1,702,871	18,412	1,477,145	-	3,918,582
Residential Mortgages	-	-	-	-	-	-	-	-	-	783	-	783
Higher Risk Assets	-	-	-	-	-	-	-	-	-	37	-	37
Other Assets	-	-	-	-	-	-	-	404,406	-	-	1,258,046	1,662,452
Total	66,757	3,567	112,540	45,432	340,998	89,910	60,950	5,312,064	1,251,451	1,477,965	1,258,046	10,019,680

Note: This table excludes equity and securitisation exposures.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 9a: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2016

RHB Investment Bank Group

Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	20,295	475,032	248,674	744,001
Banks, Development Financial Institutions & MDBs	462,201	317,668	1,179,208	1,959,077
Insurance Cos, Securities Firms & Fund Managers	–	–	613,755	613,755
Corporates	2,257,296	476,972	482,337	3,216,605
Residential Mortgages	–	242	324	566
Higher Risk Assets	–	–	36	36
Other Assets	401	–	1,936,121	1,936,522
Total	**2,740,193**	**1,269,914**	**4,460,455**	**8,470,562**

Note: This table excludes equity and securitisation exposures.

Table 9b: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2015

RHB Investment Bank Group

Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	100,671	766,178	519,590	1,386,439
Banks, Development Financial Institutions & MDBs	909,418	636,561	1,053,301	2,599,280
Insurance Cos, Securities Firms & Fund Managers	–	–	452,107	452,107
Corporates	2,539,046	766,169	613,367	3,918,582
Residential Mortgages	–	327	456	783
Higher Risk Assets	–	–	37	37
Other Assets	–	–	1,662,452	1,662,452
Total	**3,549,135**	**2,169,235**	**4,301,310**	**10,019,680**

Note: This table excludes equity and securitisation exposures.

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (Continued)

Table 10a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2016

RHB Investment Bank Group

Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	734,191	-	-	-	205,734	-	-	-	844,690	-	1,784,615	-
20%	9,810	-	1,691,030	-	705,795	-	-	-	455,486	-	2,862,121	572,424
35%	-	-	-	-	-	-	566	-	-	-	566	198
50%	-	-	237,999	-	50,976	-	-	-	-	-	288,975	144,488
75%	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	30,048	613,755	243,217	-	-	-	636,346	1,943	1,525,309	1,525,309
150%	-	-	-	-	67,092	-	-	36	-	31,148	98,276	147,414
Total Exposures	744,001	-	1,959,077	613,755	1,272,814	-	566	36	1,936,522	33,091	6,559,862	2,389,833

Table 10b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2015

RHB Investment Bank Group

Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	1,377,287	-	-	-	251,717	-	-	-	616,946	-	2,245,950	-
20%	9,152	-	1,910,483	-	861,216	-	-	-	404,406	-	3,185,257	637,051
35%	-	-	-	-	-	-	783	-	-	-	783	274
50%	-	-	486,595	-	59,896	-	-	-	-	-	546,491	273,246
75%	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	30,044	452,107	626,837	-	-	-	641,100	99,775	1,849,863	1,849,863
150%	-	-	-	-	134,977	-	-	37	-	-	135,014	202,521
Total Exposures	1,386,439	-	2,427,122	452,107	1,934,643	-	783	37	1,662,452	99,775	7,963,358	2,962,955

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Rating

For sovereigns, corporate and banking institutions, external ratings from approved External Credit Assessment Institutions (ECAIs), where available, are used to calculate the risk-weighted assets and regulatory capital.

The process used to map ECAIs issuer ratings or comparable ECAIs issue ratings, are in accordance to the standards prescribed by BNM. Approved ECAIs are as follows:

- Standard & Poor's (S&P);
- Moody's Investor Services (Moody's);
- Fitch Ratings (Fitch);
- Malaysian Rating Corporation Berhad (MARC);
- Rating Agency Malaysia (RAM); and
- Rating and Investment Information, Inc (R&I).

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose.

The following tables show the Bank's credit exposures for 31 December 2016 compared with 31 December 2015, according to the ratings by ECAIs:

Table 11a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2016

RHB Investment Bank Group

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	613,755
Corporates		705,794	39,607	20,901	3,288	503,224

Short Term Ratings of Banking Institutions by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, Development Financial Institutions & MDBs		–	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Rating (Continued)

Table 11a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2016 (continued)

RHB Investment Bank Group

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		-	744,001	-	-	-	-

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		567,968	228,956	19,541	30,047	-	1,112,565

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Rating (Continued)

Table 11b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2015

RHB Investment Bank Group

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	452,107
Corporates		881,261	49,260	100,689	6,307	897,126

Short Term Ratings of Banking Institutions by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, Development Financial Institutions & MDBs		248,299	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Rating (Continued)

Table 11b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2015 (Continued)

RHB Investment Bank Group

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	1,386,439	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		478,133	647,404	27,541	30,043	–	995,702

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Bank generally does not enter into a credit/financing commitment solely on the basis of collateral provided. All credit facilities/ commitments are granted based on prior analysis of the credit standing of the borrower/counterparty with a legitimate credit purpose and a good debt servicing ability, and on the Bank's ability to adequately ring-fence the source(s) of repayment. Attention is also paid to ensure that the credit transaction is within BNM's directives on lending by an investment bank.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Bank's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor. Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, shares and unit trusts, while physical collateral includes land and buildings and vehicles. Apart from financial collateral and physical collateral, the Bank as part of the RHB Banking Group adopts the Group's standards on the acceptance of guarantors as credit risk mitigants, where relevant.

Collateral is valued in accordance with the Bank's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently with the annual/periodic renewal of facilities, as well as updated into the Bank's collateral system.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Bank does not employ the use of derivative credit instruments and on-balance sheet netting to mitigate its financing exposures. Where possible, the Bank enters into International Swaps and Derivatives Association (ISDA) Master Agreement with its derivative and swap counterparties as the master agreement provides the legal certainty that the credit exposures between counterparties will be netted.

Equity securities or collaterals acquired arising from debt conversions are accounted for as disposal of the financing and acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as impairment of the relevant asset or business rather than as impairment of the original instrument. The Bank has established mechanism to monitor credit and market concentration within its credit mitigation.

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (Continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach as at 31 December 2016 compared with 31 December 2015:

Table 12a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2016

RHB Investment Bank Group

Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	744,001	–	–
Banks, Development Financial Institutions & MDBs	1,946,684	–	–
Insurance Cos, Securities Firms & Fund Managers	613,755	–	–
Corporates	2,706,122	205,732	1,676,389
Residential Mortgages	566	–	–
Higher Risk Assets	28	–	–
Other Assets	1,936,121	–	–
Securitisation Exposures	–	–	–
Equity Exposures	33,091	–	–
Defaulted Exposures	96,198	–	17,737
Total On-Balance Sheet Exposures	8,076,566	205,732	1,694,126
Off-Balance Sheet Exposures			
OTC Derivatives	13,380	–	586
Off-balance sheet exposures other than OTC derivatives or credit derivatives	413,707	–	249,079
Defaulted Exposures	–	–	–
Total Off-Balance Sheet Exposures	427,087	–	249,665
Total On and Off-Balance Sheet Exposures	8,503,653	205,732	1,943,791

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (Continued)

Table 12b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2015

RHB Investment Bank Group

Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	1,386,439	–	–
Banks, Development Financial Institutions & MDBs	2,372,870	–	11,824
Insurance Cos, Securities Firms & Fund Managers	452,107	–	–
Corporates	3,310,944	251,717	1,767,643
Residential Mortgages	783	–	–
Higher Risk Assets	30	–	–
Other Assets	1,662,452	–	–
Securitisation Exposures	–	–	–
Equity Exposures	99,775	–	–
Defaulted Exposures	198,721	–	18,944
Total On-Balance Sheet Exposures	**9,484,121**	**251,717**	**1,798,411**
Off-Balance Sheet Exposures			
OTC Derivatives	87,897	–	58
Off-balance sheet exposures other than OTC derivatives or credit derivatives	546,315	–	357,628
Defaulted Exposures	1,122	–	–
Total Off-Balance Sheet Exposures	**635,334**	**–**	**357,686**
Total On and Off-Balance Sheet Exposures	**10,119,455**	**251,717**	**2,156,097**

6.0 CREDIT RISK (CONTINUED)

6.6 Credit Risk Monitoring and Control (Continued)

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

The Group manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in lending/financing to single customer groups, borrowers/customers engaged in similar activities, or diverse groups of borrowers/customers that could be affected by similar economic or other factors. To manage this concentration risk, exposure limits are established for single borrowing/financing groups and industry segments. Analysis of any single large exposure and group of exposures is regularly conducted and the lending/financing units undertake regular account updates, monitoring and management of these exposures.

The Bank seeks to continually update financing, investment and treasury guidelines based on periodic reviews and updates of industry and sector risk factors and economic outlook. This facilitates better management of credit concentration risk.

Credit Monitoring and Annual Reviews

The Bank regularly monitors financing exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for Senior Management, GCRC, BRC and Board, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and loan/financing impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year. Specific exposures may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the borrower has defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Where relevant, Group Internal Audit conducts independent post-approval reviews on a sampling basis to ensure that the quality of credit appraisals and approval standards is in accordance with the credit standards and policies on lending/financing and investment established by the Bank's management or by laws and regulations.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing

The Bank adopts BNM's guidelines on Classification and Impairment Provisions for Financing. The principles in this guidelines are in line with those applicable under the International Financial Reporting Standards compliant framework, the Malaysia Financial Reporting Standards 139. As part of RHB Banking Group, the Bank adopts the Group's policy and guidelines on impairment allowances, where relevant.

The borrower/customer assessed under Impairment Allowances (IA) shall be classified as impaired under any one of the following situations:

1. When the principal or interest or both, of any facility(s) of the borrower/customer is past due for more than 90 days or 3 months.
2. In the case of revolving facilities (eg overdraft facilities), the borrower/customer of the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months.
3. Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the loan/financing exhibits weaknesses (refer to impairment trigger) that would render it to be classified as impaired.
4. Where repayments of the loans/financing are scheduled on intervals of 3 months or longer, the borrower/customer is classified as impaired as soon as a default occurs, unless the borrower/customer or the loan/financing does not exhibit any weakness (refer to impairment trigger) that would render it to be classified as impaired.
5. Upon occurrence of any one or more Mandatory Status Triggers (MSTs) or any two or more Ancillary Status Triggers (ASTs). These MSTs and ASTs are pre-defined trigger events approved by the Bank to facilitate impairment classification.

Note:
For R&R facilities, the borrower/customer shall be classified as impaired in accordance with paras 1 to 4 above based on the revised or restructured terms.

Individual Assessment – Impairment Triggers

For borrowers/customers (with threshold of RM5 million and above per borrower/customer) under individual assessment, the Bank performs impairment assessment when any one of the MSTs or any two of the ASTs events occurred. Consequently, these borrowers/customers will be classified as impaired even though no impairment allowance may be required after impairment assessment.

Individual Impairment Allowances

Borrowers/customers under individual assessment and triggered either by any one of the MSTs or any two of the ASTs will be classified as impaired. Consequently, impairment assessment is to be carried out on these impaired borrowers/customers, based on reasonable and well documented estimates of the future cash flows/realisations of collateral that is expected to recover from the impaired borrowers/customers ie net present value of future cashflows are discounted based on original effective interest rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (Continued)

Collective Impairment Allowances

Collective impairment applies to all other accounts (impaired and non-impaired) that do not fall within the threshold of individual assessment. The impairment assessment for accounts under collective assessment are as follows:

1. Segmentation is applied to group of financing, both impaired and non-impaired, based on similar credit risk characteristics, for the purpose of assessing impairment and computing historical default rates and loss rates.
2. Probability of default (PD) model is established with standard loss identification period (by months) and Point of No Return (by months in arrears). PD model adopted could either be migration analysis model or flow rate model. The approaches to migration analysis model could be either by way of outstanding balances or number of accounts.
3. Loss Given Default (LGD) model establishes loss rate at the point in time when the loss event occurred ie, based on actual incurred loss model.

Re-classification and Recovery of Impaired Customers

An impaired borrower/customer may be re-classified as a non-impaired status under the following situations:

1. When the financing repayment of the impaired customer has improved with the principal or interest or both of its facilities with the Bank being past due by 90 days or 3 months or less.
2. In the case of revolving facilities (eg overdraft facilities), the facility shall be re-classified as non-impaired where the overdue outstanding amount in excess of the approved limit has improved to 90 days or 3 months.
3. Where repayments/payments of the financings are scheduled on intervals of 3 months or longer, the financing is re-classified as non-impaired as soon as the overdue scheduled repayments/payments are settled.

Write-off of Impaired Financing

All loans/financing that satisfy any one of the following criteria, may be recommended for write-off:

1. Deemed irrecoverable, worthless and with slim prospect of recovery.
2. Waiver/discount already given under approved composite settlement schemes.
3. Abandoned project with no sign of revival. The definition of abandoned project must be in compliance with the definition stated under valuation for abandoned projects.
4. For retail and scored financing, the write-off may be expedited for those with ageing of 12 months and above, provided legal action has reached at least writ of summon filed.
5. In the case of credit card and unsecured personal financing, aging is 6 months and above and the write-off is automatic.

Partial write-offs of impaired financing is permitted for the shortfall portion in outstanding balance over the security value which is uncollectible and worthless; and the Bank is in the final stage of realising the security/collateral; or in the case of approved composite settlement arrangement, the waiver portion. Further shortfall if any, arising from the disposal of all securities and upon receipt of the sale proceeds, shall be written off immediately.

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (Continued)

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

The following tables show the Bank's impaired and past due loan/financing and allowances by industry sector as at 31 December 2016 compared with 31 December 2015:

Table 13a: Impaired and Past Due Loans and Allowances for Impairment by Industry Sector as at 31 December 2016

RHB Investment Bank Group Industry Sector	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	–	–	–	136
Mining & Quarrying	–	–	–	–
Manufacturing	–	–	–	–
Electricity, Gas & Water Supply	–	–	–	–
Construction	–	–	–	94
Wholesale, Retail Trade, Restaurants & Hotels	–	–	–	–
Transport, Storage & Communication	–	–	–	–
Finance, Insurance, Real Estate & Business	55,803	–	9,966	–
Education, Health & Others	–	–	–	–
Household	73,363	–	44,921	–
Others	–	–	–	–
Total	**129,166**	**–**	**54,887**	**230**

Table 13b: Impaired and Past Due Loans and Allowances for Impairment by Industry Sector as at 31 December 2015

RHB Investment Bank Group Industry Sector	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	–	–	–	179
Mining & Quarrying	–	–	–	–
Manufacturing	–	–	–	–
Electricity, Gas & Water Supply	–	–	–	–
Construction	27,137	–	2,223	1,097
Wholesale, Retail Trade, Restaurants & Hotels	–	–	–	–
Transport, Storage & Communication	–	–	–	–
Finance, Insurance, Real Estate & Business	88,415	–	7,488	566
Education, Health & Others	–	–	–	–
Household	2,590	–	2,590	408
Others	–	–	–	–
Total	**118,142**	**–**	**12,301**	**2,250**

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (Continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2016 compared with 31 December 2015:

Table 14: Net Charges/(Write-back) and Write-offs for Impairment by Industry Sector

RHB Investment Bank Group	Twelve Months Period Ended 2016		Twelve Months Period Ended 2015	
Industry Sector	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-offs RM'000	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-offs RM'000
Agriculture	–	–	–	–
Mining & Quarrying	–	–	–	–
Manufacturing	–	–	–	–
Electricity, Gas & Water Supply	–	–	–	–
Construction	(2,223)	–	2,223	–
Wholesale, Retail Trade, Restaurants & Hotels	–	–	–	–
Transport, Storage & Communication	–	–	–	–
Finance, Insurance, Real Estate & Business	7,401	(4,923)	2,565	–
Education, Health & Others	–	–	–	–
Household	42,726	(329)	1,563	(2,017)
Others	–	–	–	–
Total	**47,904**	**(5,252)**	**6,351**	**(2,017)**

The following tables show the Bank's impaired and past due loans and allowances by geographical distribution as at 31 December 2016 compared with 31 December 2015:

Table 15a: Impaired and Past Due Loans and Allowances for Impairment by Geographical Distribution as at 31 December 2016

RHB Investment Bank Group Geographical Distribution	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Malaysia	55,803	–	9,966	230
Singapore	356	–	356	–
Hong Kong	73,007	–	44,565	–
Total	**129,166**	**–**	**54,887**	**230**

6.0 CREDIT RISK (CONTINUED)

6.7 Impairment Allowances for Loans/Financing (Continued)

Table 15b: Impaired and Past Due Loans and Allowances for Impairment by Geographical Distribution as at 31 December 2015

RHB Investment Bank Group Geographical Distribution	Impaired Loans and Advances RM'000	Past Due Loans RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Malaysia	115,552	–	9,711	2,250
Singapore	681	–	681	–
Hong Kong	1,909	–	1,909	–
Total	**118,142**	**–**	**12,301**	**2,250**

The following tables show the reconciliation of changes to loan impairment allowances as at 31 December 2016 compared with 31 December 2015:

Table 16: Reconciliation of Changes to Loan Impairment Allowances

RHB Investment Bank Group	2016 RM'000	2015 RM'000
Individual Impairment Allowance		
Balance as at the beginning of financial year	**12,301**	7,557
Net allowance made	**47,904**	6,351
Amount written off	**(5,252)**	(2,017)
Exchange differences	**(66)**	410
Balance as at the end of financial year	**54,887**	**12,301**

RHB Investment Bank Group	2016 RM'000	2015 RM'000
Collective Impairment Allowance		
Balance as at the beginning of financial year	**2,250**	10,888
Net allowance written back	**(2,020)**	(8,638)
Balance as at the end of financial year	**230**	**2,250**

7.0 SECURITISATION EXPOSURES

In the course of its business, the Bank has undertaken securitisations of its own originated assets, as well as its clients on asset securitisation exercises as part of its debt capital markets services for external clients. The Bank securitises its own assets primarily for capital management purposes.

The Bank undertakes the following roles in the securitisation activities (either singularly or in combination):

- Originator and servicer of securitised assets;
- Asset-backed securities marketing, syndication and trading;
- Structuring of the securitisation transaction;
- Provider of liquidity facilities to self-originated and third-party transactions; and
- Investor of third-party securitisations (where the Bank is not originator or sponsor).

Summary of Accounting Policies for Securitisation Activities

The accounting policies governing initial recognition, valuation and recognition of gains and losses governing financial assets are detailed in the Note A 4 (Summary of Significant Accounting Policies/Financial Assets) and A 17 (Summary of Significant Accounting policies/ Impairment of Financial Assets) of the Statutory Financial Statements.

ECAIs Used For Securitisation Process

In general, the Bank engages external credit assessment institutions such as RAM and MARC to assign credit ratings for securitisations of its own originated assets.

The table below shows the Securitisation exposures in the Banking Book as at 31 December 2016 compared with 31 December 2015:

Table 17: Disclosure on Securitisation Exposure in the Banking Book

RHB Investment Bank Group	Total Exposures Securitised		Impaired	
Underlying Assets	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Traditional Securitisation (Banking Book Exposure)				
Originated by the Bank				
Collateralised Loan Obligation (Corporate Loans)	**–**	–	**57,321**	57,961
Total	**–**	**–**	**57,321**	**57,961**

Capital Treatment for Securitisation Exposures

The Bank applies the Standardised Approach to calculate the credit risk capital requirements in accordance with BNM's Guideline.

The Bank do not have any net exposure after CRM for securitisation in its Banking Book during the financial years 2016 and 2015. The Bank also do not have any securitisation exposure in its Trading Book.

8.0 MARKET RISK

Market risk is the risk of loss arising from adverse movements in market indicators, such as interest rates, credit spreads, equity prices, currency exchange rates and commodity prices.

The Bank transacts financial instruments such as debt papers and financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from the underlying instruments that can be a reference to interest rates, exchange rates, debt paper, or equity and indices. These include futures, forwards, swaps, and options transactions.

The Bank has an established Group Trading Book Policy Statement as guidance for market risk management. This is reviewed regularly and/ or upon change in significant event that has a material impact on policy compliance or regulatory changes.

The Group Asset and Liability Committee (Group ALCO) performs a critical role in the management of market risk and supports the BRC 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; this includes the development of the Group's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Group Market Risk Management within Group Risk Management is the working level that forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk (VaR), sensitivity analysis and stress testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers ie cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the specific business units within the allocated limits. All trading positions are monitored independently on a daily basis and in accordance to the established escalation procedures and the key actions to be undertaken.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Group's Hedging Policy that prescribes the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

Hedging instruments used to mitigate these risks include derivatives such as options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Bank's treasury functions with the approval of Group ALCO.

8.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for RHB Investment Bank Group and RHB Investment Bank as at 31 December 2016 and 31 December 2015 are shown in the tables below:

Table 18a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2016

RHB Investment Bank Group

Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	447,062	465,025	2,945	236
Equity Position Risk	373,008	37,955	814,146	65,131
Foreign Currency Risk	630,586	69,369	630,587	50,447
Options Risk	31,998	36,727	37,832	3,027
Total			1,485,510	118,841

RHB Investment Bank

Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	447,062	465,025	2,945	236
Equity Position Risk	37,490	33,298	14,823	1,186
Foreign Currency Risk	620,666	8,760	620,666	49,653
Options Risk	30,463	33,298	37,798	3,024
Total			676,232	54,099

Note:

1. *As at year 2016, RHB Investment Bank Group and RHB Investment Bank did not have any exposures under Commodity or Inventory Risk.*
2. *For the Equity Position risk, the position is computed based on net long and net short position.*

8.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk (Continued)

Table 18b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2015

RHB Investment Bank Group

Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	2,001,557	2,045,522	18,701	1,496
Equity Position Risk	112,424	91,123	125,208	10,017
Foreign Currency Risk	339,490	163,682	339,490	27,159
Options Risk	53,319	86,239	95,006	7,600
Total			**578,405**	**46,272**

RHB Investment Bank

Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Interest Rate Risk	2,001,557	2,045,522	18,701	1,496
Equity Position Risk	93,477	86,793	45,987	3,679
Foreign Currency Risk	314,404	158,152	314,404	25,152
Options Risk	53,319	81,909	90,348	7,228
Total			**469,440**	**37,555**

Note:

1. *As at year 2015, RHB Investment Bank Group and RHB Investment Bank did not have any exposures under Commodity or Inventory Risk.*
2. *For the Equity Position risk, the position is computed based on net long and net short position.*

9.0 EQUITY EXPOSURES IN THE BANKING BOOK

Equity risk is the risk of decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself. The Bank holds positions as a result of debt equity conversions and for socio-economic and non socio-economic purposes, which are deemed as non-trading instruments.

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

For debt equity conversions, the Bank has established a Policy on Debt & Equity Instruments that governs the management of such exposures to ensure that these exposures are effectively managed and accounted for in the Bank's books.

For regulatory capital purpose, the Bank adopts the Standardised Approach to calculate the risk-weighted exposures.

The risk-weighted assets of equity investments of the Bank as at 31 December 2016 and 31 December 2015 are shown in the tables below:

Table 19: Equity Exposures in the Banking Book

RHB Investment Bank Group	Gross Credit Exposures		Risk-Weighted Assets	
Equity Type	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Publicly traded				
Holdings of equity investments	**1,951**	1,635	**1,955**	1,635
Privately held				
For socio economic purposes	**28,631**	24,021	**42,946**	24,021
For non socio economic purpose	**2,509**	74,119	**3,764**	74,119
Total	**33,091**	**99,775**	**48,665**	**99,775**

Note:
As at year 2016 and 2015, the Bank did not make any material gains or losses from the sale or liquidation of the equity exposures.

10.0 LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Group is unable to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into long-term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risk.

Through the Group's Liquidity Risk Policy, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objective that underpins the Group's Liquidity Risk Policy includes maintaining financial market confidence at all times, protecting key stakeholders' interests and meeting regulatory liquidity requirements.

The Group ALCO supports the BRC by performing the critical role in the management of liquidity risk, and is responsible for establishing strategies that assist in controlling and reducing any potential exposure to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risk and the Bank's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO meetings which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets interest rates for liabilities products as well as reference rates for financing products and services. Group ALCO is supported by Group Asset and Liability Management (Group ALM) at the working level. Group ALM monitors liquidity risk limits/Management Action Triggers (MATs) and reports to Group ALCO the liquidity risk profile on monthly basis.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

The Bank has adopted the BNM's liquidity standards on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continues to report NSFR under the Basel III observation reporting to BNM.

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event. The Group's Liquidity Incident Management Procedure also covers the entire Group's operations including foreign branch operations.

11.0 INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book refers to the risk to the Group's earnings and economic value of equity due to the adverse movements in interest rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Interest rate risk in the banking book comprises:

- Re-pricing risk (mismatch risk) – Arises from timing differences in the maturity (for fixed-rate) and re-pricing (for floating-rate) of bank assets, liabilities, and off-balance sheet positions. While such re-pricing mismatches are fundamental to the business of banking, they can expose a bank's income and underlying economic value to unanticipated fluctuations as interest rates vary;
- Basis risk – Arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies;
- Yield curve risk – Arises when unanticipated shifts of the yield curve have adverse effects on the Group's income or underlying economic value; and
- Embedded optionality – Arises primarily from options that are embedded in many banking book positions (eg some fixed rate mortgage products give customers the option to prepay the financing early without penalty, call deposit, where customers have the option of withdrawing the deposit funds at any time).

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis.

The Group ALCO supports BRC in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the interest rate risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest income and economic value of equity, as well as to ensure interest rate risk exposures in the banking book are maintained within defined risk tolerances.

In addition, the Group ALM Policy is established to provide the governance of interest rate risk in the banking book. Interest rate sensitivity triggers are applied on earnings for the respective profit centres within the Bank. The Bank regularly considers the economics and necessity of increasing or reducing its interest rate risk hedges.

In line with the Group ALM Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest rates, interest rate risk to earnings is controlled using MATs and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk in the banking book in an environment of rapid financial market changes.

11.0 INTEREST RATE RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in interest rates to net earnings and economic value as at 31 December 2016 and 31 December 2015 are shown in the following tables:

Table 20a: Interest Rate Risk in the Banking Book as at 31 December 2016

RHB Investment Bank Group	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000
MYR – Malaysian Ringgit	(15,061)	15,061	(63,102)	63,102
USD – US Dollar	(1,116)	1,116	(925)	925
Others[1]	(3,001)	3,001	(10,612)	10,612
Total	**(19,178)**	**19,178**	**(74,639)**	**74,639**

Table 20b: Interest Rate Risk in the Banking Book as at 31 December 2015

RHB Investment Bank Group	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000	Impact based on +100 basis points RM'000	Impact based on -100 basis points RM'000
MYR – Malaysian Ringgit	(21,639)	21,639	(88,366)	88,366
USD – US Dollar	(2,658)	2,658	(4,855)	4,855
Others[1]	(1,830)	1,830	(17,006)	17,006
Total	**(26,127)**	**26,127**	**(110,227)**	**110,227**

Note:

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

11.0 INTEREST RATE RISK IN THE BANKING BOOK (CONTINUED)

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

- Interest rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point interest rate change impact.
- For assets and liabilities with non-fix maturity, eg, current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of interest rate bearing items.

Economic value is characterised by the impact of interest rates changes on the value of all net cash flows, ie, the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective. The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

12.0 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk is inherent in the Group's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business and operation level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to improve risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.
- Monitoring and Intervention – This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences as a second and third line of defence respectively. The second line of defence also undertakes recovery actions, including business continuity measures in cases of incidents causing disruption to business activities.

12.0 OPERATIONAL RISK (CONTINUED)

Operational Risk Management Function and Organisation

The Group Operational Risk Management within Group Risk Management has functional responsibility for the development of operational risk framework, policy and methodologies, and providing guidance and information to the business units on operational risk areas. Its responsibility also includes generating a broader understanding and awareness of operational risk issues at all levels in the Group. It also ensures that operational risks from new products, processes and systems are adequately managed and mitigated.

The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the Senior Management, the GCRC, BRC and the Board. These reports include various operational risk information such as risk analysis, risk mitigation action plans, risk tools outcomes, risk appetite breaches, significant operational risk events and control failures, and lessons learnt. In addition, key operational risk incidents are reported to senior management daily. Such reporting enables Senior Management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The five (5) processes are as follows:

1. Establish the context;
2. Risk identification;
3. Risk analysis;
4. Risk mitigating; and
5. Risk monitoring.

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following ORM tools are being used:

- **Risk and Control Self-Assessment (RCSA)**

  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational Risk Management.

- **Key Risk Indicators (KRI)**

  KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal; once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident Management and Loss Data Collection (IMLDC)**

  IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

12.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls

Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Business Continuity Management**

  To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Planning (BCP) programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management Department.

  The Board of Directors has an oversight function through the BRC and GMC. The Group Business Continuity Steering Committee (GBCSC) is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCSC reports to the GCRC.

- **Outsourcing**

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

- **Insurance Management**

  The Bank considers risk transfer by means of insurance to mitigate operational risk. The Bank has a programme of insurance designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party insurers and will financially mitigate the economic consequences of risks.

Technology Risk

Technology risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

The Bank recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

New Product and Services Approval Process

The Group has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

12.0 OPERATIONAL RISK (CONTINUED)

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Bank's legal counsel and external legal counsel to ensure that legal risk is effectively managed.

Capital Treatment for Operational Risk

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2016 and 31 December 2015, are shown below:

Table 21: Operational Risk-Weighted Assets and Minimum Capital Requirements

	RHB Investment Bank Group		RHB Investment Bank	
Operational Risk	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Risk-Weighted Assets	**1,928,196**	2,083,014	**1,151,279**	1,204,734
Minimum Capital Requirements	**154,256**	166,641	**92,102**	96,379

13.0 COUNTRY CROSS-BORDER RISK

Country cross-border risk is the risk that the Bank will be unable to obtain payment from customers or third-parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross-border assets comprise loans/financing and advances, interest bearing deposits/placements with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency.

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

14.0 REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputation, being largely based on people's perception and expectations, is intangible in nature and thus cannot be easily analysed or quantified. Hence, an integral component of reputational risk management is to understand and meet the expectations of stakeholder.

The stakeholders who are critical to the Group are mainly our customers, employees, and shareholders; others may include regulators, strategic partners, suppliers, outsourced service providers, and counterparties. The ability to maintain the expectations of these stakeholders would contribute significantly in the dynamic context of future strategy towards managing competition and achieving corporate goals.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Policy.

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 and legal compliance;
- Continuous monitoring of threats to reputation;
- Ensuring ethical practices throughout the Group; and
- Establishing crisis management plans and ensuring these are continuously updated.

For the Bank's overseas operations, it is the responsibility of the Country Heads to promote awareness and application of the Bank's policy and procedures regarding reputational risk, in all dealings with customers, potential investors and host regulators.

15.0 FORWARD LOOKING STATEMENTS

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

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

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

Table 22: Glossary of Terms

BCC	Board Credit Committee
BCP	Business Continuity Planning
BNM	Bank Negara Malaysia
Board	Board of Directors
BRC	Board Risk Committee
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCYb	Countercyclical Capital Buffer
CET	Common Equity Tier
CRM	Credit Risk Mitigation
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EUR	Euro Dollar
EVE	Economic Value of Equity
Fitch	Fitch Ratings
GBCSC	Group Business Continuity Steering Committee
GBP	Pound Sterling
GCRC	Group Capital and Risk Committee
GIUC	Group Investment Underwriting Committee
GMC	Group Management Committee
GRM	Group Risk Management

15.0 FORWARD LOOKING STATEMENTS (CONTINUED)

Table 22: Glossary of Terms (Continued)

Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management
ICAAP	Internal Capital Adequacy Assessment Process
IMLDC	Incident Management and Loss Data Collection
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody’s	Moody’s Investors Service
MYR	Malaysian Ringgit
NIFs	Notes Issuance Facilities
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Probability of Default
R&I	Rating and Investment Information, Inc
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self-Assessment
RM’000	Malaysian Ringgit in nearest thousand
RWA	Risk-Weighted Assets
SA	Standardised Approach
SBUs	Strategic Business Units
SFUs	Strategic Functional Units
SGD	Singapore Dollar
S&P	Standard & Poor’s
SMEs	Small-and medium-sized enterprises
US	US Dollar
VaR	Value-at-Risk

BRANCH NETWORK

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- Kepong
- Pandan Indah
- Seri Petaling

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- Klang
- Rawang
- USJ Taipan

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- Sungai Petani

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- Taiping
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- Segamat
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- Mega Pluit
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