CUSTOMER-CENTRICITY *through* AGILE@SCALE

RHB Islamic Bank Berhad

2018

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

VALUES

PROFESSIONAL

We are committed to maintain a high level of proficiency, competency and reliability in all that we do.

RESPECT

We are courteous, humble and we show empathy to everyone through our actions and interactions.

INTEGRITY

We are honest, ethical and we uphold a high standard of governance.

DYNAMIC

We are proactive, responsive and forward thinking.

EXCELLENCE

We will continuously achieve high standards of performance and service deliverables.

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Branch Network

Online Version www.rhbgroup.com

Cross References

Tells you where you can find more information within the reports

Tells you where you can find more information online at www.rhbgroup.com

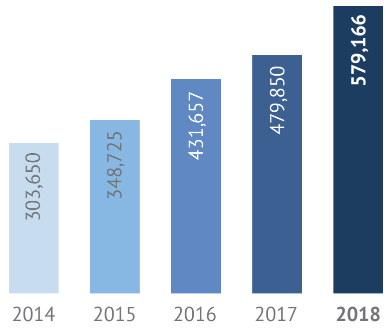
Five-Year Financial Summary

	2018	2017	2016	2015	2014
RESULTS (RM'000)					
Operating revenue	**2,981,697**	2,508,509	2,238,504	1,859,681	1,455,197
Profit before zakat and taxation	**579,166**	479,850	431,657	348,725	303,650
Net profit	**434,833**	367,392	324,784	254,853	224,315
STATEMENT OF FINANCIAL POSITION (RM'000)					
Shareholders' equity	**4,047,269**	3,311,849	2,928,442	2,496,407	2,252,397
Total assets	**65,618,522**	55,717,463	48,116,641	44,076,741	36,113,786
Gross financing and advances	**52,254,197**	42,975,682	34,087,124	31,124,322	25,503,231
Total deposits[N1]	**58,034,684**	50,347,704	42,472,593	39,589,255	31,770,545
FINANCIAL RATIOS (%)					
Net return on average equity	**12.00**	11.77	11.97	10.73	10.48
Net return on average assets	**0.72**	0.71	0.70	0.64	0.69
Common Equity Tier I Capital Ratio	**13.222**	10.376	10.868	11.041	12.875
Tier I Capital Ratio	**13.222**	10.376	10.868	11.041	12.875
Total Capital Ratio	**16.476**	14.134	14.002	14.608	16.336

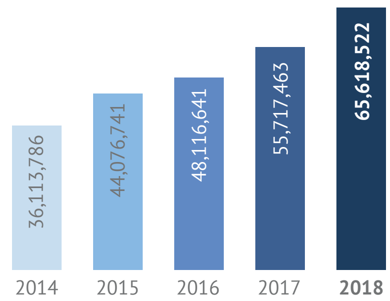
N1: Inclusive of deposits from customers, deposits and placements of banks and other financial institutions and investment account due to designated financial institutions.

Five-Year Financial Highlights

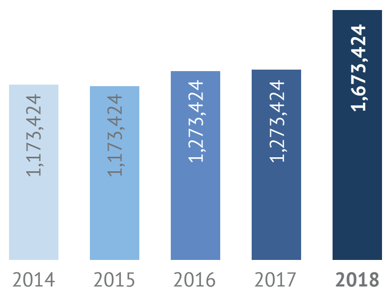
Profit Before Zakat and Taxation (RM'000)



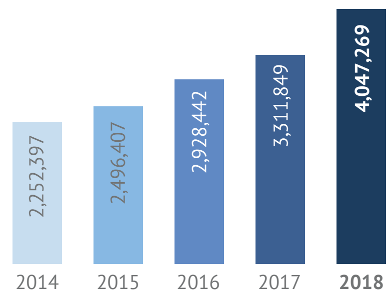
Total Assets (RM'000)



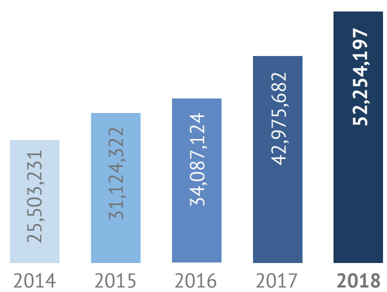
Share Capital (RM'000)



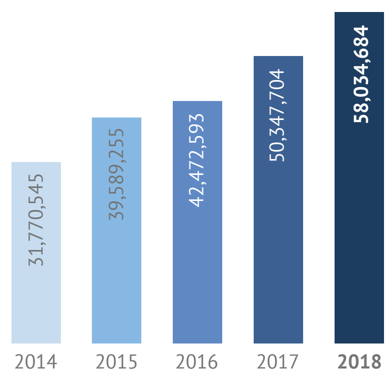
Shareholders' Equity (RM'000)



Gross Financing and Advances (RM'000)



Total Deposits[N1] (RM'000)



N1: Inclusive of deposits from customers, deposits and placements of banks and other financial institutions and investment account due to designated financial institutions.

Corporate Information

as at 15 April 2019

BOARD OF DIRECTORS

Abdul Aziz Peru Mohamed
Independent Non-Executive Chairman

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

Dato' Foong Chee Meng
Independent Non-Executive Director

Ong Ai Lin
Independent Non-Executive Director

Dato' Adissadikin Ali
Chief Executive Officer/Managing Director

BOARD RISK COMMITTEE#

Chin Yoong Kheong
Independent Non-Executive Director/Chairman

Tan Sri Saw Choo Boon
Independent Non-Executive Director

Ong Ai Lin
Independent Non-Executive Director

BOARD AUDIT COMMITTEE#

Ong Ai Lin
Independent Non-Executive Director/
Chairperson

Tan Sri Saw Choo Boon
Independent Non-Executive Director

Sharifatu Laila Syed Ali
Independent Non-Executive Director

BOARD CREDIT COMMITTEE#

Dato' Abd Rahman Dato' Md Khalid
Senior Independent
Non-Executive Director/Chairman

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

Lim Cheng Teck
Independent Non-Executive Director

BOARD NOMINATING & REMUNERATION COMMITTEE#

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

Tan Sri Saw Choo Boon
Independent Non-Executive Director

Ong Ai Lin
Independent Non-Executive Director

Sharifatu Laila Syed Ali
Independent Non-Executive Director

SHARIAH COMMITTEE^

Dr. Ghazali Jaapar
Chairman

Assoc. Prof. Dr. Amir Shaharuddin

Dr. Ahmad Basri Ibrahim

Wan Abdul Rahim Kamil Wan Mohamed Ali

Mohd Fadhly Md Yusoff

Shabnam Mohamad Mokhtar

ISLAMIC RISK MANAGEMENT COMMITTEE^

Dato' Abd Rahman Dato' Md Khalid
Senior Independent
Non-Executive Director/Chairman
(RHB Islamic Bank Berhad)

Dato' Foong Chee Meng
Independent Non-Executive Director

Ong Ai Lin
Independent Non-Executive Director

Note:
The Committee is shared with the relevant subsidiaries of the Group.
^ The Committee resides at RHB Islamic Bank Berhad.

GROUP INTERNAL AUDIT & COMPLIANCE

Alex Tan Aun Aun
Group Chief Internal Auditor

Fazlina Mohamed Ghazalli
Group Chief Compliance Officer

GROUP SENIOR MANAGEMENT

Dato' Khairussaleh Ramli
Group Managing Director/
Chief Executive Officer

Syed Ahmad Taufik Albar
Group Chief Financial Officer

Dato' Adissadikin Ali
Managing Director/Chief Executive Officer–
RHB Islamic Bank Berhad
Head, Group International Business

Robert Huray
Chief Executive Officer,
RHB Investment Bank Berhad/
Head, Group Investment Banking

Nazri Othman
Acting Head, Group Retail Banking

Jeffrey Ng Eow Oo
Head, Group Business & Transaction Banking

Danny Quah Boon Leng
Country Head, Singapore
Chief Executive Officer
RHB Bank Singapore

Wendy Ting Wei Ling
Head, Group Corporate Banking

Kong Shu Yin
Managing Director, RHB Insurance Berhad

Mohd Rashid Mohamad
Group Treasurer

Rohan Krishnalingam
Group Chief Operations Officer

Gan Pai Li
Group Chief Strategy Officer

Patrick Ho Kwong Hoong
Group Chief Risk Officer

Jamaluddin Bakri
Group Chief Human Resource Officer

Norazzah Sulaiman
Group Chief Communications Officer/
Chief Executive Officer, RHB Foundation

Abdul Sani Abdul Murad
Group Chief Marketing Officer

COMPANY SECRETARIES

Azman Shah Md Yaman
(LS 0006901)

Hasnita Sulaiman, ACIS (CS) (CGP)
(MAICSA No. 7060582)

REGISTERED OFFICE

Level 10, Tower One
RHB Centre, Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603 9287 8888
Fax : 603 9281 9314
Website : www.rhbgroup.com

COMPANY NO.

680329-V

SHARE REGISTRAR

Boardroom Share Registrars Sdn Bhd
(formerly known as Symphony Share
Registrars Sdn Bhd)
Level 6, Symphony House
Pusat Dagangan Dana 1, Jalan PJU 1A/46
47301 Petaling Jaya, Selangor

Encik Shamsul Kamal Abdul Manaf
Puan Hastini Hassim

– For shareholders' enquiries
Helpdesk No : 603 7849 0777
Fax : 603 7841 8151/8152

AUDITORS

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

CUSTOMER CARE CENTRE

Call Centre : 603 9206 8118
(Peninsular Malaysia)
– 24 hours

6082 276 118
(Sabah & Sarawak)
Monday to Thursday
– 8:30 a.m. to 5:30 p.m.

Friday – 8:30 a.m. to 4:30 p.m.
(Closed on Saturday, Sunday
& Public Holidays)

Group Corporate Structure

as at 30 April 2019

RHB Bank Berhad[13]

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)[15]
- 100.00% Utama Gilang Sdn Bhd[2]*
- 100.00% UMBC Sdn Bhd*
- 100.00% RHB Delta Sdn Bhd[2]*
- 100.00% RHB Indochina Bank Limited[3]
- 100.00% RHB Bank Lao Limited[9]

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[7]
- 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[14]
  - 100.00% RHB Asset Management Limited
  - 100.00% RHB Wealth Management Hong Kong Limited
  - 100.00% RHB (China) Investment Advisory Co Ltd
- 99.00% PT RHB Sekuritas Indonesia
  - 99.62% PT RHB Asset Management Indonesia
- 100.00% RHB Securities Singapore Pte Ltd
  - 100.00% RHB Nominees Singapore Pte Ltd#
  - 100.00% Summit Nominees Pte Ltd#
  - 100.00% RHB Research Institute Singapore Pte Ltd
- 99.95% RHB Securities (Thailand) PCL.
- 100.00% RHB Indochina Securities PLC.[11]
- 100.00% RHB Securities Vietnam Company Limited (formerly known as Vietnam Securities Corporation)[16]

94.70% RHB Insurance Berhad (10)

- 100.00% RHB Futures and Options Sdn Bhd*
- 100.00% RHB Research Sdn Bhd* (13)
- 100.00% RHB International Asset Management Sdn Bhd*
- 100.00% RHBIB Nominees (Tempatan) Sdn Berhad* (13)
- 100.00% RHBIB Nominees (Asing) Sdn Berhad* (13)
- 100.00% TCL Nominees (Tempatan) Sdn Bhd* (13)
- 100.00% TCL Nominees (Asing) Sdn Bhd* (13)
- 100.00% KE-ZAN Nominees (Tempatan) Sdn Bhd* (13)
- 100.00% KE-ZAN Nominees (Asing) Sdn Bhd* (13)
- 80.00% RHB Trustees Berhad (8) — 20.00%
- 80.00% Malaysian Trustees Berhad (8) — 20.00%
- 100.00% RHBIM Berhad (4)*
- 100.00% RHB Asset Management Sdn Bhd
  - 100.00% RHB Islamic International Asset Management Berhad (5)
  - 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 (6)
- 100.00% RHB Progressive Sdn Bhd (6)
- 100.00% RHB Marketing Services Sdn Bhd (2)
- 100.00% RHB Unit Trust Management Berhad (6)
- 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*

OTHERS

- 100.00% RHB Equities Sdn Bhd*
  - 100.00% KYB Sdn Bhd (17)
- 100.00% RHB Capital *(Jersey)* Limited
  - 100.00% RHB *(Philippines)* Inc (1)*
- 100.00% RHB Property Management Sdn Bhd
- 100.00% RHBF Sdn Bhd*
- 100.00% RHB Kawal Sdn Bhd

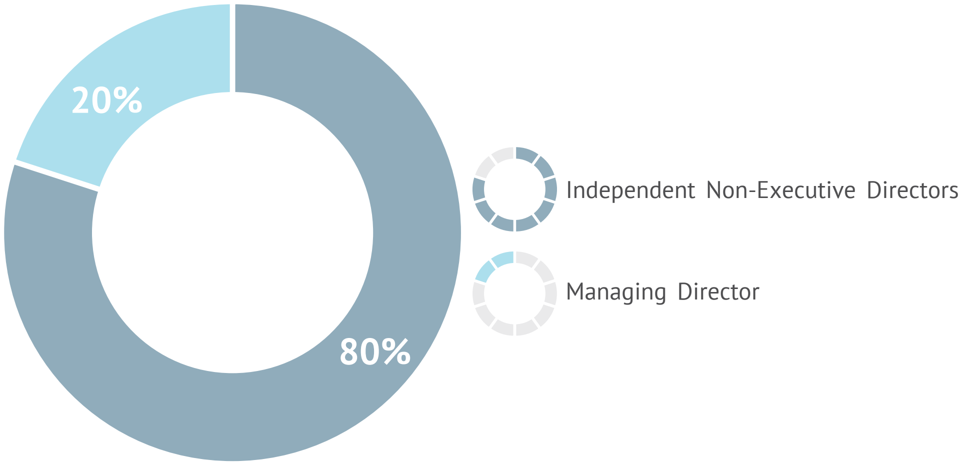
Notes:

- * Dormant Company
- # Inactive
- (1) The company has ceased operations from the close of business on 10 December 2001.
- (2) The company has commenced members' voluntary winding-up on 16 February 2011.
- (3) The company became a wholly-owned subsidiary of RHB Bank Berhad on 9 April 2013.
- (4) The company became a wholly-owned subsidiary of RHB Investment Bank Berhad on 22 October 2013.
- (5) The company became a wholly-owned subsidiary of RHB Asset Management Sdn Bhd on 1 December 2013.
- (6) The company has commenced members' voluntary winding-up on 28 March 2012.
- (7) Jointly controlled entity.
- (8) Held by: (i) RHBIB; (ii) RHB Nominees (Tempatan) Sdn. Bhd; (iii) RHB Nominees (Asing) Sdn. Bhd; (iv) RHB Futures and Options Sdn. Bhd (v) RHB Bank Berhad with direct shareholdings of 20.00% each; and
- (9) The company is incorporated on 30 May 2014 and commenced business on 6 June 2014.
- (10) 5.3% of the shares of the company is held by Kumpulan Syed Kechik Sdn Bhd.
- (11) The Company became a wholly-owned subsidiary of RHB Investment Bank Berhad on 9 December 2015.
- (12) 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.
- (13) Commenced voluntary winding-up on 30 June 2017.
- (14) Dissolved upon its deregistration on 18 April 2019.
- (15) Commenced deregistration process on 12 October 2018 and accordingly dissolved on 1 March 2019.
- (16) With effect from 19 February 2019 the Company became a wholly owned subsidiary of RHB Investment Bank Berhad.
- (17) Dissolved on 5 October 2018.

Our Board at a Glance

THE DIVERSITY AND SKILLS OF THE BOARD ENSURE THAT RHB ISLAMIC BANK BERHAD IS STEERED TO DELIVER GROWTH TO ALL OUR STAKEHOLDERS.

BOARD COMPOSITION



KEY FEATURES OF OUR BOARD

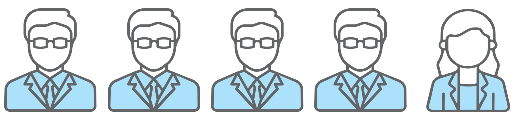
80%

The **Board** comprises **80% Independent Directors**

The **Chairman** is an **Independent Non-Executive Director**

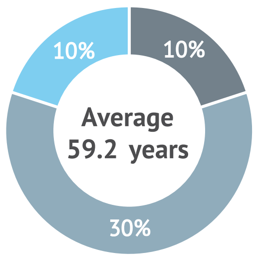
The **positions** of the **Chairman** and the **Managing Director** are **held by different individuals**

BOARD TENURE



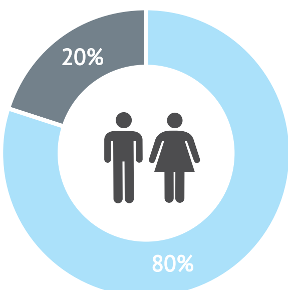
Average **1.8 years**

AGE



66 years & above	1
51 years – 65 years	3
50 years & below	1

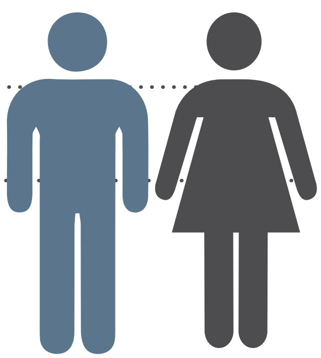
GENDER



Male	4
Female	1

ETHNICITY

Malay	3
Chinese	2



NATIONALITY

Malaysian

5

Profile of the Shariah Committee

		
DR. GHAZALI BIN JAAPAR Chairman Shariah Committee of RHB Islamic Bank	**ASSOC. PROF. DR. AMIR BIN SHAHARUDDIN** Member Shariah Committee of RHB Islamic Bank Berhad	
Malaysian | 48 | Male	Malaysian | 41 | Male	**Nationality|Age|Gender:**
01 April 2011 / 01 April 2017	01 April 2011 / 01 April 2017	**Date Appointed/ Date Last Re-appointment:**
9/9	7/9	**Number of Shariah Committee Meetings Attended in the Financial Year**
• B.A. Shariah (Hons.), University of Malaya, Kuala Lumpur • Master of Comparative Law, International Islamic University Malaysia, Kuala Lumpur • Ph.D. Islamic Jurisprudence, University of Birmingham, United Kingdom	• B.A. Shariah (Hons), Al-Azhar University, Egypt • Master of Business Administration in Islamic Banking & Finance, International Islamic University Malaysia, Kuala Lumpur • Ph.D. in Islamic Studies, University of Exeter, United Kingdom	**Qualification:**
• Islamic Legal System • Principles of Islamic Jurisprudence *(Usul al-Fiqh)* • Islamic Law of Transaction *(Fiqh al-Mu'amalat)* • Islamic Legal Maxims *(Qawaid Fiqhiyyah)* • Shariah-oriented policy *(Siyasah Shar'iyyah)*	• Islamic Banking & Finance • Islamic Law Principles of Islamic Jurisprudence *(Usul al-Fiqh)* • Islamic Legal Maxims • *Siyasah Shar'iyyah* (Shariah-oriented policy) • Zakat	**Area of Expertise:**
• HSBC Amanah Takaful	• Malaysian Airport Consultancy Berhad • Malaysian Waqf Foundation	**Present Membership of Shariah Committee in Other Institutions**
• Currently serves as Assistant Professor of Ahmad Ibrahim Kulliyyah of Laws ("AIKOL"), International Islamic University Malaysia ("IIUM"). Prior to that, he was the Director of Harun M. Hashim Law Centre, IIUM. • A member of Association of Shariah Advisors in Islamic Finance ("ASAS"). • Started his career as a lecturer at AIKOL IIUM in 2007 and is still attached with the university, teaching several subjects such as Islamic Legal System and *Usul al-Fiqh* for LLB course (Undergraduate), *Siyasah Syar'iyyah* for LLM (Administration of Islamic Law) students and Islamic Legal Maxims for Certificate in Islamic Law (Bank Negara Malaysia and Standard & Chartered). • He had written numerous journals and articles and participated in various workshops, seminars and conferences on Islamic finance locally and abroad. • Actively involved in promoting trainings and academic programmer for executives and adult learners ranging from Certificate in Islamic Banking, Executives Diploma and Master's degree in various area of laws including Correctional and Criminology, Islamic Banking, International Law. • Invited by the Academy of Justice Turkey to present a paper on the Impact of *Majallah al-Ahkam al-Adliyyah* (Commercial Code of Ottoman Empire) on Islamic Law in Malaysia in Bursa Turkey.	• Currently the Dean of Centre for Graduate Studies, Universiti Sains Islam Malaysia ("USIM"). • Former Dean of Economic and Muamalat Faculty, USIM from December 2013 until December 2018. • Appointed as Visiting Professor at Faculty of Economics and Tourism, Urgench State University, Uzbekistan in the areas of Islamic Banking and Halal Industry • The first recipient of "Scholar of Residence in Islamic Finance Award", jointly initiated by Malaysia Securities Commission and Oxford Centre for Islamic Studies ("OCIS"). • A member of Association of Shariah Advisors in Islamic Finance ("ASAS"). • Published numerous articles in refereed journals including Journal of Muamalat and Islamic Finance Research, Arab Law Quarterly and ISRA International Journal of Islamic Finance. • Wrote articles in Islamic Banking & Finance, Zakat, Principles of Islamic Jurisprudence (*Usul al-Fiqh*), Islamic Legal Maxims and *Siyasah Shar'iyyah* (Shariah-oriented policy) for forums and seminars. • Presented academic papers in various international seminars such as in Indonesia, Bahrain, United Kingdom and Italy.	**Experience & Achievement:**

Profile of the Shariah Committee

	WAN ABDUL RAHIM KAMIL BIN WAN MOHAMED ALI Member Shariah Committee of RHB Islamic Bank Berhad	**MOHD FADHLY BIN MD. YUSOFF** Member Shariah Committee of RHB Islamic Bank Berhad
Nationality|Age|Gender:	Malaysian | 70 | Male	Malaysian | 48 | Male
Date Appointed/ Date Last Re-appointment:	13 April 2013 / 01 April 2017	13 April 2013 / 01 April 2017
Number of Shariah Committee Meetings Attended in the Financial Year	9/9	8/9
Qualification:	• Professional Member, Institute of Statisticians, United Kingdom • Post Graduate Degree in Islamic Banking & Economics, International Institute of Islamic Banking & Economics, Turkish Cyprus (in association with Al Azhar University, Cairo)	• Bachelor of Syariah (1st Class Honours) from University of Malaya
Area of Expertise:	• Islamic Banking & Finance • Islamic Capital Market • Debt Capital Market • Corporate Advisory	• Islamic Banking & Finance • Islamic Capital Market & Derivatives
Present Membership of Shariah Committee in Other Institutions	• Dana Peladang Kebangsaan	• Sun Life Malaysia Takaful Bhd • Opus Asset Management Sdn Bhd • Apex Investment Services Berhad • Universiti Tenaga Nasional • National Farmers Organization ("NAFAS") • Bank Pembangunan Malaysia Berhad ("BPMB")
Experience & Achievement:	• Pioneered the development of Islamic Capital Market in Malaysia and has innovated development of several benchmark capital market securities through securitisation of Islamic contracts. • Islamic Capital Market consultant, regular trainer and speaker for various seminars and in-house training workshops organised by the World Bank, Bank Negara Malaysia ("BNM"), Securities Industries Development Corporation ("SIDC"), Islamic Banking and Finance Institute Malaysia ("IBFIM") and other event organisers, both locally and internationally. • A Registered Shariah Adviser with Securities Commission Malaysia ("SC") and a member of Association of Shariah Advisors in Islamic Finance ("ASAS") • A member of Investment Committee, Lembaga Penduduk dan Pembangunan Keluarga Negara ("LPPKN"), MALAYSIA • Awarded as "Most Outstanding Individual Contribution to Islamic Finance" at Kuala Lumpur Islamic Finance Forum 2017 • Awarded as "Outstanding Leadership in Islamic Finance" by London Sukuk 2011 organised by ICG Events and UK Trade and Industry Ministry, United Kingdom.	• Currently, he is a trainer for Islamic Finance Qualification by the Chartered Institute for Securities and Investment. • A Registered Shariah Adviser with Securities Commission Malaysia ("SC") and a member of Association of Shariah Advisors in Islamic Finance ("ASAS"). • 1995 – 2008: Manager at Islamic Capital Market Department of Securities Commission Malaysia where he involved in Shariah compliance supervision in relation to submissions for the issuances of Sukuk, structured products, collective investment schemes and Islamic Islamic Real Estate Investment Trusts ("REITs"). • Undertaken in-depth research for the development of new Islamic Capital Market instruments and providing technical inputs for the preparation of various guidelines issued by Securities Commission Malaysia. • Actively participated in various industry development initiatives namely the International Organization of Securities Commission ("IOSCO") Task Force on Islamic Capital Market, Islamic Financial Services Board's ("IFSB") Governance of Islamic Investment Funds Working Group, technical member for the publication of *Resolutions of the Securities Commission Shariah Advisory Council* and Islamic Capital Market educational and promotional programs.

	SHABNAM MOHAMAD MOKHTAR Member Shariah Committee of RHB Islamic Bank Berhad	DR. AHMAD BASRI IBRAHIM Member Shariah Committee of RHB Islamic Bank Berhad
Nationality|Age|Gender:	Malaysian | 41 | Female	Malaysian | 43 | Male
Date Appointed/ Date Last Re-appointment:	01 May 2015 / 01 April 2017	02 February 2018 / NIL – new appointment
Number of Shariah Committee Meetings Attended in the Financial Year	9/9	7/7
Qualification:	• Bachelor of Accountancy, University Putra Malaysia • Master of Accounting, University of Illinois, Urbana-Champaign, U.S.A	• B.A (Hons) in Islamic Jurisprudence and Legislation, University of Jordan, Amman, Jordan • Master's Degree in Islamic Revealed Knowledge and Heritage, International Islamic University Malaysia ("IIUM"), Kuala Lumpur • Ph.D in Islamic Law, University of Birmingham
Area of Expertise:	• Finance & Islamic Finance • Accounting & Islamic Accounting • Islamic Capital Market & Derivatives	• Islamic Law of Transactions • Islamic Law Principles of Islamic Jurisprudence *(Usul al-Fiqh)* • Islamic Legal Maxims • Islamic Criminal Law
Present Membership of Shariah Committee in Other Institutions	NIL	• Bank Pembangunan Malaysia Berhad ("BPMB")
Experience & Achievement:	• Presently the Vice President of SHAPE® Knowledge Services; an Islamic finance consulting firm based in Kuwait. • Spearheads research and development activities including financial analysis, strategic & business plan formulation, design and implementation of customised survey, research and training for different clients at SHAPE®. • A member of Association of Shariah Advisors in Islamic Finance ("ASAS"). • Formerly, she was heading the capital markets research for International Shariah Research Academy ("ISRA"), an institution established by Central Bank of Malaysia. • Conducted various training programs on Islamic banking, sukuk & Islamic capital market products, risk management and financial reporting for clients in ASEAN region, Gulf Cooperation Council ("GCC") and European market. • Contributed chapters in Housing the Nation (Cagamas 2013), Managing Fund Flows, Risks and Derivatives: Applications in Islamic Institutions (Sweet & Maxwell 2012), Islamic Financial System: Principles & Operations Market (ISRA, 2011), Sukuk (Sweet & Maxwell 2009), and Partnership Accounting, Principles and Practice (McGraw Hill). • 2010 – 2014: Member of Shariah Advisory Panel of Malaysian Ratings Corporation ("MARC").	• Currently the Vice President and Head of Shariah Management Department, Permodalan Nasional Berhad ("PNB"). • Formerly, he was the Deputy Dean (Academic Affairs) at Kuliyyah of Islamic Revealed Knowledge and Human Sciences, IIUM and a Board Member of IIUM Institute of Islamic Banking and Finance ("IIiBF"). • Provided lectures on *Usul al-Fiqh* and Islamic Law of Transactions to various agencies such as Central Bank of Malaysia ("BNM"), PNB, SIRIM, Great Eastern Takaful Berhad, CIMB and OCBC Al-Amin. • Received several grants and awards for his research works. • A Registered Shariah Adviser with Securities Commission Malaysia ("SC") and a member of Association of Shariah Advisors in Islamic Finance ("ASAS").

Profile of the Board of Directors

as at 15 April 2019

ABDUL AZIZ PERU MOHAMED

Independent Non-Executive Chairman

Age/Gender/Nationality
70/Male/Malaysian

Number of Board Meetings Attended
2/3

Date of Appointment
1 October 2018

Length of Service
7 months

Qualifications
- Strategy in Action, Singapore Institute of Management
- Managing Change and Human Resource Management and Marketing, Harvard Business School
- Business Executive Education Program, University of Washington Business School Seattle

Other Directorship(s)
Listed Entities:
- RHB Bank Berhad

Public Companies:
- As-Salihin Trustee Berhad
- RHB Indochina Bank Limited
- RHB Bank Lao Limited

Skills and Experience
En Abdul Aziz was appointed as an Independent Non-Executive Chairman of RHB Islamic Bank Berhad on 1 October 2018.

He attended various training programmes at the Harvard Business School and Pacific Bankers Rim programmes in the United States of America.

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

DATO' ABD RAHMAN DATO' MD KHALID

BCC

Senior Independent Non-Executive Director

Age/Gender/Nationality
63/Male/Malaysian

Number of Board Meetings Attended
12/12

Date of Appointment
2 January 2017

Length of Service
2 years and 4 months

Qualifications
- Diploma in Business Studies from Mara Institute of Technology

Other Directorship(s)
Listed Entities:
- Nil

Public Companies:
- RHB Bank (L) Ltd

Skills and Experience
Dato' Abd Rahman started his career with Maybank Group, and held various positions within the Group, most notably, the position of Chief Executive Officer/President Director for PT Bank Maybank Nusa International. His last position with the Maybank Group was as the Chief Credit Officer.

Prior to joining RHB Banking Group, he was the Group Managing Director for Amanah Raya Berhad overseeing the various businesses and operations of Amanah Raya Berhad and its subsidiaries.

Dato' Abd Rahman has extensive experience in banking specifically on Credit Management. He has attended various courses and programmes commensurate with his knowledge and experience. He also has attended a Mandatory Accreditation Programme for Directors of Public Listed Companies.

Board Committees:

BNRC Board Nominating & Remuneration Committee | BAC Board Audit Committee | BCC Board Credit Committee | BRC Board Risk Committee | Chairman/Chairperson | Member

DATO' FOONG CHEE MENG
Independent
Non-Executive Director

Age/Gender/Nationality
52/Male/Malaysian

Number of Board Meetings Attended
11/12

Date of Appointment
1 August 2017

Length of Service
1 year and 9 months

Qualifications
- Master of Law from University of Sydney, Australia
- Bachelor of Laws (Hons) from University of Sydney, Australia
- Bachelor of Economics from University of Sydney, Australia

Other Directorship(s)
Listed Entities:
- Matang Berhad
- Kumpulan Jetson Berhad

Public Companies:
- Nil

Skills and Experience
Dato' Foong has more than 25 years of experience in legal practice and is currently a Managing Partner of a niche corporate boutique law firm, Foong & Partners which he set up in 2003. Aside from being an Advocate & Solicitor at High Court of Malaya, he is also a practicing Advocate & Solicitor at the Federal Court of Australia and Supreme Court of New South Wales, Australia.

Dato' Foong has been involved in structuring and executing major mergers and acquisitions, strategic alliances and joint ventures in various industry groups which comprise manufacturing, property, construction, telecommunications, food and newsprint industries.

He also advises local and foreign companies and investors on a wide variety of corporate matters including foreign investments, regulatory compliance, joint ventures and acquisitions of Malaysian businesses.

ONG AI LIN
Independent
Non-Executive Director

BNRC BRC BAC

Age/Gender/Nationality
63/Female/Malaysian

Number of Board Meetings Attended
12/12

Date of Appointment
1 September 2017

Length of Service
1 year and 8 months

Qualifications
- Certified Business Continuity Professional from Disaster Recovery Institute, United States of America
- Certified Information System Auditor from Information Systems Audit and Control Association, United States of America
- Member of The Malaysian Institute of Accountants, Malaysia
- Associate of The Institute of Chartered Accountants, England & Wales
- Bachelor of Arts (Honours) in Economics from University of Leeds, United Kingdom

Other Directorship(s)
Listed Entities:
- RHB Bank Berhad
- Tenaga Nasional Berhad

Public Companies:
- FIDE Forum (Trustee)

Skills and Experience
Ms Ong began her career with Deloitte Haskins & Sells (DH&S) in London in 1978, prior to joining PricewaterhouseCoopers ("PwC") in 1991 as Senior Manager. At PwC, she built the IT audit practice, an integral part of the firm's financial audit services. She was then appointed as Partner/Senior Executive Director of PwC in 1993 and was the Business Continuity Management and Information Security Practice Leader for PwC Malaysia.

Ms Ong has over 30 years of experience in providing Business Continuity Management, Information Security, Cybersecurity, Technology Risk and Governance, and Data Privacy services in the United Kingdom, Singapore, Indonesia, Thailand, Vietnam, Philippines, Sri Lanka, Cambodia, and Malaysia.

Profile of the Board of Directors

as at 15 April 2019

DATO' ADISSADIKIN ALI

Chief Executive Officer/Managing Director

Age/Gender/Nationality
48/Male/Malaysian

Number of Board Meetings Attended
12/12

Date of Appointment
1 August 2016

Length of Service
2 years and 9 months

Qualifications
- Chartered Banker from The Asian Institute of Chartered Banker
- Advanced Management Program of Harvard Business School
- Master of Business Administration (Finance) from University Malaya
- Bachelor of Business (Banking & Finance) from Monash University, Melbourne, Australia
- Diploma in Investment Analysis from Universiti Teknologi Mara

Other Directorship(s)
Listed Entities:
- Nil

Public Companies:
- Nil

Skills and Experience
He started his career with the Renong Group of Companies in various positions within the Group. In 1999, he joined Pengurusan Danaharta Nasional Berhad for 4 years. Subsequently, Dato' Adissadikin joined Bank Muamalat Malaysia Berhad as Special Assistant to the Chief Executive Officer. Thereon, Dato' Adissadikin accumulated experience in formulating and executing corporate strategic plan, business process re-engineering as well as bank-wide transformation programme. Dato' Adissadikin was involved in the turn-around of Bank Islam Malaysia Berhad.

He was appointed the President / Chief Executive Officer of Export-Import Bank of Malaysia (EXIM) in October 2010 and served until June 2015. Prior to joining RHB Banking Group in August 2016, he was the Chief Executive Officer at Alkhair International Islamic Bank Berhad, the first foreign Islamic Bank in Malaysia.

Board Committees:

BNRC	Board Nominating & Remuneration Committee	BAC	Board Audit Committee	BCC	Board Credit Committee	BRC	Board Risk Committee	Chairman/Chairperson	Member

Statement on Corporate Governance

PRINCIPLE A: BOARD LEADERSHIP & EFFECTIVENESS

The Board of Directors (the "Board") of RHB Islamic Bank Berhad ("Bank" or the "Company") provides unbridled support towards the adoption of the best corporate governance practices to protect the interests of all its stakeholders by complying to all legal and regulatory requirements and conforming to good corporate governance practices, including greater transparency and sustainable disclosure. This commitment is translated into a corporate culture that manifests itself across the Company, from the Board of Directors, to Senior Management and all employees within the Bank.

The Bank, as a member of the RHB Banking Group ("Group"), continues to enhance the corporate governance practices in line with the aspiration of the holding company, RHB Bank Berhad. This has borne significant results in the way that the Group is governed and operates. The Board, as fiduciaries, is conscious of its obligation to discharge its duties and responsibilities by exercising unbridled judgment, due care and diligence to the best of its ability. The year 2018 witnessed the launch of the Group's new strategic 5-year plan, FIT22, which succeeded its predecessor I.G.N.I.T.E which came to an end in 2017. FIT22 was assiduously developed to create sustainable value to all stakeholders of RHB in line with the Group's aspiration to be amongst the Top 3 Multinational Services Group, in terms of performance by 2022.

FIT22 comprises 22 initiatives that are driven by three key pillars, namely:

During 2018, RHB Banking Group was accorded the following awards in relation to the Group's Corporate Governance practices and reporting:

- **Top 30** of Association of Southeast Asian Nations (ASEAN) Public Listed Companies, accorded by the ASEAN Capital Market Forum (ACMF).
- **Platinum Award** winner for 'Best Governed & Most Transparent Award' in The Global Good Governance Awards 2018 hosted by The Pinnacle Group International (2017: **Gold Winner**).
- **Platinum Award** winner for Best Annual Report in Bahasa Malaysia accorded during the National Annual Corporate Report Awards (NACRA) 2018 ceremony, organised by The Malaysian Institute of Accountants (MIA), The Malaysian Institute of Certified Public Accountants (MICPA) and Bursa Malaysia on 6 December 2018.
- **Silver Award** winner for Best Designed Annual Report accorded during the National Annual Corporate Report Awards (NACRA) 2018 ceremony, organised by The Malaysian Institute of Accountants (MIA), The Malaysian Institute of Certified Public Accountants (MICPA) and Bursa Malaysia on 6 December 2018.
- Continuing **constituent** of the FTSE4Good Bursa Malaysia Index for good demonstration of Environmental, Social & Governance (E.S.G.) practices as independently assessed by FTSE Russell during 2018 semi-annual reviews.

ORGANISATIONAL CULTURE

The Board continues to cultivate a corporate culture that embraces the correct behaviours to achieve a company's objectives. The Board views this as fundament to ensure sustainable long-term growth and success for RHB Islamic Bank. This is fundamental in ensuring sustainable long-term growth and success for any organisation. To further gauge the culture within the Board, the latest Board Effectiveness Evaluation **("BEE")** exercise was meticulously designed to specifically assess the tone at the top in areas such as leadership, decision-making, communication, group dynamics and mind-set of the Board as a collective unit and Board members as individuals.

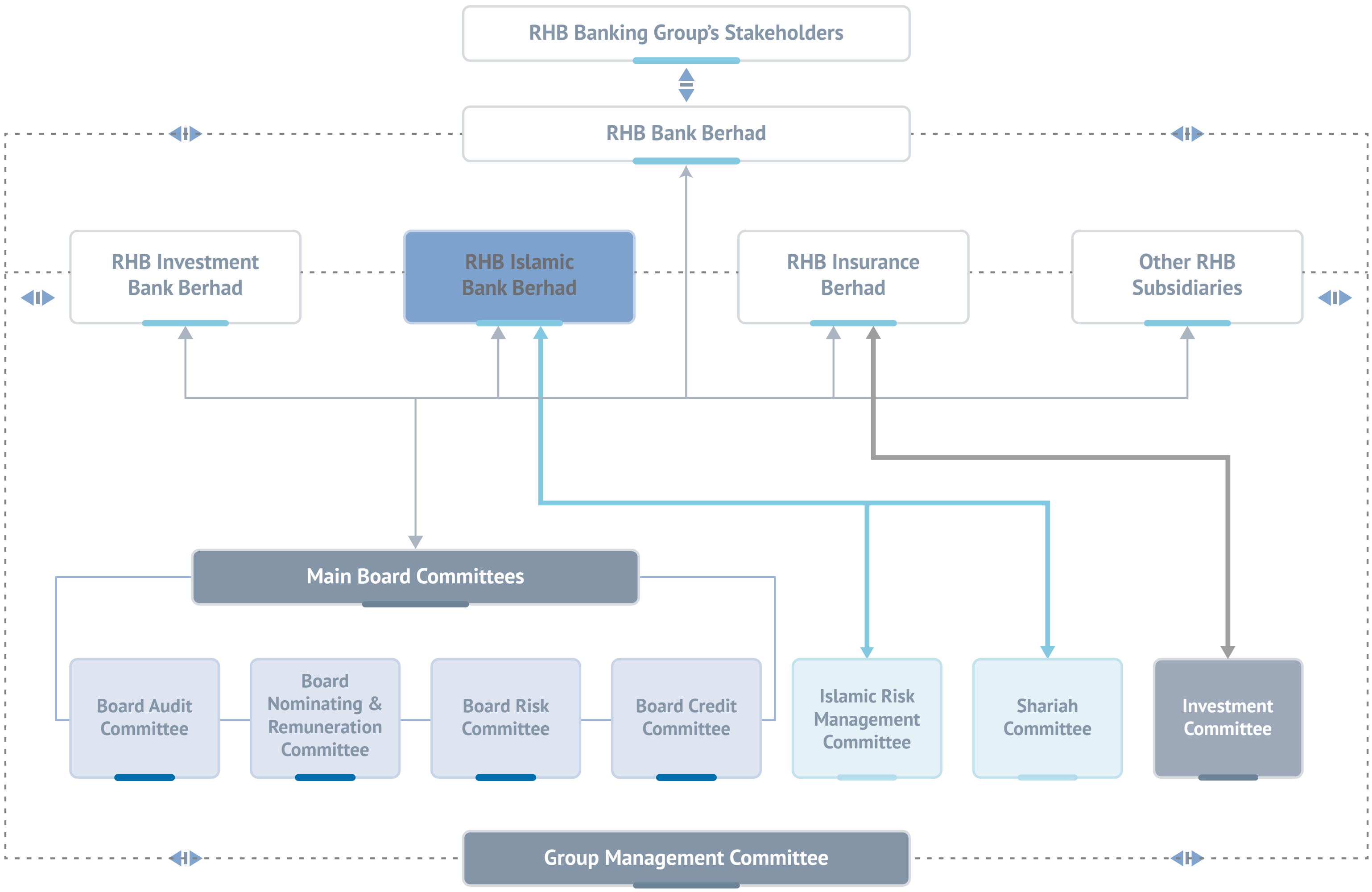
Statement on Corporate Governance

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

BOARD GOVERNANCE MANUAL

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

GOVERNANCE MODEL



RHB Banking Group had established several Board Committees to support and supplement the Boards of entities within the Group in carrying out their roles and responsibilities. To date, the Board has established the following main Board Committees:

- Board Nominating & Remuneration Committee **("BNRC")**
- Board Audit Committee **("BRC")**
- Board Credit Committee **("SC")**
- Shariah Committee **("BCC")**
- Islamic Risk Management Committee **("IRMC")**

The Board delegates some of its powers and functions to each of the Board Committees to assist in carrying out its responsibilities. However, the Board does not abdicate its responsibility over these committee as it exercises collective oversight and requires each committee to adopt their own Term of Reference ("ToR") setting out matters relevant to the composition, responsibilities and administration of such committees, and other matters that the Board may consider appropriate.

Detailed information on the shared Board Committees can be found in RHB Bank Berhad's Annual Report 2018 and Corporate Governance Report 2018 available on RHB Bank's corporate website www.rhbgroup.com

BOARD TRAINING AND DEVELOPMENT

The Board emphasises the importance of continuing education and training for its Directors to ensure they keep up with the latest developments in the areas related to their duties. A budget for Directors' training is provided each year by RHB Islamic Bank. The Board, as part of the Board Effectiveness Evaluation ("BEE") exercise, assesses the training needs of each Director annually. The training and development of Directors are detailed in the Group's Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group. The Non-Executive Directors ("NED") of the Company and the Group are encouraged to attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme. This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that engender organisational excellence.

The Company Secretaries facilitate the organisation of internal training programmes and Directors' attendance of external programmes, and keep a complete record of the training received and attended by the Directors.

In addition, the new NEDs received a comprehensive Director's induction kit to assist them in building an in-depth understanding of the Group's operations, its longer-term direction and statutory obligations.

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

DIRECTOR'S TRAINING

During the financial year ended 2018, the Directors of the Bank attended the following training programmes, conferences and seminars:

Name	Programme title	Scope
Abdul Aziz Peru Mohamed (Chairman)	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	• Common AML/CFT challenges faced by FIs in Malaysia • Insights from PwC Economic Crime Survey 2016 • Global Trends in 2017
	Briefing on MFRS 9	• Benefits and Challenges of implementing MFRS 9 • Overview of Loan Impairment Methodology • MFRS 9 ECL methodology
	Briefing on "Global Economic and Markets Outlook" by Dr Mark Zandi	• Impact on real GDP growth • US Economic Growth • Fuel wage and price pressure • Higher interest rate • ECB and BOJ lag the led • Oil production cost in equilibrium
	Briefing on Singapore's New Insolvency & Restructuring Regime by Shook Lin & Bok	• Singapore implemented a new insolvency and restructuring regime on 23 May 2017 by adopting parts of the US Chapter 11 Bankruptcy Code. It aims to provide greater opportunities for the rehabilitation of companies that are in financial distress and position Singapore as a regional restructuring hub • The changes affect Singapore companies and foreign companies with a connection to Singapore
	In-House Training on "Islamic Finance Beyond Banking"	• Differences between Islamic Finance and Conventional Finance • Shari'ah Contracts and Understanding the Business Propositions • Understanding Shari'ah Risks in Islamic Banking Business
	In House Training on Cryptocurrency, Blockchain & Beyond: A Cautionary Tale	• Understanding the features of cryptocurrency • Lean how the blockchain concept works • Understand the challenges facing the banking industry with regards to cryptocurrency
	Training on New Corporate Liability Landscape Pursuant to MACC (Amendment) Act 2018	• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009 ("MACC Act 2009") • Overview of the latest amendments to anti-corruption laws in Malaysia • Unravelling the changes to the corporate liability landscape pursuant to MACC (Amendment) Act 2018

Name	Programme title	Scope
Abdul Aziz Peru Mohamed (Chairman) (continued)	Global Islamic Finance Forum 2018 (GIFF2018)	• Integrating Sustainability & Responsible Financing into the Financial Sector • Vale Based Intermediation : The Islamic Perspective • Pushing the Sustainable Agenda to the Board • Roadmap to Sustainability • Reporting on Sustainability • Technological Disruption Impacting Sustainable Finance
	MALAYSIA – A New Dawn Conference 2018	• Panel: New Malaysia : Resiliency of the Economy & Credit Profile • Panel: Building Sustaining Infrastructure & Housing • Panel: Improving Efficiency In Malaysia Agri/Commodity Sector
	In-house Training on AML/CFT Compliance	• AML landscape • Culture, Conduct and Accountability • AML Governance • Sanctions • Transaction Monitoring • Industry Trends
	Digital Ecosystem	• AI development by cloud computing and big data • Focus Areas for technology in SEA
	Trends, Opportunities, Challenges in the Banking Sector by McKinsey & Company	• Global Banking Trends • Deep-dive on Malaysian Financial ecosystem • Opportunities for RHB
Ong Ai Lin	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	• Common AML/CFT challenges faced by FIs in Malaysia • Insights from PwC Economic Crime Survey 2016 • Global Trends in 2017
	Briefing on MFRS 9	• Benefits and Challenges of implementing MFRS 9 • Overview of Loan Impairment Methodology • MFRS 9 ECL methodology
	FIDE CORE Programme : Module A	• Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario
	Briefing on "Global Economic and Markets Outlook" by Dr Mark Zandi	• Impact on real GDP growth • US Economic Growth • Fuel wage and price pressure • Higher interest rate • ECB and BOJ lag the led • Oil production cost in equilibrium

Statement on Corporate Governance

Name	Programme title	Scope
Ong Ai Lin (continued)	Briefing on Internal Rating Based (IRB) by Group Risk, Compliance & Credit Management	• Basel II Pillar 1 – Minimum Capital Requirements • Basel II Credit Risk IRB Approach
	Understanding Liquidity Risk Management in Banking Programme	• The programme will then cover managing balance sheet liquidity, which involves developing the conceptual framework and skill sets needed to identify, measure, control and monitor liquidity risk • Managing liquidity for survival, liquidity for growth, trading liquidity as well as structural liquidity
	5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM	• Board's Role and Responsibilities • Collaborative working relationship with BNM – Regulatory Policies on Banking – Conventional, Islamic and Investment
	Sustainability Awareness Session	• The evolution from corporate philanthropy to sustainability which advocates long term responsibility • Sustainability is typically defined as EES • Sustainability is important to meet the demands and maintain confidence of major stakeholders
	FIDE CORE Programme : Module B	• Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario
	Training on New Corporate Liability Landscape Pursuant to MACC (Amendment) Act 2018	• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009 ("MACC Act 2009") • Overview of the latest amendments to anti-corruption laws in Malaysia • Unravelling the changes to the corporate liability landscape pursuant to MACC (Amendment) Act 2018
	Global Islamic Finance Forum 2018 (GIFF2018)	• Integrating Sustainability & Responsible Financing into the Financial Sector • Vale Based Intermediation : The Islamic Perspective • Pushing the Sustainable Agenda to the Board Roadmap to Sustainability • Reporting on Sustainability • Technological Disruption Impacting Sustainable Finance
	MALAYSIA – A New Dawn Conference 2018	• Panel: New Malaysia : Resiliency of the Economy & Credit Profile • Panel: Building Sustaining Infrastructure & Housing • Panel: Improving Efficiency In Malaysia Agri/Commodity Sector
	Malaysian Institute of Accountants Conference 2018	• The New Leasing Standard – How Would it Impact Your Business Model • Audit Evidence in a Digital World • Taxing the Digital Economy 6.00 • Digital Disruption: Revolutionising Islamic Finance 9.15

Name	Programme title	Scope
Ong Ai Lin (continued)	FIDE FORUM – Dinner Talk with Dr Marshall Goldsmith in conjunction with the Launch of FIDE FORUM's "DNA of a Board Leader"	• Making a difference, how to identify and hone critical leadership skills and behaviours that will leave a legacy • Approach to navigate negatives and sustain positive change • Using the wheel of change and external and internal triggers • To anticipate, activate and achieve long lasting results for your organisations
	In-house Training on AML/CFT Compliance	• AML landscape • Culture, Conduct and Accountability • AML Governance • Sanctions • Transaction Monitoring • Industry Trends
	Digital Ecosystem	• AI development by cloud computing and big data • Focus Areas for technology in SEA
	Trends, Opportunities, Challenges in the Banking Sector by McKinsey & Company	• Global Banking Trends • Deep-dive on Malaysian Financial ecosystem • Opportunities for RHB
YBhg Dato' Foong Chee Meng	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	• Common AML/CFT challenges faced by FIs in Malaysia • Insights from PwC Economic Crime Survey 2016 • Global Trends in 2017
	Briefing on Internal Rating Based (IRB) by Group Risk, Compliance & Credit Management	• Basel II Pillar 1 – Minimum Capital Requirements • Basel II Credit Risk IRB Approach
	Briefing on Singapore's New Insolvency & Restructuring Regime by Shook Lin & Bok	• Singapore implemented a new insolvency and restructuring regime on 23 May 2017 by adopting parts of the US Chapter 11 Bankruptcy Code. It aims to provide greater opportunities for the rehabilitation of companies that are in financial distress and position Singapore as a regional restructuring hub • The changes affect Singapore companies and foreign companies with a connection to Singapore
	5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM	• Board's Role and Responsibilities • Collaborative working relationship with BNM • Regulatory Policies on Banking – Conventional, Islamic and Investment
	FIDE CORE Programme : Module A	• Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario

Statement on Corporate Governance

Name	Programme title	Scope
YBhg Dato' Foong Chee Meng (continued)	FIDE CORE Programme : Module B	• Principle of sound governance • Adoption of structured and robust process for the selection of Board Members • Understanding key issues of financial reporting • Common pitfalls in strategy execution
	Training on New Corporate Liability Landscape Pursuant to MACC (Amendment) Act 2018	• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009 ("MACC Act 2009") • Overview of the latest amendments to anti-corruption laws in Malaysia • Unravelling the changes to the corporate liability landscape pursuant to MACC (Amendment) Act 2018
	Global Islamic Finance Forum 2018 (GIFF2018)	• Integrating Sustainability & Responsible Financing into the Financial Sector • Vale Based Intermediation : The Islamic Perspective • Pushing the Sustainable Agenda to the Board • Roadmap to Sustainability • Reporting on Sustainability • Technological Disruption Impacting Sustainable Finance
	In-house Training on AML/CFT Compliance	• AML landscape • Culture, Conduct and Accountability • AML Governance • Sanctions • Transaction Monitoring • Industry Trends
	MALAYSIA – A New Dawn Conference 2018	• Panel: New Malaysia : Resiliency of the Economy & Credit Profile • Panel: Building Sustaining Infrastructure & Housing • Panel: Improving Efficiency In Malaysia Agri / Commodity Sector
	In-house Training on AML/CFT Compliance	• AML landscape • Culture, Conduct and Accountability • AML Governance • Sanctions • Transaction Monitoring • Industry Trends
	Islamic Finance for Board of Directors Programme	• Differences between Islamic Finance and Conventional Finance • Shari'ah Contracts and Understanding the Business Propositions • Understanding Shari'ah Risks in Islamic Banking Business

Name	Programme title	Scope
YBhg Datuk Nozirah Bahari (continued)	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management	• Common AML/CFT challenges faced by FIs in Malaysia • Insights from PwC Economic Crime Survey 2016 • Global Trends in 2017
	Briefing on MFRS 9	• Benefits and Challenges of implementing MFRS 9 • Overview of Loan Impairment Methodology • MFRS 9 ECL methodology
	BNM FIDE FORUM Dialogue : Managing Cyber Risks in Financial Institutions	• The key cyber security issues and challenges faced by financial services industry • Roles and responsibilities of board members to ensure effective oversight on the implementation and enforcement of safeguards to mitigate cyber risks • Role has BNM played in preventing and managing cyber security risks/threats
	Briefing on “Global Economic and Markets Outlook” by Dr Mark Zandi	• Impact on real GDP growth • US Economic Growth • Fuel wage and price pressure • Higher interest rate • ECB and BOJ lag the led • Oil production cost in equilibrium
	Briefing on Internal Rating Based (IRB) by Group Risk, Compliance & Credit Management	• Basel II Pillar 1 – Minimum Capital Requirements • Basel II Credit Risk IRB Approach
	Briefing on Singapore’s New Insolvency & Restructuring Regime by Shook Lin & Bok	• Singapore implemented a new insolvency and restructuring regime on 23 May 2017 by adopting parts of the US Chapter 11 Bankruptcy Code. It aims to provide greater opportunities for the rehabilitation of companies that are in financial distress and position Singapore as a regional restructuring hub • The changes affect Singapore companies and foreign companies with a connection to Singapore
	5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM	• Board’s Role and Responsibilities • Collaborative working relationship with BNM – • Regulatory Policies on Banking – Conventional, Islamic and Investment
	In-House Training on “Islamic Finance Beyond Banking”	• Differences between Islamic Finance and Conventional Finance • Shari’ah Contracts and Understanding the Business Propositions • Understanding Shari’ah Risks in Islamic Banking Business
	In House Training on Cryptocurrency, Blockchain & Beyond: A Cautionary Tale	• Understanding the features of cryptocurrency • Lean how the blockchain concept works • Understand the challenges facing the banking industry with regards to cryptocurrency

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Name	Programme title	Scope
YBhg Datuk Nozirah Bahari (continued)	Training on New Corporate Liability Landscape Pursuant to MACC (Amendment) Act 2018	• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009 ("MACC Act 2009") • Overview of the latest amendments to anti-corruption laws in Malaysia • Unravelling the changes to the corporate liability landscape pursuant to MACC (Amendment) Act 2018
	Briefing on Agile Leap	• Taking the Agile Leap • Scaling Agile: Creating a competitive advantage
	Global Islamic Finance Forum 2018 (GIFF2018)	• Integrating Sustainability & Responsible Financing into the Financial Sector • Vale Based Intermediation : The Islamic Perspective • Pushing the Sustainable Agenda to the Board • Roadmap to Sustainability • Reporting on Sustainability • Technological Disruption Impacting Sustainable Finance
	MALAYSIA – A New Dawn Conference 2018	• Panel: New Malaysia : Resiliency of the Economy & Credit Profile • Panel: Building Sustaining Infrastructure & Housing • Panel: Improving Efficiency In Malaysia Agri/Commodity Sector
	In-house Training on AML/CFT Compliance	• AML landscape • Culture, Conduct and Accountability • AML Governance • Sanctions • Transaction Monitoring • Industry Trends
YBhg Dato' Abd Rahman Bin Dato' Md Khalid	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	• Common AML/CFT challenges faced by FIs in Malaysia • Insights from PwC Economic Crime Survey 2016 • Global Trends in 2017
	Briefing on MFRS 9 by Ernst & Young	• Benefits and Challenges of implementing MFRS 9 • Overview of Loan Impairment Methodology • MFRS 9 ECL methodology
	Briefing on Internal Rating Based (IRB) by Group Risk, Compliance & Credit Management	• Basel II Pillar 1 – Minimum Capital Requirements • Basel II Credit Risk IRB Approach
	FIDE CORE Programme : Module B	• Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenario

Name	Programme title	Scope
YBhg Dato' Abd Rahman Bin Dato' Md Khalid (continued)	In-House Training on "Islamic Finance Beyond Banking"	• Differences between Islamic Finance and Conventional Finance • Shari'ah Contracts and Understanding the Business Propositions • Understanding Shari'ah Risks in Islamic Banking Business
	In House Training on Cryptocurrency, Blockchain & Beyond: A Cautionary Tale	• Understanding the features of cryptocurrency • Lean how the blockchain concept works • Understand the challenges facing the banking industry with regards to cryptocurrency
	Training on New Corporate Liability Landscape Pursuant to MACC (Amendment) Act 2018	• Understanding corruption and the provisions of the Malaysian Anti-Corruption Commission Act 2009 ("MACC Act 2009") • Overview of the latest amendments to anti-corruption laws in Malaysia • Unravelling the changes to the corporate liability landscape pursuant to MACC (Amendment) Act 2018
	Global Islamic Finance Forum 2018 (GIFF2018)	• Integrating Sustainability & Responsible Financing into the Financial Sector • Value Based Intermediation : The Islamic Perspective • Pushing the Sustainable Agenda to the Board • Roadmap to Sustainability • Reporting on Sustainability • Technological Disruption Impacting Sustainable Finance
	PowerTalk 'Effective Boards in a VUCA World'	• Gain a broad view of just why the modern era is so challenging – covering a number of different domains • Take effective actions that can affect engagement, reputation and ethos issues under the increasingly bright glare of the social media spotlight in a highly interconnected and troubled world
	In-house Training on AML/CFT Compliance	• AML landscape • Culture, Conduct and Accountability • AML Governance • Sanctions • Transaction Monitoring • Industry Trends
	The World Bank – INCEIF – IRTI 4th Annual Symposium on Islamic Finance	• Eradicating Extreme Poverty and Promoting Financial Inclusion: The Roles of Islamic and Sustainable Finance • Responsible Agriculture Investment Strategies • Leveraging FinTech to Support Islamic Social Finance

Statement on Corporate Governance

Name	Programme title	Scope
Non-Independent Non-Executive Director		
YBhg Datuk Haji Faisal Siraj	AML/CFT & Regulatory Compliance Training for Board of Directors & Senior Management by PwC	• Common AML/CFT challenges faced by FIs in Malaysia • Insights from PwC Economic Crime Survey 2016 • Global Trends in 2017
	Briefing on Internal Rating Based (IRB) by Group Risk, Compliance & Credit Management	• Basel II Pillar 1 – Minimum Capital Requirements • Basel II Credit Risk IRB Approach
Executive Director		
YBhg Dato' Adissadikin Ali (Managing Director/CEO)	Briefing on Singapore's New Insolvency & Restructuring Regime by Shook Lin & Bok	• Singapore implemented a new insolvency and restructuring regime on 23 May 2017 by adopting parts of the US Chapter 11 Bankruptcy Code. It aims to provide greater opportunities for the rehabilitation of companies that are in financial distress and position Singapore as a regional restructuring hub • The changes affect Singapore companies and foreign companies with a connection to Singapore
	In-House Training on "Islamic Finance Beyond Banking"	• Differences between Islamic Finance and Conventional Finance • Shari'ah Contracts and Understanding the Business Propositions • Understanding Shari'ah Risks in Islamic Banking Business
	In House Training on Cryptocurrency, Blockchain & Beyond: A Cautionary Tale	• Understanding the features of cryptocurrency • Lean how the blockchain concept works • Understand the challenges facing the banking industry with regards to cryptocurrency
	Briefing on Agile Leap	• Taking the Agile Leap • Scaling Agile: Creating a competitive advantage
	MALAYSIA – A New Dawn Conference 2018	• Panel: New Malaysia : Resiliency of the Economy & Credit Profile • Panel: Building Sustaining Infrastructure & Housing • Panel: Improving Efficiency In Malaysia Agri/Commodity Sector

BOARD ATTENDANCE

The Board and its Committees met regularly to carry out their respective duties and responsibilities during the last financial year. The table below illustrates the meeting attendance record for all Board members of RHB Islamic Bank Berhad:

Board Member/CEO	Designation	Meeting Attendance				
		Board	BAC	BNRC	BRC	BCC
En Abdul Aziz Peru Mohamed*	Independent Non-Executive Director	2/3				
Ms Ong Ai Lin	Independent Non-Executive Director	12/12	12/12	9/9	12/12	
YBhg Dato' Foong Chee Meng	Independent Non-Executive Director	11/12				
YBhg Datuk Nozirah Bahari#	Independent Non-Executive Director	4/4				35/35
YBhg Dato' Abd Rahman Bin Dato' Md Khalid	Independent Non-Executive Director	12/12				
YBhg Datuk Haji Faisal Siraj^	Non-Independent Non-Executive Director	8/8				
YBhg Dato' Adissadikin Ali	Managing Director/Chief Executive Officer	12/12				

Legend: Board/Committee Chairman Board/Committee Member

* En Abdul Aziz Peru Mohamed was appointed Chairman of the Board on 1 October 2018.
^ YBhg Datuk Haji Faisal Siraj retired from the Board on 1 September 2018.
\# YBhg Datuk Nozirah Bahari was appointed to the Board on 1 September 2018 and resigned on 12 February 2019.

Statement on Corporate Governance

Board Responsibilities

The Management's performance is actively monitored in executing the Board's directive and strategies in line with the Group's new 5-Year plan on top of the Board providing direction and advice to ensure management do not divagate from their mandates. The Board has in place a Board Charter that provides clear outline on the roles and responsibilities for each member of the Board. This document was developed with great care and perseverance to guide and ensure each member is held accountable for their actions and inactions in serving the Group. The Board also assumes overall responsibility for promoting sustainable growth and financial soundness of the Company and its subsidiaries.

This includes the following:

- Governing the Company's and the Group's business conduct and operations
- Risk Management
- Talent Development and Succession Planning
- Effective Communication
- Internal Control

BOARD COMPOSITION

The Board recognises the need to have a Board composition that imbues the practice of good governance and is also well versed in the business operations of the Bank.

The past financial year saw the Board bid farewell to YBhg Datuk Haji Faisal Siraj, who had retired from the Board to pursue other personal interests. The departure of YBhg Datuk Haji Faisal from the Board paved the way for a new appointment which saw YBhg Datuk Nozirah Bahari appointed to the Board as an Independent Non-Executive Director. The current Board composition ensures the Board complies with the Bank Negara Malaysia's Corporate Governance Policy Document and the Malaysian.

Code on Corporate Governance ("MCCG"), which advocate for the Board composition to encapsulate a majority of INEDs.

The Board is well pleased with the current established composition as it is an important driver of our effectiveness. The current composition allows a breadth of perspective to be shared by its members and is viewed as optimal for the company of RHB's size and intricate operations.

- For 2018, the Company's Board comprises a majority of independent directors (71%).
- There are no Independent Director who is serving for more than nine (9) years tenure on the Board.
- Generally the Company comprises 28% women representation on the Board of Directors and 50% among the Group Senior Management:
- The Company's Board remains vigilant in search for the right talent and suitable skill-set in enhancing the Board's diversity.
- As a very diverse Board in terms of age, educational background, ethnicity, experience, nationality and so forth, existing Board members are able to offer in-depth deliberation during Board meetings which would be beneficial for the Company's sustainable performance and operation.
- Similarly, the Company expects diversity at senior management level able to provide constructive debates, differing ways of deliberating same ideas and preparing a talent pipeline for future board candidacy, hence reaps the benefits arising from gender diversity agenda.

REMUNERATION GOVERNANCE

The Company's Managing Director/Chief Executive Officer is not paid a Director's fee nor is he entitled to receive any meeting attendance allowance for the Board meetings that he attends. As the only Executive Director on the Board of the Company, his remuneration, which includes salary and bonus, comprised short term or long term incentives, in cash or benefits-in-kind, is derived from the Company.

The Managing Director's sustainable remuneration package also includes performance bonus, in line with the Group's retention policy and risk-based approach. His Key Performance Indicators and remuneration are approved by the Board. The details on the aggregate remuneration of the Directors of the Company (comprising remuneration received and/or receivable from the Company during the financial year ended 2018) are, as follows:

Name of Company's Executive Director	Salary and Bonus (RM'000)	Other Emoluments (RM'000)	Benefits-in-kind (RM'000)	Total (RM'000)
Dato' Adissadikin Ali	1,734	–	7	1,741
Name of Company's Non-Executive Directors ("NEDs")	**Directors' Fees* (RM'000)**	**Other Emoluments** (RM'000)**	**Benefits-in-kind (RM'000)**	**Total (RM'000)**
En Abdul Aziz Peru Mohamed*	43	3	2	48
Ms Ong Ai Lin	135	112	–	247
Dato' Foong Chee Meng	135	40	–	175
Datuk Nozirah Bahari#	45	6	–	51
Dato' Abd Rahman Bin Dato' Md Khalid	168	97	–	265
Datuk Haji Faisal Siraj^	90	12	–	102
Sub Total (NEDs)	**616**	**270**	**2**	**888**
Grand Total (MD + NEDs)	**2,350**	**–**	**9**	**2,629**

Notes:
The remuneration reflected above is on cost-sharing basis i.e. for RHB Islamic Bank only
* Based on proposed new fees, subject to shareholders' approval.
** Include Board Committees' allowances and meeting allowance.
* En Abdul Aziz Peru Mohamed was appointed Chairman of the Board on 1 October 2018.
^ YBhg Datuk Haji Faisal Siraj retired from the Board on 1 September 2018
# YBhg Datuk Nozirah Bahari was appointed to the Board on 1 September 2018 and resigned on 12 February 2019.

The Board is mindful that fair remuneration is critical to attract, retain and motivate Directors with the relevant experience and expertise required to lead the Company and the Group. The BNRC has been entrusted with discharging the remuneration strategies (as outlined in its terms of reference). The Group has also established a common reference incorporating the Non-Executive Directors' ("NED") Remuneration Framework. It is aimed at applying the general principles for the remuneration of NEDs to ensure that remuneration levels are commensurate with the responsibilities, risks and time commitment of Boards/Board Committees. The level of remuneration reflects the level of responsibility undertaken by the particular NED concerned within the Company and the Group. It also takes into consideration practices within the industry and is reviewed at least once every two years.

No.	Non-Executive Directors' Remuneration Scheme	Unrestricted/Non-Deferred	Total (RM'000)	Restricted/ Deferred	Total (RM'000)
Fixed-Type Remuneration					
i	Cash-based	• Fixed Fees • Directors' Fees[1] • Committee Allowances[2] • Chairmen's premium[3] for various entities & committees • Other emoluments	736	Nil	–
ii	Shares & share-linked instruments	Nil	–	Nil	–
iii	Others	Benefits-in-kind[5]	2	Farewell Pot[4]	14
B. Variable-Type Remuneration					
i	Cash-based	Meeting Attendance Allowance[6]	150	Nil	–
ii	Shares & share-linked instruments	Nil	–	Nil	–
iii	Others	Directors' & Officers' Liability Insurance[7]	373	Nil	–

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

1. **Directors' Fees**
NEDs are entitled to annual Directors' fees, which are subject to shareholders' approval at the Annual General Meeting ("AGM") of the Company. As part of a periodical review to ensure the Group remains competitive against its peers and with the heightened responsibilities and accountabilities under the Companies Act 2016, the Financial Services Act 2013, the Capital Markets & Services Act 2007 and the Malaysian Code on Corporate Governance. The total Directors' Fees paid/ payable to the Directors for FY2018 are **RM616,000**. The above proposal is subject to the approval of the shareholder at the forthcoming 2018 Annual General Meeting of the Company.

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

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

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

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

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

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

The remuneration structure and package for the Non-Executive Directors are approved by the shareholders at the Company's Annual General Meeting. Further information on the total remuneration of the Directors from the Company and from the subsidiaries is available under Note 32 to the Financial Statements on pages 119 to 121.

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

- Commensurate with the responsibilities, risks and time commitment; and
- Market-competitive and sufficient to attract and retain quality people but yet not excessive.

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

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

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit Committee

The Board has in place a Board Audit Committee ("BAC") that comprises 3 members, all of whom are Independent Non-Executive Directors. The Committee supports the Board with matters pertaining to financial reporting, external audit, internal control and internal audit process and review of related party transactions as well as conflict of interest situations. The BAC is chaired by Tan Sri Dr Rebecca Fatima Sta Maria, the RHB Bank Bhd's Senior Independent Non-Executive Director.

All members of the BAC are financially literate and possess necessary financial background, knowledge and experience to review financial and non-financial reporting and matters put forth for deliberation before the committee. One member, namely Ms Ong Ai Lin, is an Associate of The Institute of Chartered Accountants in England & Wales and a Member of the Malaysian Institute of Accountants. She was accorded the Cyber Security Lifetime Achievement Award by Cyber Security Malaysia for her lifelong and significant contribution including excellent research towards cyber security for our national critical infrastructure.

The BAC oversees the Group Internal Audit ("GIA") function which operates under a charter mandated by the BAC that gives unrestricted access to review all activities across the Group. The GIA reports directly to the BAC on all its activities as promulgated by paragraph 15.27 of MMLR.

The BAC reviews and approves the Group Internal Audit's annual audit plan, its staffing requirements and audit activities, including appraisal of the Group Chief Internal Auditor's performance. The audit committee is involved in deciding the remit of the internal audit function including its objectives, strategies, roles and responsibilities, scope and remuneration.

Further information on the BAC and GIA of the Group can be found under the **CG Report of RHB Bank Berhad**.

Risk Management and Internal Control Framework

As a Financial Institution, the Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and to safeguard shareholders' investments as well as the Company's and the Group's assets. RHB's risk management and internal control framework is designed not only to cover financial controls but also non-financial controls.

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

The BRC continues to enhance its oversight on RHB's compliance activities with special "compliance focus" meetings prior to every scheduled BRC monthly meetings. This effort was undertaken by the BRC to ensure they were kept abreast by management on all matters relating to RHB's compliance function.

Detailed information on RHB Islamic Bank's risk management and internal control framework is available on the Statement of Risk Management and Internal Control ("SORMIC") on pages 33 to 40 of this Annual Report.

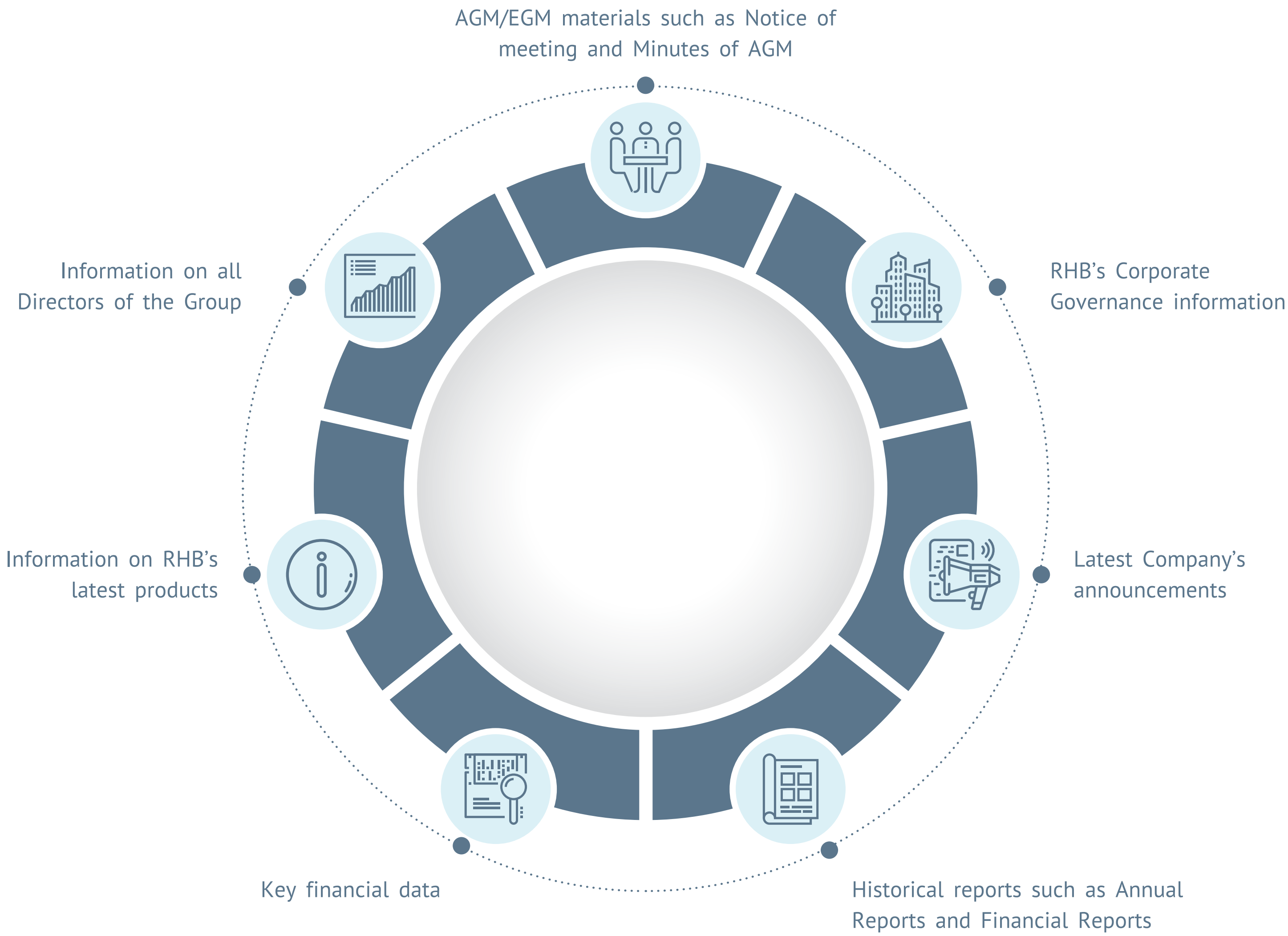
Statement on Corporate Governance

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

COMMUNICATION WITH STAKEHOLDERS

The Board endeavours to continue maintaining an open and timely communication with all stakeholders. The Board currently conducts its engagement with stakeholders through various mechanisms such as the publication of Annual Reports, General Meetings, investors' conferences, roadshows, analyst briefings, media briefings/press conferences and via electronic means such as RHB's corporate website.

Valuing the importance of transparency, we ensure important and material information are communicated to stakeholders in a timely manner, through the Bank's website, **www.rhbgroup.com**. The website is regularly updated with the relevant information for the ease of all stakeholders. Information disclosed in the website include:



Statement of Risk Management & Internal Control

BOARD RESPONSIBILITY

The Board of Directors ("Board") of RHB Islamic Bank ("Bank") is committed to its overall responsibility in establishing a sound risk management and internal control system in the Bank. The Board's responsibility includes reviewing the adequacy and effectiveness of the risk management and internal control system in safeguarding shareholders' investments and the Bank's assets. While total elimination of risks is not possible, the system has been designed to manage the Bank's risk appetite within the established risk tolerance set by the Board and Management to support the achievement of the Bank's business objectives. The system can therefore only provide reasonable and not absolute assurance against the occurrence of any material misstatement, loss or fraud.

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

The Board has also obtained assurance from the Managing Director and the Chief Financial Officer that the Bank's risk management and internal control system is operating adequately and effectively.

MANAGEMENT RESPONSIBILITY

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

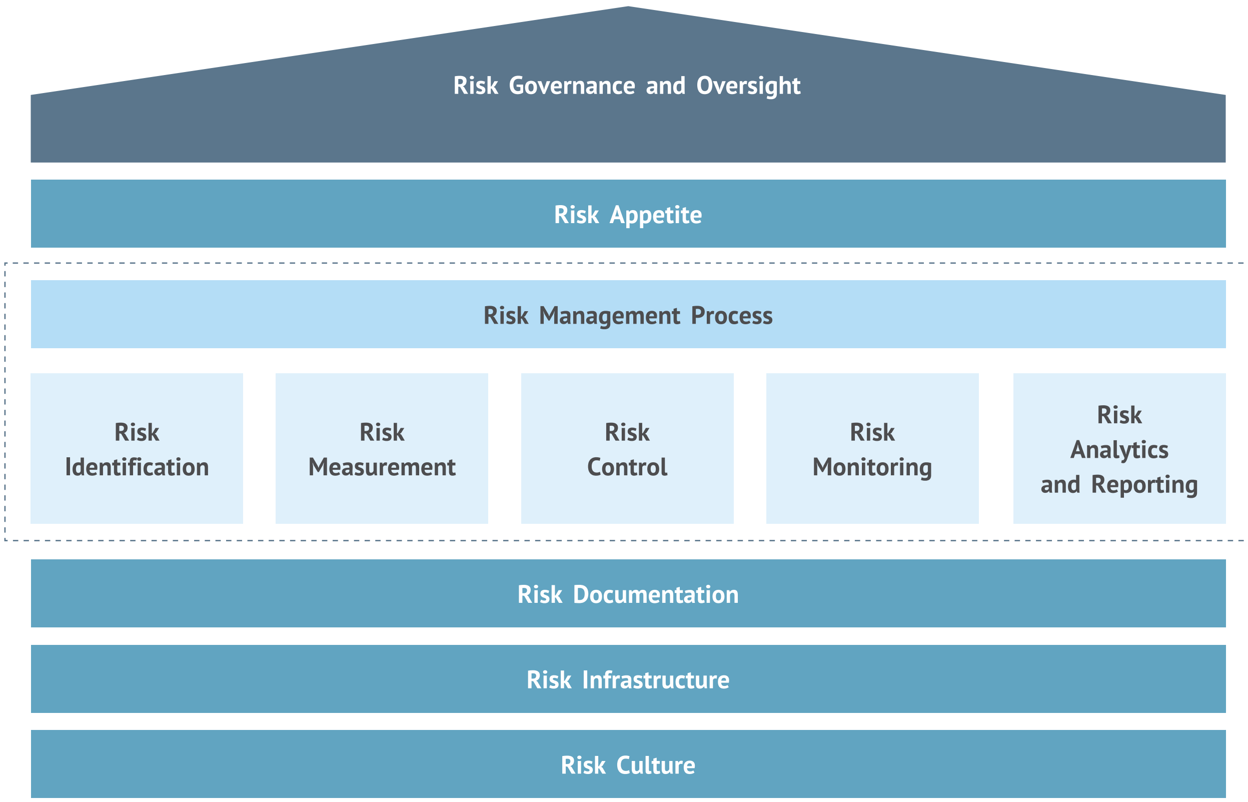
- Identifying and evaluating the risks relevant to the Bank's business and achievement of its business objectives and strategies;
- Formulating relevant policies and procedures to manage risks and the conduct of business;
- Designing and implementing the risk management framework and internal control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

Accordingly, the Management has provided assurance to the Board that the Bank's risk management and internal control system is operating adequately and effectively with the necessary processes been implemented.

Statement of Risk Management & Internal Control

RISK MANAGEMENT FRAMEWORK

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



Risk Governance and Oversight

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

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

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

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

Risk Appetite

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

The Board, through the relevant entities' Boards and Senior Management Committees as well as the Group Risk & Credit Management function, establishes the risk appetite and risk tolerance for the Group and relevant entities.

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

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

Risk Management Processes

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

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

Risk Documentation and Infrastructure

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

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

Risk Culture

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

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

Statement of Risk Management & Internal Control

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

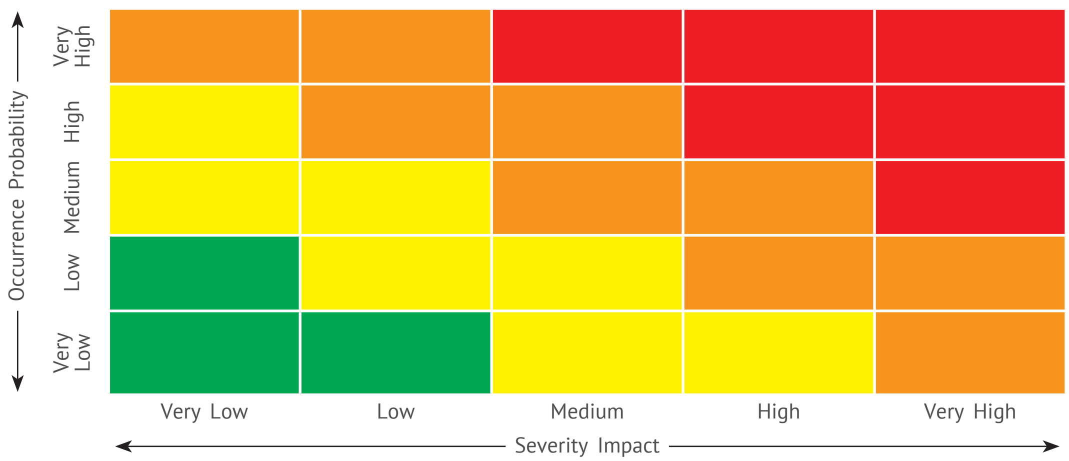
The implementation of the BRCO programme is in line with the 'Three Lines of Defence' model practised globally. There is clear accountability of risk ownership across the Group. The model is depicted in the diagram below:

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

Risk Assessment

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

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



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

Risk and Control Self-Assessment

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

KEY INTERNAL CONTROL PROCESSES

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

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

Control Environment and Control Activities

Organisation Structure

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

Policies and Procedures

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

Authority Limits

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

Information Technology (IT) Security

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

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

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

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

Budgeting Process

A robust budgeting process is established requiring all key operating entities 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 and rewards as well as matters relating to discipline, termination and dismissal.

Statement of Risk Management & Internal Control

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

Group Code of Ethics and Conduct

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

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

Group Anti-Money Laundering and Counter Financing of Terrorism Policy

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

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

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

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

Group Fraud Risk Management Policy

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

Business Continuity Management

The Group recognises and is fully committed to the need to provide uninterrupted critical services to its customers, ensure the safety of its employees, protect its assets/data and safeguard the interest of its key stakeholders that collectively ensure the viability of the organisation. Hence, the Group is aware of the importance of a sound Business Continuity Management ("BCM") Framework and Programme to build organisational resilience and an effective response and recovery mechanism to safeguard the interest of key stakeholders, reputation and brand. The Group's BCM Programme is based on good business continuity practices, Bank Negara Malaysia and other regulatory guidelines and international standards.

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

The Group implements a sound BCM Programme to ensure the critical business functions are recovered in a timely manner in the event of any disruption. Reviews, assessments, updates and testing of the BCM plans are conducted regularly to ensure adequacy, effectiveness and relevance of the business recoveries. Simulation exercises and drills are conducted to familiarise and equip staff with the skills and processes required to ensure that in the event of any disruption, critical business processes can continue or be recovered in a timely manner.

Information and Communication

Performance Review

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

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

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

Group Whistleblowing Policy

A Group Whistleblowing Policy ("GWBP") was established by the Group in 2007 and last updated in 2018. The GWBP provides proper mechanism and sets a minimum standard to be adhered by the Group in dealing with disclosure of questionable actions or wrongdoings by personnel within the Group. Details of the GWBP can be found under Practice 3.2 of the RHB Bank Berhad's Corporate Governance ("CG") Report, available at www.rhbgroup.com.

Incident Management Reporting

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

Monitoring

Board Committees

The Board has in place, Board Committees that are set up to support the Board in its oversight function. The Board Committees include the BRC, BAC, Board Nominating & Remuneration Committee, Board Credit Committee and IRMC. 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 ("ToR"). Detailed responsibilities of these Board Committees can be found under RHB Bank Berhad's CG Report, Board Charter and their respective ToRs available at www.rhbgroup.com.

Group Management Committee

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

Management Audit Committee

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

The Bank's MAC comprising senior level representatives from different business / functional groups is chaired by the Managing Director of the Bank. The Bank's MAC meets 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.

Statement of Risk Management & Internal Control

Group Compliance

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

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

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

Shariah Compliance

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

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

INTERNAL AUDIT

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

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

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

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

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

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

CONCLUSION

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

Based on the monthly updates from its Board Committees and the assurance received from the Management, the Board is of the view that the 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

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

COMPOSITION AND ATTENDANCE OF MEETINGS

For the financial year ended 31 December 2018, a total of twelve (12) BAC meetings were held. The BAC comprises the following members who are all independent directors and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of BAC	Attendance at Meetings
Tan Sri Dr Rebecca Fatima Sta Maria *(Chairperson/Senior Independent Non-Executive Director)**	12/12 (100%)
Tan Sri Saw Choo Boon *(Member/Independent Non-Executive Director)#*	11/12 (92%)
Ms Ong Ai Lin *(Member/Independent Non-Executive Director)*	12/12 (100%)

Notes:
* Redesignated as Senior Independent Non-Executive Director on 1 October 2018
# Redesignated as Independent Non-Executive Director on 1 October 2018

The BAC meetings were also attended by the Managing Director of RHB Islamic Bank Berhad and the Group Chief Internal Auditor ("Group CIA") during the deliberation of RHB Islamic Bank Berhad's matters while the attendance of other Senior Management is by invitation, if required.

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

AUTHORITY

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

Board Audit Committee Report

SUMMARY OF BAC ACTIVITIES IN 2018

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

1. Financial Reporting

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

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

b) Discussed with the external auditors the following matters identified during the statutory audit for the financial year ended 31 December 2018 as highlighted in their Audit Committee Report:

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

2. Internal Audit

a) Reviewed and approved the Group Internal Audit ("GIA")'s annual audit plan for the financial year 2019 on 10 December 2018 to ensure adequacy of scope, coverage and resources for the identified auditable areas.

b) Reviewed and approved GIA's risk assessment methodology for Audit Plan 2019 which was enhanced to incorporate the dimensions of likelihood and impact as well as the control effectiveness in assessing the risk levels of the Group's various business and functional units.

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

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

e) Appraised the performance of the Group CIA and approved the performance rewards for the Group CIA in accordance with the distribution matrix approved by the Board.

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

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

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

3. External Audit

a) Reviewed the 2018 audit plan of the external auditors for RHB Banking Group at the BAC meeting held on 23 July 2018 covering the audit strategy, risk assessment, areas of audit emphasis for the year.

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

Report issued by External Auditors in 2018	Date tabled to BAC
Final Audit Committee Report for the financial year 2017	22 January 2018
Internal Control Report for the financial year 2017	20 April 2018
Limited review of the unaudited financial statements of RHB Bank and RHB Islamic Bank for the financial period ended 30 June 2018	23 July 2018

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

c) Met with the external auditors on 22 January 2018 without the presence of Management and Executive Directors to enable the external auditors to discuss on matters with the BAC privately. The 2nd private session with the external auditors scheduled in December 2018 was held on 22 January 2019 as there were no urgent matters to highlight by the external auditors to the BAC.

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

Reviewed on a quarterly basis, the non-audit services rendered by the external auditors and the related fees taking into consideration the fee threshold established under the Group policy to ensure that the external auditors' independence and objectivity were not compromised.

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 2018 audit plan, which was tabled to the BAC in July 2018, that they have maintained their independence for the audit of the financial statements of the Group in accordance with the firm's requirements and with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. They have further declared that the non-audit services provided to the Group during the year have not compromised their independence as external auditors of the Group.
- The annual assessment on the external auditors covering the key areas of performance, independence and objectivity in accordance with the BNM Guidelines on External Auditor.
- The performance of the external auditors was also assessed through a survey completed by the Management personnel of the Group based on their dealings with the external auditors covering areas such as the quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness and staff continuity.
- A comprehensive review was also conducted in December 2018 prior to the reappointment of the external auditors to assess its independence and the potential risk of familiarity threat at all the banking entities within the Group. The comprehensive review covered three main categories, i.e. governance and independence, communication and interaction, and quality of services and resources.

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

4. Related Party Transactions and Conflict of Interest

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

Board Audit Committee Report

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

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

TRAINING

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

The detailed information of mandatory and professional development programmes attended by BAC members are disclosed in Section B of the Corporate Governance Report available at www.rhbgroup.com.

INTERNAL AUDIT FUNCTION

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

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

Internal Audit Charter

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

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

Summary of GIA's Activities

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

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

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

c) Audited key areas of RHB Islamic Bank Berhad during the financial year which included the Bank's Branches, Head Office functions, namely Group Shariah Business – Retail Product Origination of Product Management, Group Shariah Business Compliance – Surveillance, Shariah Audit on Islamic Treasury Products and Shariah Audit on Islamic Deposit Products.

   Other key areas of RHB Banking Group audited by GIA during the financial year encompassed the Branches, Credit Underwriting, Business Centres, Treasury Operations, IT Security, Head Office functions, Investment Banking Business, Asset Management, Insurance Business, Offshore Banking Business and Overseas Operations.

d) Conducted audits as per regulatory requirements such as compliance with BNM's Guidelines on Product Transparency & Disclosure and Statistical Reporting.

   Other audits performed by GIA as per regulatory requirements for RHB Banking Group comprised of compliance with BNM's Guidelines on Statistical Reporting, Anti-Money Laundering and Counter Financing of Terrorism, Disclosure of Customer Documents or Information, Single Counterparty Exposure Limit, Outsourcing, Product Transparency & Disclosure and PayNet's applicable rules, procedures and manual for payment and debt securities systems.

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

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

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

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

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

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

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

l) Prepared the BAC Report and the Statement on Risk Management and Internal Control for inclusion in the Annual Report 2018 of RHB Bank and the major operating entities in the Group (inclusive of RHB Islamic Bank Berhad).

Internal Audit Resources

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

As at 31 December 2018, GIA has 153 internal auditors with relevant academic/professional qualifications and experience to carry out the activities of the internal audit function.

Professional Proficiency

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

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

Based on each staff's Individual Development Plan for the year 2018, 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 2018, the internal auditors attended a total of 1,548 days of training, which translates to approximately 10 days per auditor.

Internal Audit Quality Assurance Review

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

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

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

The external quality assessment covered a broad scope that includes conformance with the Definition of Internal Auditing, the Standards and the Code of Ethics, and the internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors ("IIA"), BNM guidelines and industry best practices. The results of review by the independent reviewer are documented in a report which is tabled to the BAC.

Shariah Committee Report

INTRODUCTION

The Shariah Committee is established under RHB Islamic Bank Berhad ("the Bank" or "RHB Islamic Bank") with the following main objectives:

1. To perform an oversight and independent advisory role to the Board of Directors and/or the Management of the Bank on Shariah matters pertaining to the Bank's Islamic banking and finance business and operations.
2. To ensure effective working arrangements are established between the Shariah Committee, the Shariah Advisory Council ("SAC") of Bank Negara Malaysia ("BNM") as well as that of the Securities Commission ("SC").
3. To ensure the establishment of appropriate procedures in leading to the prompt compliance with Shariah principles.

SHARIAH GOVERNANCE

In ensuring the Bank's Islamic businesses and operations comply with Shariah principles, the Shariah Committee has been guided by the guiding principles and best practices to establish sound and robust Shariah governance. The Shariah governance structure of RHB Islamic Bank comprises the following functions:

i) The Board oversight on Shariah compliance aspects of the Bank's overall operations. It is the ultimate responsibility of the Board to establish appropriate Shariah governance framework of the Bank;

ii) Establishment of Shariah Committee with qualified members who are able to deliberate Islamic finance issues brought before them and provide sound Shariah decisions;

iii) Supportive and effective Management, responsible in providing adequate resources and capable manpower support to every function involved in the implementation of Shariah governance, to ensure the execution of business operations are in accordance with Shariah;

iv) Shariah Advisory over the processes and deliverables that is conducted on a continuous basis, to ensure all processes and outcomes satisfy the needs of Shariah;

v) Shariah Compliance to conduct regular assessment on Shariah compliance in the activities and operations of the Bank;

vi) Shariah Audit to conduct annual review and verify the Bank's key functions and business operations comply with Shariah;

vii) Shariah Risk Management to facilitate identification of potential Shariah non-compliance risk, and where appropriate recommend risk mitigation mechanism through implementation of risk management tools.

viii) Shariah Research to conduct a comprehensive and deep research on Shariah; and issuance and dissemination of Shariah decisions to the relevant stakeholders.

SHARIAH COMMITTEE MEMBERS

The Shariah Committee comprises six (6) qualified Shariah scholars. The assortment of knowledge, experience and approach from these mixed Shariah scholars are needed to position the Bank's operations and products to be globally accepted. Majority of the members have the prerequisite Shariah qualifications degree imposed by BNM. The remaining members are professionals from various backgrounds who possess expertise in the Islamic banking and finance industry.

The Shariah Committee members are:

No	Name of Shariah Committee Member	Nationality	Status
1.	Dr. Ghazali bin Jaapar	Malaysian	Chairman
2.	Assoc. Prof. Dr. Amir bin Shaharuddin	Malaysian	Member
3.	Dr. Ahmad Basri bin Ibrahim	Malaysian	Member
4.	En. Wan Abdul Rahim Kamil bin Wan Mohamed Ali	Malaysian	Member
5.	En. Mohd Fadhly bin Md. Yusoff	Malaysian	Member
6.	Pn. Shabnam binti Mohamad Mokhtar	Malaysian	Member

DUTIES & RESPONSIBILITIES

The main duties and responsibilities of the Shariah Committee are:

1. Advise the Bank on Shariah matters in order to ensure that the Islamic banking and financing business and operations are Shariah compliant at all times;
2. Endorse all frameworks, policies, manuals and procedures prepared by the Bank which have Shariah concern and to ensure that the contents do not contain any elements which are not in line with Shariah;
3. Endorse and validate the following documentations to ensure that the products comply with Shariah principles:
   i. the terms and conditions contained in proposal forms, contracts, agreements or other legal documentation used in executing transactions; and
   ii. the product manual, marketing advertisement, sales illustration and brochures used to describe a product.
4. Assess the work carried out by Shariah Compliance and Shariah Audit in order to ensure compliance with Shariah matters;
5. Provide advice to the Bank's legal counsel, auditor or consultant on Shariah matters, as and when required, to ensure compliance with Shariah principles;
6. Advise on matters to be referred to the SAC of BNM, particularly matters which have not be resolved or endorsed by the SAC of BNM;
7. Provide written Shariah opinions, particularly in the following circumstances:
   i. Where the Bank makes reference to the SAC of BNM for advice; or
   ii. Where the Bank submits applications to BNM or SC for new product approval in accordance with guidelines on product approval issued by BNM and SC.
8. Articulate Shariah issues involved and ensure that all advice and/or opinion be supported by relevant Shariah jurisprudential literature from established sources. The Shariah Committee is also expected to assist the SAC of BNM on any matters referred by the Bank;
9. Ensure that the SAC of BNM's decisions/opinion/advice are properly implemented and adhered to by the Bank;
10. Prepare a report to certify the Annual Audited Account of RHB Islamic Bank for the financial period concerned;
11. In respect of matters concerning Islamic Capital Market (upon mandated):
    i. Ensure that the instruments are managed and administered in accordance with Shariah principles;
    ii. Provide expertise and guidance in all matters relating to Shariah principles, including the instrument's deed and prospectus, its structure and investment process, and other operational and administrative matters;
    iii. Scrutinise the instrument's compliance report as provided by the compliance officer, and investment transaction reports provided by, or duly approved by, the trustee to ensure that the investments are in line with Shariah principles; and
    iv. Prepare a report to be included in the interim and annual reports certifying whether the instrument had been managed and administered in accordance to Shariah principles for the period concerned.
12. Advise on payment of Zakat to the appropriate authority.

Shariah Committee Report

MEETINGS

A total of nine (9) regular meetings were held during the financial year ended 31 December 2018. All existing members have satisfied the minimum attendance requirement under BNM's Shariah Governance Framework which provides that a Shariah Committee member is required to attend at least 75% of the Shariah Committee meetings held in each financial year. Details of attendance of each member are as follows:

Name of Shariah Committee Member	Attendance at Meeting
Dr. Ghazali Jaapar	9/9
Assoc. Prof. Dr. Amir Shaharuddin	7/9
Dr. Ahmad Basri Ibrahim*	7/7
En. Wan Abdul Rahim Kamil Wan Mohamed Ali	9/9
En. Mohd Fadhly Md. Yusoff	8/9
Pn. Shabnam Mohamad Mokhtar	9/9

* Newly appointed in February 2018

SPECIAL ENGAGEMENT & TRAINING

As part of the initiatives towards maintaining effective communication between the Shariah Committee, the Management and the Board of Directors of RHB Islamic Bank, a half-day special training programme on "Islamic Finance Beyond Banking" and "Cryptocurrency, Blockchain & Beyond: A Cautionary Tale" was held on 30 July 2018.

In addition, the Shariah Committee has also contributed to the efforts of spreading Shariah knowledge and awareness amongst RHB Banking Group's employee by sharing insights, expertise and experience through "Shariah Committee Sharing Series" sessions as follows:

1. "Latest Development in Islamic Finance" by Pn. Shabnam Mokhtar
2. "Future of Finance: Where is Islamic Finance Heading?" by En. Wan Abdul Rahim Kamil
3. "Shariah Stock Screening" by En. Mohd Fadhly Md. Yusoff

Furthermore, the Shariah Committee members have actively participated in conferences and courses held locally and internationally as follows:

a. Muzakarah Cendekiawan Syariah Nusantara ke-12, Phuket, Thailand
b. Workshop on "FinTech I: Enabling & Disrupting Finance", Kuala Lumpur, Malaysia
c. Ijtima' ASAS 2018: Islamic Finance Beyond Banking, Kuala Lumpur, Malaysia
d. Liqa' ASAS 2018: Value-Based Intermediation ("VBI"), Kuala Lumpur, Malaysia
e. 2nd Kuala Lumpur International Sukuk Conference, Kuala Lumpur, Malaysia
f. 13th International Shariah Scholars Forum ("ISSF") 2018, Kuala Lumpur, Malaysia
g. Notable Legal Issues in Capital Market, Kuala Lumpur, Malaysia

The Shariah Committee members have also enrolled in the Certified Shariah Advisor ("CSA") and Certified Shariah Practitioner ("CSP") program organised by Association of Shariah Advisors in Islamic Finance ("ASAS").

SHARIAH COMMITTEE'S EFFECTIVENESS ASSESSMENT

In compliance with BNM's Shariah Governance Framework, the Shariah Committee undergoes the process of assessing the effectiveness of the individual members and the Committee as a whole on a yearly basis. The Shariah Committee annual assessment exercise is primarily based on detailed questionnaire which is distributed to the respective Committee members and the permanent invitees to the Shariah Committee meeting. The questionnaire encompasses considerations on the effectiveness of the Committee in discharging its duties and responsibilities as well as each individual member's level of skills and competency in the areas of expertise expected of a Shariah Committee member.

The results of the assessment are tabled to the Board Nominating & Remuneration Committee for review and recommendation, and subsequently to the Bank's Board of Directors for approval.

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Responsibility Statement by the Board of Directors

The Directors are responsible in ensuring that the audited financial statement of the Bank is drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act, 2016 in Malaysia and the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Bank is prepared with reasonable accuracy from the accounting records of the Bank so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and of the financial performance and cash flows of the Bank for the financial year ended 31 December 2018.

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

The Directors have also taken the necessary steps to safeguard the assets of the Bank to prevent and detect of fraud and other irregularities.

Directors' Report

The Directors submit herewith their report together with the audited financial statements of RHB Islamic Bank Berhad ('the Bank') for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Constitution and Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	579,166
Zakat and taxation	(144,333)
Net profit for the financial year	434,833

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 in respect of the current financial year at the forthcoming Annual General Meeting.

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

During the financial year, the Bank increased its issued and paid up share capital from RM1,273,424,002 to RM1,673,424,002 via the issuance of 400,000,000 new ordinary shares of RM1.00 each to RHB Bank Berhad ('RHB Bank'), its holding company.

The new shares issued during the financial year rank *pari passu* in all respects with the existing shares of the Bank.

Directors' Report

BAD AND DOUBTFUL FINANCING AND ADVANCES

Before the financial statements of 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 financing and advances and the making of allowance for impaired financing and advances, and satisfied themselves that all known bad financing and advances have been written-off and that adequate allowance had been made for impaired financing and advances.

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

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than financing and advances, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of 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 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 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 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 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 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 Bank to meet its 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 Bank, which would render any amount stated in the financial statements misleading or inappropriate.

Directors' Report

ITEMS OF AN UNUSUAL NATURE

The results of the operations of 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 Bank for the financial year in which this report is made.

DIRECTORS OF THE BANK

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

Abdul Aziz Peru Mohamed	(appointed on 1 October 2018)
Dato' Abd Rahman Dato' Md Khalid	
Dato' Foong Chee Meng	
Ong Ai Lin	
Dato' Adissadikin Ali	
Datuk Nozirah Bahari	(appointed on 1 September 2018, resigned on 12 February 2019)
Datuk Haji Faisal Siraj	(resigned on 1 September 2018)

In accordance with Article 75 of the Bank's Constitution, Dato' Adissadikin Ali retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 80 of the Bank's Constitution, Abdul Aziz Peru Mohamed retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

None of the Directors holding office at the end of the financial year held 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 32 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Bank 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.

Directors' Report

AUDITORS' REMUNERATION

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

HOLDING COMPANY

The Directors regard RHB Bank Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, as the holding company.

ZAKAT OBLIGATION

The Bank only pays zakat on its business to zakat state authorities. The Bank does not pay zakat on behalf of the shareholder or depositors.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014421-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 27 February 2019. Signed on behalf of the Board of Directors:

ABDUL AZIZ PERU MOHAMED
DIRECTOR

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur

Report of the Shariah Committee

In the name of Allah, The Most Gracious, The Most Merciful

In compliance with the Shariah Governance Framework, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we, Dr. Ghazali Jaapar, Assoc. Prof. Dr. Amir Shaharuddin, Dr. Ahmad Basri Ibrahim, Wan Abdul Rahim Kamil Wan Mohamed Ali, Mohd Fadhly Md. Yusoff and Shabnam Mohamad Mokhtar, being six members of the Shariah Committee of RHB Islamic Bank Berhad (the 'Bank'), do hereby confirm the following:

We are responsible to perform an oversight role on Shariah matters related to the Bank's business operations and activities. We have conducted nine (9) meetings to discuss, elaborate and review various product structures and documentations, transactions, services and operations of the Bank during the financial year ended 31 December 2018.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2018.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rulings, resolutions and guidelines issued by the Shariah Advisory Council (SAC) of Bank Negara Malaysia and SAC of Securities Commission Malaysia (for capital market related matters), as well as the specific rulings and decisions issued by us.

The Bank's management is responsible for ensuring that the financial institution conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We have assessed the work carried out by Shariah review and Shariah audit, as presented to us, which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We have performed our review so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with Shariah rules and principles.

In our opinion:

(a) the main sources of income of the Bank during the financial year ended 31 December 2018 that we have reviewed are in compliance with the Shariah rules and principles;

(b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;

(c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes;

(d) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;

(e) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and

(f) the calculation of zakat is in compliance with Shariah rules and principles.

Report of the Shariah Committee

To the best of our knowledge based on the information provided and disclosed to us during discussions and meetings, we hereby confirm that the operations of the Bank for the financial year ended 31 December 2018 have been conducted in conformity with the Shariah rules and principles.

We pray Allah, The Almighty to grant us success and lead us on the right path.

Wassalamu 'Alaikum Wa Rahmatullahi Wa Barakatuh

Dr. Ghazali Jaapar
Chairman of the Committee

Assoc. Prof. Dr. Amir Shaharuddin
Member of the Committee

Dr. Ahmad Basri Ibrahim
Member of the Committee

Wan Abdul Rahim Kamil Wan Mohamed Ali
Member of the Committee

Mohd Fadhly Md. Yusoff
Member of the Committee

Shabnam Mohamad Mokhtar
Member of the Committee

Kuala Lumpur
27 February 2019

Statement of Financial Position

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Cash and short-term funds	2	**3,463,278**	2,029,860
Securities purchased under resale agreements	3	**926,125**	1,587,979
Deposits and placements with banks and other financial institutions	4	**–**	447,210
Financial assets at fair value through profit or loss ('FVTPL')/held-for-trading ('HFT')	5	**274,226**	172,536
Financial investments available-for-sale ('AFS')	6	**–**	3,394,493
Financial investments held-to-maturity ('HTM')	7	**–**	3,820,734
Financial assets at fair value through other comprehensive income ('FVOCI')	8	**4,150,325**	–
Financial investments at amortised cost	9	**2,856,789**	–
Financing and advances	10	**51,813,230**	42,701,794
Other assets	11	**477,535**	90,934
Derivative assets	12	**204,543**	327,978
Statutory deposits with Bank Negara Malaysia ('BNM')	13	**1,420,450**	1,116,200
Deferred tax assets	14	**23,241**	16,513
Property, plant and equipment	15	**4,251**	6,193
Intangible assets	16	**4,529**	5,039
TOTAL ASSETS		**65,618,522**	55,717,463
LIABILITIES AND EQUITY			
Deposits from customers	17	**45,732,352**	37,850,205
Deposits and placements of banks and other financial institutions	18	**4,403,721**	4,394,801
Investment account due to designated financial institutions	19	**7,898,611**	8,102,698
Obligations on securities sold under repurchase agreements		**–**	604,163
Bills and acceptances payable		**9,515**	9,216
Derivative liabilities	12	**211,555**	327,723
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	20	**2,270,239**	–
Subordinated obligations	21	**755,326**	755,393
Other liabilities	22	**281,558**	345,792
Provision for tax and zakat		**8,376**	15,623
TOTAL LIABILITIES		**61,571,253**	52,405,614
Share capital	23	**1,673,424**	1,273,424
Reserves	24	**2,373,845**	2,038,425
TOTAL EQUITY		**4,047,269**	3,311,849
TOTAL LIABILITIES AND EQUITY		**65,618,522**	55,717,463
COMMITMENTS AND CONTINGENCIES	37	**23,133,354**	24,280,522

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

Income Statement

for the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Income derived from investment of depositors' funds	25	**2,337,426**	1,957,052
Income derived from investment account funds	26	**435,174**	375,939
Income derived from investment of shareholders' funds	27	**209,097**	175,518
Allowance for credit losses on financial assets	28	**(115,520)**	(66,734)
Impairment losses written back on other non-financial assets		**–**	336
Total distributable income		**2,866,177**	2,442,111
Income attributable to depositors	29	**(1,546,024)**	(1,329,395)
Profit distributed to investment account holders		**(357,698)**	(310,185)
		962,455	802,531
Personnel expenses	30	**(30,679)**	(27,082)
Other overheads and expenditures	31	**(352,610)**	(295,599)
Profit before zakat and taxation		**579,166**	479,850
Zakat		**(4,000)**	(3,500)
Profit after zakat before taxation		**575,166**	476,350
Taxation	33	**(140,333)**	(108,958)
Net profit for the financial year		**434,833**	367,392
Earnings per share (sen):			
– Basic	34	**27.16**	28.85

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

Statement of Comprehensive Income

for the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Net profit for the financial year		**434,833**	367,392
Other comprehensive income/(loss) in respect of:			
Items that will be reclassified subsequently to profit or loss:			
(a) Financial investments AFS:			
– Unrealised net gain on revaluation		**–**	23,601
– Net transfer to income statement on disposal or impairment		**–**	(2,529)
(b) Debt instruments measured at FVOCI:			
– Unrealised net gain on revaluation		**21,738**	–
– Net transfer to income statement on disposal		**(5,382)**	–
– Changes in expected credit losses		**218**	–
Income tax relating to components of other comprehensive income	35	**(3,926)**	(5,057)
Other comprehensive income, net of tax for the financial year		**12,648**	16,015
Total comprehensive income for the financial year		**447,481**	383,407

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

Statement of Changes in Equity

for the financial year ended 31 December 2018

		← Non distributable		→	Distributable	
	Note	Share Capital RM'000	FVOCI Reserve RM'000	Regulatory Reserve RM'000	Retained Profits RM'000	Total RM'000
Balance as at 1 January 2018						
– As previously reported		1,273,424	(15,929)	267,031	1,787,323	3,311,849
– Effect of adoption of MFRS 9	44	–	5,179	54,411	(171,651)	(112,061)
– As restated		1,273,424	(10,750)	321,442	1,615,672	3,199,788
Net profit for the financial year		–	–	–	434,833	434,833
Financial assets measured at FVOCI – debt instruments:						
– Unrealised net gain on revaluation		–	21,738	–	–	21,738
– Net transfer to income statement on disposal		–	(5,382)	–	–	(5,382)
– Changes in expected credit losses		–	218	–	–	218
Income tax relating to components of other comprehensive income	35	–	(3,926)	–	–	(3,926)
Other comprehensive income, net of tax, for the financial year		–	12,648	–	–	12,648
Total comprehensive income for the financial year		–	12,648	–	434,833	447,481
Issuance of shares	23	400,000	–	–	–	400,000
Transfer to regulatory reserve		–	–	36,612	(36,612)	–
Balance as at 31 December 2018		1,673,424	1,898	358,054	2,013,893	4,047,269

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

Statement of Changes in Equity

for the financial year ended 31 December 2018

	Note	Share Capital RM'000	Statutory Reserve RM'000	AFS Reserve RM'000	Regulatory Reserve RM'000	Retained Profits RM'000	Total RM'000
		←	Non distributable		→	Distributable	
Balance as at 1 January 2017		1,273,424	762,388	(31,944)	158,516	766,058	2,928,442
Net profit for the financial year		–	–	–	–	367,392	367,392
Financial investments AFS:							
– Unrealised net gain on revaluation		–	–	23,601	–	–	23,601
– Net transfer to income statement on disposal or impairment		–	–	(2,529)	–	–	(2,529)
Income tax relating to components of other comprehensive income	35	–	–	(5,057)	–	–	(5,057)
Other comprehensive income, net of tax, for the financial year		–	–	16,015	–	–	16,015
Total comprehensive income for the financial year		–	–	16,015	–	367,392	383,407
Transfer from statutory reserve		–	(762,388)	–	–	762,388	–
Transfer to regulatory reserve		–	–	–	108,515	(108,515)	–
Balance as at 31 December 2017		1,273,424	–	(15,929)	267,031	1,787,323	3,311,849

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

Statement of Cash Flows

for the financial year ended 31 December 2018

	2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit before zakat and taxation	**579,166**	479,850
Adjustments for:		
Property, plant and equipment		
– Depreciation	**1,738**	2,591
– Written off	**1**	–
Amortisation of computer software license	**1,737**	1,846
Income from:		
– Investment on financial assets at FVTPL/HFT	**(12,200)**	(5,146)
– Investment on financial assets at FVOCI/financial investments AFS	**(145,765)**	(145,448)
– Investment on financial investments at amortised cost/financial investments HTM	**(150,719)**	(123,833)
Net gain on disposal of financial assets at FVOCI/financial investments AFS	**(5,382)**	(2,529)
Net (gain)/loss on disposal of financial assets at FVTPL/HFT	**(669)**	683
Net gain on early redemption of financial investments at amortised cost/financial investments HTM	**(129)**	(378)
Net loss on fair value hedges	**14,376**	1,078
Net loss on revaluation of derivatives	**4,709**	11,199
Unrealised (gain)/loss from financial assets at FVTPL/HFT	**(959)**	839
Allowance for credit losses on financing and advances	**127,790**	79,077
Net allowance on financial assets at FVOCI, financial investments at amortised cost and other financial assets	**3,317**	–
Impairment losses written back on other non-financial assets	**–**	(336)
Financing expense on subordinated obligations	**36,950**	33,073
Operating profit before working capital changes	**453,961**	332,566
(Increase)/Decrease in operating assets:		
Securities purchased under resale agreements	**661,854**	765,971
Deposits and placements with banks and other financial institutions	**447,210**	89,931
Financing and advances	**(9,399,440)**	(8,940,381)
Financial assets at FVTPL/HFT	**(87,863)**	(158,735)
Other assets	**(386,576)**	80,796
Statutory deposits with BNM	**(304,250)**	(65,150)
	(9,069,065)	(8,227,568)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	**7,882,147**	8,430,277
Deposits and placements of banks and other financial institutions	**8,920**	(2,035,393)
Investment account due to designated financial institutions	**(204,087)**	1,480,227
Obligations on securities sold under repurchase agreements	**(604,163)**	604,163
Bills and acceptances payable	**299**	166
Other liabilities	**(99,011)**	(20,349)
Amount due to holding company	**37,336**	(601,227)
Recourse obligation on financing sold to Cagamas	**2,270,239**	(815,243)
	9,291,680	7,042,621
Cash generated from/(used in) operations	**676,576**	(852,381)
Profit paid	**(37,017)**	(30,867)
Net tax and zakat paid	**(125,211)**	(126,927)
Net cash generated from/(used in) operating activities	**514,348**	(1,010,175)

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

Statement of Cash Flows
for the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from investing activities			
Net proceeds from disposal/(purchase) of financial assets at FVOCI and financial investments at amortised cost		**265,385**	(903,231)
Property, plant and equipment			
– Purchases		**(227)**	(2,212)
– Proceeds from disposal		**–**	4
Purchases of intangible assets		**(797)**	(1,799)
Financial assets at FVTPL/HFT and financial assets at FVOCI and financial investments at amortised cost/financial investments AFS and HTM:			
– Profit income received		**142,971**	147,329
– Investment income received		**111,960**	113,705
Net cash generated from/(used) in investing activities		**519,292**	(646,204)
Cash flows from financing activities			
Proceeds from issuance of share capital		**400,000**	–
Proceeds from issuance of subordinated obligations		**–**	250,000
Net cash generated from financing activities		**400,000**	250,000
Net increase/(decrease) in cash and cash equivalents		**1,433,640**	(1,406,379)
Cash and cash equivalents at the beginning of the financial year		**2,029,638**	3,436,239
Cash and cash equivalents at the end of the financial year	2	**3,463,278**	2,029,860

		Cash Changes		Non-Cash Changes	
	Balance as at the beginning of the financial year RM'000	Net cash flow from financing activities RM'000	Net cash flow from operating activities RM'000	Accrued profit RM'000	Balance as at the end of the financial year RM'000
2018					
Subordinated obligations	**755,393**	**–**	**(37,017)**	**36,950**	**755,326**
2017					
Subordinated obligations	503,187	250,000	(30,867)	33,073	755,393

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 2018

(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 years presented, unless otherwise stated.

(1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI, 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 Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

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 Bank and are effective

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2018 are as follows:

(i) IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

This Interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

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

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

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

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

The adoption of the IC Interpretation 22 did not have any material financial impact on the financial statements of the Bank.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(ii) MFRS 9 'Financial Instruments'

This complete version of MFRS 9 replaces the entire MFRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used under MFRS 139. It also includes the new hedging guidance that was issued in February 2014.

MFRS 9 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 income statement, 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.

The Bank has applied MFRS 9 retrospectively with date of initial application of 1 January 2018.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparative figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current financial year.

The details and the financial effects of the adoption of MFRS 9 are disclosed in Note 44 to the financial statements.

(iii) MFRS 15 'Revenue from Contracts with Customers'

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.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2018 are as follows (continued):

(iii) MFRS 15 'Revenue from Contracts with Customers' (continued)

MFRS 15 is based on the principle that 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 must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- 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.

When there are multiple goods or services bundled in a single arrangement, MFRS 15 requires an entity to apply the revenue recognition principles separately to each good or service that is distinct. The contract consideration is allocated to each of the distinct good or service based on the price an entity would charge a customer on a stand-alone basis for each good or service. If a stand-alone selling price is not directly observable, an entity will need to estimate by considering all information that is reasonably available to the entity. The point at which revenue is recognised for each distinct good or service may vary depending on when control of each good or service is transferred to the customer.

MFRS 15 requires an estimate of variable consideration to be recognised as revenue when performance obligations are satisfied if it is highly probable that the amount will not result in a significant revenue reversal if estimates change. Transaction price should be adjusted for the time value of money if the contract includes a significant financing component.

MFRS 15 prescribes specific disclosure requirements in the following areas to help entities meet the disclosure objective:

- qualitative and quantitative information about contracts with customers;
- significant judgements made by management in applying MFRS 15; and
- asset recognised on costs incurred to obtain or fulfil a contract with customer.

MFRS 15 permits either a full retrospective or a modified approach for the adoption. The Bank has adopted the modified approach under MFRS 15.

Under the modified retrospective transition method, the Bank applies the new policy retrospectively only to contracts that are not completed at the date of initial application. Accordingly, the 2017 comparative information was not restated as the financial impact is not material to the Bank and cumulative effects of initial application of MFRS 15 were not recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(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 Bank but not yet effective

(i) Annual Improvements to MFRS 2015-2017 Cycle – effective 1 January 2019

- Amendments to MFRS 112 'Income Taxes' clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in income statement, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in income statement when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
- Amendments to MFRS 123 'Borrowing Costs' clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation' – effective 1 January 2019

The amendments allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and profit. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

(iii) MFRS 16 'Leases' – effective 1 January 2019

MFRS 16 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 profit expense recognised in income statement.

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.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(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 Bank but not yet effective (continued)

(iv) IC Interpretation 23 'Uncertainty over Income Tax Treatments' - effective 1 January 2019

IC Interpretation 23 provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

IC Interpretation 23 will be applied retrospectively.

The adoption of the accounting standards, amendments to published standards and interpretations to existing standards are not expected to give rise to any material financial impact to the Bank, except for the adoption of MFRS 16. The Bank will apply this standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transitional approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at the reporting date, the Bank has non-cancellable operating lease commitments of RM6,344,000, as disclosed in Note 38 to the financial statements. Of these commitments, short-term leases and low value leases will both be recognised on a straight-line basis as expense in the income statement.

For the remaining lease commitments, the Bank expects to recognise right-of-use assets on 1 January 2019, lease liabilities discounted to its present value after adjustments for prepayments and accrued lease payments as at 31 December 2018 and deferred tax assets.

(c) Changes in regulatory requirements

(i) Capital Adequacy Framework for Islamic Banks

The Capital Adequacy Framework for Islamic Banks in relation to Basel II - Risk-Weighted Assets and Capital Components were updated and reissued by BNM on 2 February 2018 for application with effect from 1 January 2018.

The updates focused mainly on the following changes:

- Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9 'Financial Instruments';
- Definition of General Provision and its recognition in Tier II capital;
- Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
- Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(c) Changes in regulatory requirements (continued)

(ii) Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM issued the revised policy document on Financial Reporting for Islamic Banking Institutions which prescribes the regulatory reserves to be maintained by Islamic Banking Institutions.

With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

In the previous year, the Bank has maintained, in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, net of impairment allowances.

The effect of this change is as disclosed in Note 44 to the financial statements.

(2) FINANCIAL ASSETS

(a) Classification and measurement of financial assets

With effect from 1 January 2018, the Bank has applied MFRS 9 and classify its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ('FVOCI')
- Fair value through profit or loss ('FVTPL')

At initial recognition, the Bank measures a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in the income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The classification requirements for debt and equity instruments are described as below:

(i) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as financing, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(a) Classification and measurement of financial assets (continued)

(i) Debt instruments (continued)

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Bank's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

(1) Financial investments at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated as FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into income statement. The profit income is recognised into income statement using the effective profit rate method. Upon derecognition, any gain or loss will be recognised in income statement and presented under 'other operating income'.

(2) Financial assets at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where those cash flows represent SPPI, are measured at FVOCI. Changes in the fair value of these assets are recognised in other comprehensive income ('OCI'), except for recognition of profit, foreign exchange gains or losses and expected credit losses which are recognised in income statement.

When these financial assets are derecognised, the cumulative gains or losses previously recognised in OCI is reclassified from equity to income statement and recognised in 'other operating income'. The profit income is recognised into income statement using the effective profit rate method. Foreign exchange gains or losses are recognised in 'other operating income' and impairment credit losses are presented separately under 'allowance for credit losses'.

(3) Financial assets at FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the income statement within 'net gain/(loss) arising from financial assets FVTPL' in the period in which it arises. The profit income is recognised into income statement using the effective profit rate method.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(a) Classification and measurement of financial assets (continued)

(ii) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual profit in the issuers' net assets.

The Bank subsequently measures all equity instruments at FVTPL, except where the management has elected, at initial recognition, to irrevocably designate an equity instrument at FVOCI. The Bank's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Dividend, when representing a return on such investments, continue to be recognised in income statement as dividend income when the Bank's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the 'net gain/(loss) arising from financial assets FVTPL' in the income statement.

(b) Reclassification policy

Reclassification of financial assets is required when, and only when, the Bank changes its business model for managing the assets. In such cases, the Bank is required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

(c) Recognition, initial measurement and derecognition

Regular purchases and sales of financial assets are recognised on the trade date on which the Bank committed to purchase or sell the assets at trade-date. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

(d) Impairment

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ('ECL'), replacing the incurred loss methodology model under MFRS 139, for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn financing commitments.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

General approach

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Bank considers the following as constituting an event of default:

(1) Quantitative criteria

- The borrower is past due more than 90 days on any material credit obligation to the Bank.

(2) Qualitative criteria

- Legal action has been initiated by the Bank for recovery purposes;
- Borrower is a bankrupt;
- Borrower has been assigned to external collection agency; and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

Significant increase in credit risk ('SICR')

(1) The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

(2) Among the indicators incorporated in ascertaining SICR are:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market profit rates or growth rates) is incorporated as part of the internal rating model.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). Certain ECL models are leveraging on the existing Bank's Basel II Internal Ratings-Based ('IRB') model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements. The changes in ECL between two-periods will be recognised in income statement.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(d) Impairment (continued)

The Bank leverages on the model/segments/credit related factors implemented under the Basel II IRB framework where feasible or available, with calibration to meet MFRS 9 requirements. For portfolio without Basel model, other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional considerations that are assessed to have been adequately addressed by the ECL model estimates, a structured management overlay, which is subject to robust review and governance process, will be applied consistently.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures is more than 30 days past due on its contractual payments.

(e) Accounting policies prior to 1 January 2018

(i) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing, advances and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

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

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also classified in this category unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(2) Financing, advances and receivables

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

Financing and receivables consist of Bai' Bithaman Ajil, Ijarah, Murabahah, Musyarakah, and Bai'Inah contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective profit method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

(3) 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.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(e) Accounting policies prior to 1 January 2018 (continued)

(i) Classification (continued)

(4) Financial investments HTM

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

(ii) Recognition and initial measurement

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

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

(iii) Subsequent measurement - gain and loss

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

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in other operating income in income statement 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 and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Profit and dividend income on financial investments AFS are recognised separately in income statement. Profit on financial investments AFS calculated using the effective profit method is recognised in income statement. Dividend income on financial investments AFS is recognised in other operating income in income statement when the Bank's right to receive payment is established.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(e) Accounting policies prior to 1 January 2018 (continued)

(iv) Impairment

The Bank assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For financing, advances and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a financing or held-to-maturity investment had a variable profit rate, the discount rate for measuring any impairment loss was the current effective profit rate determined under the contract. As a practical expedient, the Bank could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in income statement.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss which was measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement, was removed from equity and recognised in income statement.

Impairment losses on equity instruments that were recognised in income statement were not reversed through income statement in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss was reversed through income statement.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(f) De-recognition

Financial assets, or a portion thereof, are de-recognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfer substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in de-recognition if the Bank:

(i) Has no obligation to make payments unless they collect equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financing, advances and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of financing, advances and receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount will be presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. 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.

(3) REPURCHASE AGREEMENTS

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

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank has 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 statement of financial position.

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

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Bank has elected to continue to apply the hedge accounting requirements of MFRS 139 on the adoption of MFRS 9.

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

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

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

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

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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 profit method is used is amortised to the income statement over the period to maturity and recorded as net profit.

(b) Cash flow hedge

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

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(b) Cash flow hedge (continued)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(c) Derivatives that do not qualify for hedge accounting

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

(5) INTANGIBLE ASSETS - COMPUTER SOFTWARE LICENSES

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses are subsequently carried at cost less accumulated amortisation and impairment losses. The costs are amortised over the estimated useful lives of 5 years to 10 years.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 17 on impairment of non-financial assets.

Gains and losses arising from de-recognition of computer software licenses are measured as the difference between net disposal proceeds and the carrying amount of the computer software licenses and are recognised in income statement when the asset is de-recognised.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) 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 Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in income statement during the financial period in which they are incurred.

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

Renovations	10%
Office equipment and furniture	20%
Computer equipment	14⅓% to 33⅓%
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 amounts and are included in other operating income in income statement.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 17 on impairment of non-financial assets.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) 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 income statement. Financial liabilities are de-recognised when extinguished.

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

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

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Refer to accounting policy Note 4 on hedge accounting.

(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 profit rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements, bills and acceptances payable, recourse obligation on financing sold to Cagamas 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 income statement over the period of the borrowings using the effective profit method.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

Borrowings measured at amortised cost are subordinated obligations.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) INVESTMENT ACCOUNT ('IA')

IA is defined by the application of Shariah contracts as investment with non-principal guarantee feature. Under the Islamic Financial Services Act, 2013, the priority payment for IA upon liquidation of Islamic Financial Institution ('IFI') is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the investment account holders. IA is further categorised to Restricted Investment Account ('RIA') and Unrestricted Investment Account ('URIA').

RIA refers to a type of investment account where the Investment Account Holder ('IAH') provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment while URIA refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

IA are contracts based on the Shariah concept below:

(a) Mudharabah between two parties, customer and the Bank, to finance a business venture where the customer provides capital and the business venture is managed solely by the Bank. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudharib (manager or manager of funds), and losses shall be borne solely by customers.

(b) Wakalah, a trust-based contract in which a party (muwakkil) appoints another party as his agent (wakil) to perform a particular task, in matters that may be delegated, either voluntarily or with imposition of a fee. The fee shall be recognised based on agreement.

(c) Details of the IA are as disclosed in Note 19 to the financial statements.

(9) RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

In the normal course of banking operations, the Bank sells financing to Cagamas but undertake to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position and accounted for in accordance with accounting policy Note 7(b).

(10) OPERATING LEASE

(a) Operating lease

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

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

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

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) PROVISIONS

Provisions are recognised when the Bank has 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 Bank expects 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 expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment 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 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 financing and advances, 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 premium 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.

<u>Accounting policy from 1 January 2018</u>

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial Instruments' (refer accounting policy Note 2(d)) and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

<u>Accounting policy from 1 January 2018</u>

Financial guarantee contracts are subsequently measured at the highest of the amount determined in accordance with MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation, where applicable.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise contingent asset and contingent liability but discloses its 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 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 Bank. The Bank does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

Subsequent to the initial recognition, the Bank measures 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 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less when appropriate, cumulative amortisation recognised in accordance with MFRS 15 'Revenue from Contracts with Customers'.

(14) SHARE CAPITAL

(a) Classification

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

(b) Share issue cost

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

(c) Dividend distribution

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

(15) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of one month or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) REVENUE RECOGNITION

(a) Profit income is recognised using the effective profit method. The effective profit 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 profit rate, as well as premiums or discounts. Profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset except for financial asset that subsequently becomes credit-impaired. For credit-impaired financial asset, the effective profit rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Bai’ Bithaman Ajil

A contract of sale of an asset in which the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amount.

Ijarah

A contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration.

Murabahah

A contract of sale where the assets cost and profit margin shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amounts.

Musyarakah

Partnership between two or more parties, which may take effect through contractual relationship or by operation of Islamic law, whereby all contracting parties will share the profit and bear loss from the partnership.

Bai’Inah

An arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements of Bai'Inah.

(b) Fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees for financing and advances that are likely to be drawdown are deferred (together with related direct costs) and income which forms an integral part of the effective profit rate of a financial instrument is recognised as an adjustment to the effective profit rate of the financial instrument.

(c) Corporate advisory fees are recognised as income based on fulfilment of the performance obligation.

(d) Dividends are recognised when the shareholders' right to receive payment is established. Dividend income received from financial assets at FVTPL and FVOCI are recognised as other operating income in the income statement.

(e) Income from bancatakaful agreement is recognised based on time apportionment method throughout the exclusive service agreement period.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life 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 impairment loss is charged to income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

(18) EMPLOYEE BENEFITS

(a) Short term employee benefits

The Bank recognises a liability and an expense for bonuses. 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 Bank.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Bank's contributions to defined contribution plans are charged to income statement in the period to which they relate. Once the contributions have been paid, the Bank has 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.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, 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 Bank operates and include all taxes based upon the taxable profits.

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

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

(20) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as debt instruments under fair value through other comprehensive income (2017: available-for-sale) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in income statement, and other changes in carrying amount are recognised in other comprehensive income.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) CURRENCY CONVERSION AND TRANSLATION (CONTINUED)

(b) Transactions and balances (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as at fair value through other comprehensive income (2017: available-for-sale), are included in other comprehensive income.

(21) SEGMENT REPORTING

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

(22) ZAKAT

This represents business zakat which is an obligatory amount payable by the Bank to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. Zakat provision is calculated based on the "Working Capital Method", at 2.5% on the adjusted net assets of the Bank.

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously 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) Fair value measurement

A significant portion of financial instruments are carried on the balance sheet at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Bank has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2018 (continued)

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(1) Fair value measurement (continued)

Where no active market exists for a particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument 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 Bank recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

The valuation techniques are further disclosed in Note 42(g)(i) to the financial statements.

(2) Allowance for expected credit losses ('ECL')

The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, profit rates, gross domestic product, private consumption, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;
(ii) Choosing appropriate models and assumptions for the measurement of ECL;
(iii) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
(iv) Establishing groups of similar financial assets for the purposes of measuring ECL.

The sensitivity effect on the macroeconomic factor is further disclosed in Note 42(f)(viii) to the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2018

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, a limited liability company domiciled in Malaysia, and is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Constitution and Shariah principles.

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 10, Tower One, RHB Centre, Jalan Tun Razak, 50420 Kuala Lumpur, Malaysia.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2019.

2 CASH AND SHORT-TERM FUNDS

	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	**517,495**	90,792
Money at call and deposit placements maturing within one month	**2,945,783**	1,939,068
	3,463,278	2,029,860

3 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2018 RM'000	2017 RM'000
Malaysian Government Investment Issues	**926,125**	1,587,979

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 RM'000	2017 RM'000
Licensed bank	**–**	14,641
Licensed Islamic banks	**–**	432,569
	–	447,210

Notes to the Financial Statements

for the financial year ended 31 December 2018

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')/HELD-FOR-TRADING ('HFT')

	2018 RM'000	2017 RM'000
Mandatory measured at fair value		
Money market instruments:		
Malaysian Government Investment Issues	**274,226**	172,536

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

	2017 RM'000
At fair value	
Money market instruments:	
Malaysian Government Investment Issues	648,592
Khazanah bonds	9,403
Cagamas bonds	30,485
Unquoted securities:	
In Malaysia	
Corporate sukuk	2,505,393
Perpetual sukuk	200,620
	3,394,493
At cost	
Unquoted securities:	
In Malaysia	
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	549
	3,395,042
Accumulated impairment losses	(549)
	3,394,493

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

	2017 RM'000
At amortised cost	
Money market instruments:	
Malaysian Government Investment Issues	335,325
Sukuk Perumahan Kerajaan	9,985
Khazanah bonds	21,799
Negotiable Islamic debt certificates	1,838,090
Unquoted securities:	
In Malaysia	
Corporate sukuk	1,615,535
	3,820,734

Included in financial investments HTM was securities acquired and funded via the RIA, as part of arrangement between the Bank and RHB Bank, its holding company. Gross exposure to RIA financing as at 31 December 2017 was RM790,275,000.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	2018 RM'000
At fair value	
Debt instruments	**4,150,325**
Money market instruments:	
Malaysian Government Investment Issues	**1,032,474**
Khazanah bonds	**9,762**
Cagamas bonds	**10,144**
Negotiable Islamic debt certificates	**198,834**
Unquoted securities:	
In Malaysia	
Corporate sukuk	**2,873,629**
Outside Malaysia	
Corporate sukuk	**25,482**
	4,150,325

Notes to the Financial Statements

for the financial year ended 31 December 2018

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI') (CONTINUED)

Movement in allowance for credit losses recognised in FVOCI reserve

2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not Credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	5,179	–	–	5,179
– As restated	5,179	–	–	5,179
Allowance made/(written back) during the financial year	(89)	307	–	218
Balance as at the end of the financial year	5,090	307	–	5,397

9 FINANCIAL INVESTMENTS AT AMORTISED COST

	2018 RM'000
At amortised cost	
Money market instruments:	
Malaysian Government Investment Issues	188,059
Sukuk Perumahan Kerajaan	10,000
Khazanah bonds	22,770
Cagamas bonds	218,325
Unquoted securities:	
In Malaysia	
Corporate sukuk	2,423,785
	2,862,939
Allowance for credit losses	(6,150)
	2,856,789

Included in financial investments at amortised cost are securities acquired and funded via the RIA, as part of arrangement between the Bank and RHB Bank, its holding company. Gross exposure to RIA financing as at 31 December 2018 is RM693,775,000.

9 FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

Movement in allowance for credit losses

2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not Credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	1,708	1,318	–	3,026
– As restated	1,708	1,318	–	3,026
Allowance made during the financial year	2,189	935	–	3,124
Balance as at the end of the financial year	3,897	2,253	–	6,150

10 FINANCING AND ADVANCES

2018	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah RM'000	Murabahah RM'000	Musyarakah RM'000	Bai'Inah RM'000	Others RM'000	Total RM'000
At amortised cost							
Cashline	–	–	642,459	–	–	46,474	688,933
Term financing:							
– Housing financing	389,062	–	2,734,472	12,223,037	–	470	15,347,041
– Syndicated term financing	–	69,044	2,042,604	–	–	18,551	2,130,199
– Hire purchase receivables	–	7,192,178	–	–	–	53,901	7,246,079
– Other term financing	782	187,024	19,734,078	–	1,509,993	3,572	21,435,449
Bills receivables	–	–	1,037,358	–	–	3,056	1,040,414
Trust receipts	–	–	22,368	–	–	254	22,622
Staff financing	2,291	–	–	–	–	–	2,291
Credit/charge card receivables	–	–	–	–	–	284,170	284,170
Revolving financing	–	–	4,056,999	–	–	–	4,056,999
Gross financing and advances	392,135	7,448,246	30,270,338	12,223,037	1,509,993	410,448	52,254,197
Fair value changes arising from fair value hedge							(17,879)
							52,236,318
Allowance for credit losses on financing and advances							(423,088)
Net financing and advances							51,813,230

Notes to the Financial Statements

for the financial year ended 31 December 2018

10 FINANCING AND ADVANCES (CONTINUED)

2017	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah RM'000	Murabahah RM'000	Musyarakah RM'000	Bai'Inah RM'000	Others RM'000	Total RM'000
At amortised cost							
Cashline	–	–	532,334	–	–	3,442	535,776
Term financing:							
– Housing financing	448,118	–	823,499	10,575,089	–	400	11,847,106
– Syndicated term financing	–	76,405	1,713,643	–	–	18,899	1,808,947
– Hire purchase receivables	–	6,145,221	–	–	–	40,503	6,185,724
– Other term financing	1,791	490,417	16,156,732	–	1,509,993	3,778	18,162,711
Bills receivables	–	–	1,041,682	–	–	3,428	1,045,110
Trust receipts	–	–	15,558	–	–	–	15,558
Staff financing	2,592	–	–	–	–	–	2,592
Credit/charge card receivables	–	–	–	–	–	267,577	267,577
Revolving financing	–	–	3,104,581	–	–	–	3,104,581
Gross financing and advances	452,501	6,712,043	23,388,029	10,575,089	1,509,993	338,027	42,975,682
Fair value changes arising from fair value hedge							(1,231)
							42,974,451
Allowance for impaired financing and advances:							
– Individual impairment allowance							(42,612)
– Collective impairment allowance							(230,045)
Net financing and advances							42,701,794

(a) Included in financing and advances are exposures to RIA as part of arrangement between the Bank and its holding company, RHB Bank.

As at 31 December 2018, the gross exposures to RIA financing are RM7,122,927,000 (2017: RM7,030,030,000) and the portfolio expected credit losses for financing and advances relating to RIA amounting to RM143,813,000 (2017: RM45,287,000) is recognised in the financial statements of RHB Bank. There is no stage 3 expected credit losses being made for such RIA financing.

(b) Included in term financing are housing financing sold to Cagamas amounting to RM2,203,000,000 (2017: Nil).

10 FINANCING AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(i) By type of customer		
Domestic non-bank financial institutions:		
– Others	**2,244,410**	1,287,745
Domestic business enterprises:		
– Small medium enterprises	**4,177,511**	3,085,019
– Others	**12,365,324**	12,985,826
Government and statutory bodies	**5,024,919**	4,005,023
Individuals	**27,963,814**	21,173,536
Other domestic entities	**129,993**	100,176
Foreign entities	**348,226**	338,357
	52,254,197	42,975,682
(ii) By profit rate sensitivity		
Fixed rate:		
– Housing financing	**389,190**	448,398
– Hire purchase receivables	**3,269,651**	4,452,465
– Other fixed rate financing	**6,968,025**	8,238,412
Variable rate:		
– Base financing rate-plus	**39,100,659**	27,774,276
– Cost-plus	**2,526,672**	2,062,131
	52,254,197	42,975,682
(iii) By economic sector		
Agriculture, hunting, forestry and fishing	**1,073,247**	1,122,652
Mining and quarrying	**243,067**	245,208
Manufacturing	**1,281,161**	1,215,270
Electricity, gas and water	**173,961**	187,516
Construction	**4,091,139**	2,994,392
Wholesale and retail trade and restaurant and hotel	**1,516,641**	1,294,069
Transport, storage and communication	**4,715,600**	4,870,770
Real estate	**992,581**	1,274,802
Finance, insurance and business services	**4,444,028**	3,791,815
Government and government agencies	**3,514,858**	2,354,165
Education, health and others	**1,935,475**	2,118,510
Household sector	**28,084,205**	21,232,290
Others	**188,234**	274,223
	52,254,197	42,975,682

Notes to the Financial Statements

for the financial year ended 31 December 2018

10 FINANCING AND ADVANCES (CONTINUED)

	2018 RM'000	2017 RM'000
(iv) By purpose		
Purchase of securities	**2,884,807**	1,758,308
Purchase of transport vehicles	**7,217,259**	6,156,435
Purchase of landed property:		
– Residential	**14,489,096**	11,272,138
– Non-residential	**3,587,570**	3,208,523
Purchase of property, plant and equipment other than land and building	**521,325**	661,901
Personal use	**3,540,743**	2,798,313
Credit card	**284,170**	267,577
Construction	**1,240,741**	980,050
Working capital	**11,763,783**	9,309,504
Merger and acquisition	**1,252,698**	1,319,919
Other purposes	**5,472,005**	5,243,014
	52,254,197	42,975,682
(v) By geographical distribution		
Malaysia	**52,254,197**	42,975,682
(vi) By remaining contractual maturities		
Maturing within one year	**6,519,750**	7,861,965
One to three years	**3,717,980**	5,113,144
Three to five years	**5,912,468**	3,599,350
Over five years	**36,103,999**	26,401,223
	52,254,197	42,975,682

Notes to the Financial Statements

for the financial year ended 31 December 2018

10 FINANCING AND ADVANCES (CONTINUED)

(vii) By stages

2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not Credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	38,378,730	4,089,762	464,974	42,933,466
– As restated	38,378,730	4,089,762	464,974	42,933,466
Transfer to 12-month ECL (Stage 1)	736,788	(683,304)	(53,484)	–
Transfer to Lifetime ECL not credit impaired (Stage 2)	(1,183,569)	1,218,968	(35,399)	–
Transfer to Lifetime ECL credit impaired (Stage 3)	(81,731)	(122,432)	204,163	–
Purchases and origination	20,850,883	670,378	54,516	21,575,777
Derecognition	(10,106,155)	(2,023,304)	(57,374)	(12,186,833)
Amount written off	–	–	(68,213)	(68,213)
Balance as at the end of the financial year	48,594,946	3,150,068	509,183	52,254,197

(viii) Impaired financing and advances

	2017 RM'000
(a) Movement in impaired financing and advances	
Balance as at the beginning of the financial year	393,096
Classified as impaired	472,890
Reclassified as non-impaired	(385,958)
Amount recovered	(77,000)
Amount written off	(59,067)
Balance as at the end of the financial year	343,961

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for the financial year ended 31 December 2018

10 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances (continued)

	2018 RM'000	2017 RM'000
(b) By economic sector		
Agriculture, hunting, forestry and fishing	**356**	304
Mining and quarrying	**1,588**	530
Manufacturing	**31,550**	22,380
Electricity, gas and water	**57,120**	29,822
Construction	**83,903**	40,724
Wholesale and retail trade and restaurant and hotel	**63,362**	54,481
Transport, storage and communication	**9,799**	9,391
Real estate	**6,693**	2,903
Finance, insurance and business services	**20,336**	7,169
Education, health and others	**8,452**	3,800
Household sector	**226,024**	172,457
	509,183	343,961
(c) By geographical distribution		
Malaysia	**509,183**	343,961

Notes to the Financial Statements

for the financial year ended 31 December 2018

10 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances (continued)

(d) Movement in allowance for credit losses

2018	12-month ECL (Stage 1) RM'000	Lifetime ECL not Credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial year				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	53,225	105,450	217,603	376,278
– As restated	53,225	105,450	217,603	376,278
Changes due to financial assets recognised in the opening balance that have:				
– Transferred to 12–month ECL (Stage 1)	34,882	(22,784)	(12,098)	–
– Transferred to Lifetime ECL not credit impaired (Stage 2)	(13,222)	20,844	(7,622)	–
– Transferred to Lifetime ECL credit impaired (Stage 3)	(679)	(5,966)	6,645	–
	20,981	(7,906)	(13,075)	–
Allowance made during the financial year	10,513	31,760	122,537	164,810
Bad debts written off	–	–	(59,852)	(59,852)
Derecognised	(11,104)	(13,050)	(33,994)	(58,148)
Balance as at the end of the financial year	73,615	116,254	233,219	423,088

Included in allowance for credit losses for the Bank as at 31 December 2018 is expected credit losses for loan commitments and financial guarantee contracts amounting to RM10,863,000.

Notes to the Financial Statements
for the financial year ended 31 December 2018

10 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances (continued)

(e) Movement in allowance for impaired financing and advances

	2017 RM'000
Individual impairment allowance	
Balance as at the beginning of the financial year	15,864
Net allowance made	29,204
Amount written off	(2,456)
Balance as at end of the financial year	42,612
Collective impairment allowance	
Balance as at the beginning of the financial year	236,525
Net allowance made	37,562
Amount written off	(44,042)
Balance as at the end of the financial year	230,045

11 OTHER ASSETS

	2018 RM'000	2017 RM'000
Prepayments	**23,288**	15,998
Deposits	**1,591**	1,732
Other receivables	**452,656**	73,204
	477,535	90,934

12 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, profit rates and security prices) of the underlying instruments. These instruments are used by 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 Bank's accounting policies.

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

	2018 RM'000	**2017 RM'000**
Derivative assets:		
– Trading derivatives	**204,543**	327,948
– Fair value hedging derivatives	**–**	30
	204,543	327,978
Derivative liabilities:		
– Trading derivatives	**(207,117)**	(323,235)
– Fair value hedging derivatives	**(4,438)**	(4,488)
	(211,555)	(327,723)

Notes to the Financial Statements

for the financial year ended 31 December 2018

12 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2018			
Trading derivatives:			
Foreign exchange related contracts:			
– Forwards	**8,667,085**	**102,969**	**(106,065)**
– Cross currency profit rate swaps	**2,616,837**	**97,518**	**(96,753)**
Profit rate related contracts:			
– Swaps	**704,596**	**4,056**	**(4,299)**
Fair value hedging derivatives:			
Profit rate related contracts:			
– Swaps	**1,255,000**	**–**	**(4,438)**
		204,543	**(211,555)**
2017			
Trading derivatives:			
Foreign exchange related contracts:			
– Forwards	7,906,671	240,620	(236,924)
– Cross currency profit rate swaps	2,665,997	84,008	(82,908)
Profit rate related contracts:			
– Swaps	917,338	3,320	(3,403)
Fair value hedging derivatives:			
Profit rate related contracts:			
– Swaps	1,325,000	30	(4,488)
		327,978	(327,723)

Fair value hedging is used by the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in market profit rates. The Bank uses profit rate swaps to hedge against profit rate risk of specific identified fixed rate long term as well as portfolio homogenous pools of financing and advances. Included in other operating income as disclosed in Note 27 is the net gains and losses arising from fair value hedges for the financial year as follows:

	2018 RM'000	2017 RM'000
Gain on hedging instruments	**216**	6,916
Loss on hedged items attributable to the hedged risk	**(14,592)**	(7,994)
	(14,376)	(1,078)

13 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ('BNM')

The non-profit bearing statutory deposits are maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. The amount is determined at a set percentage of total eligible liabilities.

14 DEFERRED TAX ASSETS

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

	2018 RM'000	2017 RM'000
Deferred tax assets	**23,241**	16,513
Deferred tax assets:		
– Settled more than twelve months	**14,484**	5,532
– Settled within twelve months	**9,015**	11,608
Deferred tax liabilities:		
– Settled within twelve months	**(258)**	(627)
	23,241	16,513

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

	Note	Intangible assets – computer software license RM'000	Property, plant and equipment RM'000	Financial assets at FVOCI/financial investments AFS RM'000	Expected credit losses RM'000	Provisions RM'000	Total RM'000
2018							
Balance as at the beginning of the financial year		**(627)**	**630**	**5,028**	**–**	**11,482**	**16,513**
Transfer from/(to) income statement	33	**369**	**(240)**	**–**	**13,070**	**(2,545)**	**10,654**
Transfer to equity		**–**	**–**	**(3,926)**	**–**	**–**	**(3,926)**
Balance as at the end of the financial year		**(258)**	**390**	**1,102**	**13,070**	**8,937**	**23,241**
2017							
Balance as at the beginning of the financial year		(4,819)	666	10,085	–	14,997	20,929
Transfer from/(to) income statement	33	4,192	(36)	–	–	(3,515)	641
Transfer to equity		–	–	(5,057)	–	–	(5,057)
Balance as at the end of the financial year		(627)	630	5,028	–	11,482	16,513

Notes to the Financial Statements
for the financial year ended 31 December 2018

15 PROPERTY, PLANT AND EQUIPMENT

	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2018						
Cost						
Balance as at the beginning of the financial year		**17,463**	**8,476**	**11,873**	**1,149**	**38,961**
Additions		**41**	**109**	**77**	**–**	**227**
Written off		**(1)**	**(10)**	**(630)**	**–**	**(641)**
Reclassifications		**(164)**	**6**	**158**	**–**	**–**
Reclassification to intangible assets	16	**(430)**	**–**	**–**	**–**	**(430)**
Balance as at the end of the financial year		**16,909**	**8,581**	**11,478**	**1,149**	**38,117**
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		**12,583**	**7,865**	**11,290**	**1,030**	**32,768**
Charge for the financial year	31	**1,090**	**163**	**411**	**74**	**1,738**
Written off		**(1)**	**(10)**	**(629)**	**–**	**(640)**
Balance as at the end of the financial year		**13,672**	**8,018**	**11,072**	**1,104**	**33,866**
Net book value as at the end of the financial year		**3,237**	**563**	**406**	**45**	**4,251**
2017						
Cost						
Balance as at the beginning of the financial year		15,691	8,327	12,300	1,157	37,475
Additions		1,772	237	203	–	2,212
Disposals		–	(27)	(256)	(4)	(287)
Written off		–	(61)	(374)	(4)	(439)
Balance as at the end of the financial year		17,463	8,476	11,873	1,149	38,961
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		10,973	7,576	11,424	926	30,899
Charge for the financial year	31	1,610	373	496	112	2,591
Disposals		–	(23)	(256)	(4)	(283)
Written off		–	(61)	(374)	(4)	(439)
Balance as at the end of the financial year		12,583	7,865	11,290	1,030	32,768
Net book value as at the end of the financial year		4,880	611	583	119	6,193

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above property, plant and equipment includes the following assets under construction:

	2018 RM'000	2017 RM'000
Cost		
Renovations	**–**	671

16 INTANGIBLE ASSETS

	Note	2018 RM'000	2017 RM'000
Computer software license			
Cost			
Balance as at the beginning of the financial year		**16,389**	15,453
Additions		**797**	1,799
Written off		**(220)**	(863)
Reclassification from property, plant and equipment	15	**430**	–
Balance as at the end of the financial year		**17,396**	16,389
Less: Accumulated amortisation			
Balance as at the beginning of the financial year		**11,350**	9,504
Charge for the financial year	31	**1,737**	1,846
Written off		**(220)**	–
Balance as at the end of the financial year		**12,867**	11,350
Less: Accumulated impairment loss			
Balance as at the beginning of the financial year		**–**	1,199
Reversal for the financial year		**–**	(336)
Written off		**–**	(863)
Balance as at the end of the financial year		**–**	–
Net book value as at the end of the financial year		**4,529**	5,039

Notes to the Financial Statements

for the financial year ended 31 December 2018

17 DEPOSITS FROM CUSTOMERS

	2018 RM'000	2017 RM'000
Savings Deposits:		
– Wadiah	**1,451,012**	1,353,675
Demand Deposits:		
– Wadiah	**5,161,736**	6,392,228
– Commodity Murabahah	**231,130**	55,952
Term Deposits:		
– Commodity Murabahah	**29,045,477**	24,813,727
Specific Investment Account:		
– Commodity Murabahah	**9,730,411**	5,098,668
General Investment Account:		
– Mudharabah	**112,586**	135,955
	45,732,352	37,850,205

(a) The maturity structure of investment accounts and term deposits are as follows:

	2018 RM'000	2017 RM'000
Due within six months	**28,151,327**	22,074,985
Six months to one year	**10,463,407**	7,966,481
One year to three years	**182,817**	4,814
Three years to five years	**90,923**	2,070
	38,888,474	30,048,350

(b) By type of customer

	2018 RM'000	2017 RM'000
Government and statutory bodies	**6,451,380**	4,313,279
Business enterprises	**26,158,852**	23,926,425
Individuals	**12,717,486**	9,224,592
Others	**404,634**	385,909
	45,732,352	37,850,205

Notes to the Financial Statements

for the financial year ended 31 December 2018

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 RM'000	2017 RM'000
Non-Mudharabah Funds:		
– Licensed Islamic banks	**1,598,865**	2,945,973
– Licensed banks	**2,764,399**	1,115,096
– Licensed investment banks	**–**	298,349
– Bank Negara Malaysia	**40,457**	20,689
	4,403,721	4,380,107
Mudharabah Funds:		
– Other financial institutions	**–**	14,694
	4,403,721	4,394,801

Notes to the Financial Statements

for the financial year ended 31 December 2018

19 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	2018 RM'000	2017 RM'000
Mudharabah Restricted Investment Account		
Funding inflows/(outflows) – Principal (Note a):		
Balance as at the beginning of the financial year	**7,820,305**	6,337,446
New placement during the financial year	**2,348,027**	3,746,999
Redemption during the financial year	**(2,351,630)**	(2,264,140)
Balance as at the end of the financial year	**7,816,702**	7,820,305
Profit attributable to investment account holders – Total profit payable:		
Balance as at the beginning of the financial year	**282,393**	285,025
Profit distributed to investment account holders during the financial year	**357,697**	310,130
Profit paid to investment account holders during the financial year	**(558,181)**	(312,762)
Balance as at the end of the financial year	**81,909**	282,393
Net balance as at the end of the financial year	**7,898,611**	8,102,698
(a) Investment asset (principal):		
– Personal financing	**700,000**	–
– Housing financing	**–**	300,000
– Hire purchase receivables	**–**	700,000
– Other term financing	**6,422,927**	6,030,030
– Unquoted securities (Notes 7 and 9)	**693,775**	790,275
– Total investment	**7,816,702**	7,820,305
The entire restricted investment account is placed by the holding company, RHB Bank.		
(b) By type of counterparty		
– Licensed banks	**7,898,611**	8,102,698
	7,898,611	8,102,698

Notes to the Financial Statements

for the financial year ended 31 December 2018

19 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS (CONTINUED)

	Average profit sharing ratio %	Average rate of return %
2018		
– Below 1 year	**81**	**4.28**
– Between 1 to 2 years	**83**	**5.49**
– Between 2 to 5 years	**84**	**4.29**
– More than 5 years	**86**	**4.63**
2017		
– Below 1 year	88	4.56
– Between 1 to 2 years	81	4.35
– Between 2 to 5 years	85	4.29
– More than 5 years	83	4.44

20 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD ('CAGAMAS')

Recourse obligation on financing sold to Cagamas represents those acquired from the originators and sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position. The financing are not derecognised and are analysed in Note 10.

Notes to the Financial Statements
for the financial year ended 31 December 2018

21 SUBORDINATED OBLIGATIONS

	2018 RM'000	2017 RM'000
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	**503,187**	503,187
4.88% RM250 million Tier II Subordinated Sukuk Murabahah 2017/2027	**252,139**	252,206
	755,326	755,393

On 15 May 2014, the Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah, being part of RM1 billion Subordinated Sukuk Murabahah Programme.

On 27 April 2017, the Bank has further issued RM250 million nominal value of Subordinated Sukuk Murabahah under the same RM1 billion Subordinated Sukuk Murabahah Programme.

On 25 July 2018, the Subordinated Sukuk programme has been upsized from RM1 billion to RM5 billion.

Tranche	Principal RM'million	Maturity date	Profit rate	Profit payment
2014/2024	500	15 May 2024 (Callable on 2019)	4.95% per annum chargeable to 15 May 2024	Accrued and payable semi-annually in arrears
2017/2027	250	27 April 2027 (Callable on 2022)	4.88% per annum chargeable to 27 April 2027	Accrued and payable semi-annually in arrears

The Bank did not have any defaults of principal and profit or other breaches with respect to its subordinated obligations during the financial years ended 31 December 2018 and 2017.

22 OTHER LIABILITIES

	Note	2018 RM'000	2017 RM'000
Sundry creditors		**4,996**	4,691
Amount due to holding company	(a)	**205,700**	168,364
Amounts due to other related companies	(a)	**111**	259
Contract liability	(b)	**19,418**	31,682
Short-term employee benefits		**5,830**	5,391
Accrual for operational expenses		**11,476**	10,206
Other accruals and payables	(c)	**34,027**	125,199
		281,558	345,792

(a) The amounts due to holding company and other related companies are unsecured, non-profit bearing and repayable within the normal credit period.

(b) Contract liability was reduced by RM12,264,000 for the Bank as a result of recognition of the bancatakaful fee.

(c) Included in the other accruals and payables is undistributed charity funds amounting to RM88,000 (2017: RM88,000). The funds are sourced from ta'widh (late payment charges).

Movement of sources and uses of charity funds are as follows:

	2018 RM'000	2017 RM'000
Undistributed funds as at the beginning of the financial year	**88**	93
Funds collected/received during the year	**–**	–
Uses of funds during the year	**–**	(5)
Contribution to non-profit organisation	**–**	(5)
Undistributed funds as at the end of the financial year	**88**	88

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for the financial year ended 31 December 2018

23 SHARE CAPITAL

	2018 RM'000	2017 RM'000
Issued and fully paid:		
Balance as at the beginning of financial year	**1,273,424**	1,273,424
Issued during the financial year	**400,000**	–
Balance as at the end of financial year	**1,673,424**	1,273,424

During the financial year, the Bank increased its issued and paid up share capital from RM1,273,424,002 to RM1,673,424,002 via the issuance of 400,000,000 new ordinary shares of RM1.00 each to RHB Bank, its holding company.

The new ordinary shares issued during the financial year rank *pari passu* in all aspects with the existing ordinary shares of the Bank.

24 RESERVES

	Note	2018 RM'000	2017 RM'000
FVOCI/AFS reserve	(a)	**1,898**	(15,929)
Regulatory reserve	(b)	**358,054**	267,031
Retained profits		**2,013,893**	1,787,323
		2,373,845	2,038,425

(a) FVOCI reserve represents the cumulative gains and losses arising on the revaluation of investment in equity instruments designated as at FVOCI, net of cumulative gain/loss transferred to retained earnings upon disposal and investments in debt instruments classified as FVOCI, net of cumulative loss allowance recognised on these investments and cumulative gain/loss reclassified to income statement upon disposal or reclassification of these investments.

AFS reserve arises from a change in the fair value of financial investments classified as AFS. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities.

(b) Regulatory reserve represents the Bank's compliance with BNM's Revised Policy Documents on Financial Reporting for Islamic Banking Institutions with effect from 1 January 2018, whereby the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

Prior to 1 January 2018, the Bank complies with BNM's Policy on Classification and Impairment Provisions for Loans/Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding loans/ financing, net of individual impairment allowances.

Notes to the Financial Statements

for the financial year ended 31 December 2018

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2018 RM'000	2017 RM'000
Income derived from investment of:		
(i) General investment deposits	**5,916**	7,019
(ii) Other deposits	**2,331,510**	1,950,033
	2,337,426	1,957,052

(i) Income derived from investment of general investment deposits:

	2018 RM'000	2017 RM'000
Financing and advances	**4,956**	5,430
Securities purchased under resale agreements	**44**	176
Financial assets at FVTPL/HFT	**30**	18
Financial assets at FVOCI	**357**	–
Financial investments at amortised cost	**235**	–
Financial investments AFS	**–**	505
Financial investments HTM	**–**	248
Money at call and deposits with banks and other financial institutions	**246**	600
Total finance income and hibah	**5,868**	6,977
Other operating income (Note a)	**48**	42
	5,916	7,019
Of which:		
Financing income earned on impaired financing	**29**	38
(a) Other operating income comprise of:		
Commission	**22**	28
Guarantee fees	**9**	9
Net gain/(loss) on revaluation of financial assets at FVTPL/HFT	**1**	(3)
Net gain/(loss) on disposal of financial assets at FVTPL/HFT	**2**	(2)
Net gain on disposal of debt instruments of financial assets at FVOCI	**14**	–
Net gain on disposal of financial investments AFS	**–**	9
Net gain on early redemption of financial investments HTM	**–**	1
	48	42

Notes to the Financial Statements

for the financial year ended 31 December 2018

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

(ii) Income derived from investment of other deposits:

	2018 RM'000	2017 RM'000
Financing and advances	**1,953,056**	1,508,577
Securities purchased under resale agreements	**17,279**	48,946
Financial assets at FVTPL/HFT	**11,780**	4,967
Financial assets at FVOCI	**140,754**	–
Financial investments at amortised cost	**92,546**	–
Financial investments AFS	**–**	140,384
Financial investments HTM	**–**	68,827
Money at call and deposits with banks and other financial institutions	**96,898**	166,803
Total finance income and hibah	**2,312,313**	1,938,504
Other operating income (Note a)	**19,197**	11,529
	2,331,510	1,950,033
Of which:		
Financing income earned on impaired financing	**11,172**	10,507
(a) Other operating income comprise of:		
Commission	**8,779**	7,700
Guarantee fees	**3,524**	2,493
Net gain/(loss) on revaluation of financial assets at FVTPL/HFT	**927**	(810)
Net gain/(loss) on disposal of financial assets at FVTPL/HFT	**646**	(660)
Net gain on disposal of debt instruments of financial assets at FVOCI	**5,196**	–
Net gain arising from derecognition of financial investments at amortised cost	**125**	–
Net gain on disposal of financial investments AFS	**–**	2,441
Net gain on early redemption of financial investments HTM	**–**	365
	19,197	11,529

Notes to the Financial Statements

for the financial year ended 31 December 2018

26 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	2018 RM'000	2017 RM'000
Financing and advances	**380,293**	318,824
Financial investments at amortised cost	**54,878**	–
Financial investments HTM	**–**	52,523
Money at call and deposits with banks and other financial institutions	**3**	4,592
Total finance income and hibah	**435,174**	375,939

27 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2018 RM'000	2017 RM'000
Financing and advances	**64,583**	48,990
Securities purchased under resale agreements	**571**	1,591
Financial assets at FVTPL/HFT	**390**	161
Financial assets at FVOCI	**4,654**	–
Financial investments at amortised costs	**3,060**	–
Financial investments AFS	**–**	4,559
Financial investments HTM	**–**	2,235
Money at call and deposits with banks and other financial institutions	**3,204**	5,417
Total finance income and hibah	**76,462**	62,953
Other operating income (Note a)	**132,635**	112,565
	209,097	175,518
Of which:		
Financing income earned on impaired financing	**369**	341
(a) Other operating income comprise of:		
Commission	**36,030**	22,690
Service charges and fees	**64,281**	63,534
Guarantee fees and underwriting fees	**117**	81
Foreign exchange profit	**51,026**	38,471
Net gain/(loss) on revaluation of financial assets at FVTPL/HFT	**31**	(26)
Net gain/(loss) on disposal of financial assets at FVTPL/HFT	**21**	(21)
Net gain on disposal of debt instruments of financial assets at FVOCI	**172**	–
Net gain arising from derecognition of financial investments at amortised cost	**4**	–
Net gain on disposal of financial investments AFS	**–**	79
Net gain on early redemption of financial investments HTM	**–**	12
Net loss on fair value hedges (Note 12)	**(14,376)**	(1,078)
Net loss on revaluation of derivatives	**(4,709)**	(11,199)
Other income	**38**	22
	132,635	112,565

Notes to the Financial Statements
for the financial year ended 31 December 2018

28 ALLOWANCE FOR CREDIT LOSSES ON FINANCIAL ASSETS

	2018 RM'000	2017 RM'000
Charge/(Writeback)		
Financing and advances:		
– Net charge	**106,662**	66,766
– Bad debts recovered	**(15,587)**	(12,343)
– Bad debts written off	**21,128**	12,311
	112,203	66,734
Financial assets at FVOCI	**218**	–
Financial investments at amortised cost	**3,124**	–
Other financial assets	**(25)**	–
	115,520	66,734

29 INCOME ATTRIBUTABLE TO DEPOSITORS

	2018 RM'000	2017 RM'000
Deposits from customers:		
– Mudharabah funds	**4,842**	4,621
– Non-Mudharabah funds	**1,358,130**	1,097,763
Deposits and placements of banks and other financial institutions:		
– Non-Mudharabah funds	**103,630**	172,012
Subordinated obligations	**36,950**	33,073
Recourse obligation on financing sold to Cagamas	**42,089**	21,672
Obligations on securities sold under repurchase agreements	**383**	254
	1,546,024	1,329,395

30 PERSONNEL EXPENSES

	2018 RM'000	2017 RM'000
Salaries, allowances and bonuses	**24,352**	21,597
Contributions to Employees' Provident Fund	**3,913**	3,053
Other staff related costs	**2,414**	2,432
	30,679	27,082

Included in the personnel expenses is the Managing Director's remuneration as disclosed in Note 32.

Notes to the Financial Statements

for the financial year ended 31 December 2018

31 OTHER OVERHEADS AND EXPENDITURES

	2018 RM'000	2017 RM'000
Establishment costs		
Property, plant and equipment:		
– Depreciation	**1,738**	2,591
– Written off	**1**	–
Computer software license		
– Amortisation	**1,737**	1,846
Information technology expenses	**2,853**	3,123
Repair and maintenance	**1,117**	733
Rental of premises	**4,304**	4,704
Water and electricity	**782**	569
Rental of equipment	**3**	2
Printing and stationeries	**2,787**	3,477
Insurance	**4,671**	3,633
Others	**3,164**	3,757
	23,157	24,435
Marketing expenses		
Advertisement and publicity	**885**	2,135
Sales commission	**9,342**	8,898
Travelling expenses	**334**	297
Motor vehicle expenses	**210**	191
Others	**2,370**	2,353
	13,141	13,874
Administration and general expenses		
Auditors' remuneration:		
Audit		
– Statutory audit	**199**	174
– Limited review	**57**	57
Other audit related	**100**	100
Communication expenses	**5,189**	4,306
Legal and professional fee	**2,232**	1,960
Management fee	**295,564**	239,036
Others	**12,971**	11,657
	316,312	257,290
	352,610	295,599

Included in the administration and general expenses of the Bank are other Director's remuneration as disclosed in Note 32.

Notes to the Financial Statements

for the financial year ended 31 December 2018

32 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS

2018	Salary and other remuneration RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Dato' Adissadikin Ali	1,174	7	560	1,741
	1,174	7	560	1,741

	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
Non-executive Directors				
Abdul Aziz Peru Mohamed (appointed on 1 October 2018)	43	2	3	48
Dato' Abd Rahman Dato' Md Khalid	168	–	97	265
Dato' Foong Chee Meng	135	–	40	175
Ong Ai Lin	135	–	112	247
Datuk Nozirah Bahari (appointed on 1 September 2018, resigned on 12 February 2019)	45	–	6	51
Datuk Haji Faisal Siraj (resigned on 1 September 2018)	90	–	12	102
	616	2	270	888

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	93
Assoc. Prof. Dr. Amir Shaharuddin	79
Dr. Ahmad Basri Ibrahim (appointed on 2 February 2018)	67
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Mohd Fadhly Md. Yusoff	80
Shabnam Mohamad Mokhtar	81
	481

32 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS (CONTINUED)

2017	Salary and other remuneration RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Dato' Adissadikin Ali	1,143	7	700	1,850
	1,143	7	700	1,850

	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
Non-executive Directors				
Dato' Abd Rahman Dato' Md Khalid	135	–	133	268
Datuk Haji Faisal Siraj	135	–	79	214
Dato' Foong Chee Meng (appointed on 1 August 2017)	57	–	24	81
Ong Ai Lin (appointed on 1 September 2017)	45	–	29	74
Haji Md Ja'far Abdul Carrim (deceased on 19 October 2017)	136	17	253	406
Dato' Mohd Ali Mohd Tahir (resigned on 28 February 2017)	21	–	42	63
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (resigned on 1 August 2017)	78	–	79	157
	607	17	639	1,263

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar	95
Assoc. Prof. Dr. Amir Shaharuddin	82
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Mohd Fadhly Md. Yusoff	82
Shabnam Mohamad Mokhtar	82
Prof. Dr. Joni Tamkin Borhan (deceased on 19 May 2017)	34
	456

Notes to the Financial Statements

for the financial year ended 31 December 2018

32 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS (CONTINUED)

Note:

During the financial year, Directors of the Bank are covered under the Directors' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors of the Bank subject to the term of the policy. The total amount of Directors' Liability Insurance effected for the Directors of the Bank was RM200.0 million (2017: RM100.0 million). The total amount of premium paid for the Directors' Liability Insurance by the Bank was RM382,000 (2017: RM280,000).

33 TAXATION

	2018 RM'000	2017 RM'000
Malaysian income tax:		
– Current tax	**148,538**	110,354
– Under/(Over) provision in respect of prior financial years	**2,449**	(755)
Deferred tax (Note 14)	**(10,654)**	(641)
	140,333	108,958

The numerical reconciliation between the effective tax rate and the applicable statutory income tax rate are as follows:

	2018 %	2017 %
Tax at Malaysian statutory income tax rate	**24.0**	24.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.1**	0.1
Under/(Over) provision in respect of prior financial years	**0.4**	(0.2)
Temporary differences not recognised in prior financial years	**(0.2)**	(0.8)
Non-taxable income	**(0.1)**	(0.4)
Effective tax rate	**24.2**	22.7

34 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	2018	2017
Net profit for the financial year (RM'000)	**434,833**	367,392
Weighted average number of ordinary shares in issue ('000)	**1,601,095**	1,273,424
Basic earnings per share (sen)	**27.16**	28.85

Notes to the Financial Statements
for the financial year ended 31 December 2018

35 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2018		
	Before tax RM'000	**Tax effects RM'000**	**Net of tax RM'000**
Financial investments FVOCI:			
– Net fair value gain, net amount transfer to income statement and changes in expected credit losses	**16,574**	**(3,926)**	**12,648**

	2017		
	Before tax RM'000	**Tax effects RM'000**	**Net of tax RM'000**
Financial investments AFS:			
– Net fair value gain and net amount transfer to income statement	21,072	(5,057)	16,015

36 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

Related parties	**Relationship**
RHB Bank Berhad	Holding company
Employees' Provident Fund ('EPF')	Holding company's substantial shareholder, a fund body that is significantly influenced by government
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Key management personnel	The key management personnel of the Bank consists of: – All Directors of the Bank 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 voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

Notes to the Financial Statements

for the financial year ended 31 December 2018

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

Other related parties of the Bank comprise of transactions or balances with the companies in the RHB Bank Berhad Group.

All related party transactions are entered into in the normal course of business at agreed terms between the related parties.

2018	Holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Commission	–	–	–	138
Income derived from investment of depositors' funds	17,894	43,232	–	–
Other income	27,714	–	–	67
	45,608	43,232	–	205
Expenditure				
Profit expense on deposits and placements	17,148	124	32	1,196
Profit expense on investment account	357,697	–	–	–
Reimbursement of operating expenses to holding company	295,564	–	–	–
Other expenses	414	–	–	1,229
	670,823	124	32	2,425
Amounts due from				
Cash and short-term funds	2,032	–	–	–
Securities purchased under resale agreements	926,125	–	–	–
Financial assets at FVOCI	–	10,060	–	–
Financing and advances	–	136,226	–	–
Derivative assets	114,159	–	–	–
	1,042,316	146,286	–	–
Amounts due to				
Derivative liabilities	105,173	–	–	–
Demand and investment deposits	–	124,550	1,610	29,623
Deposits and placements of banks and other financial institutions	1,978,023	–	–	–
Investment account due to designated financial institutions	7,898,611	–	–	–
Other liabilities	205,700	–	–	111
	10,187,507	124,550	1,610	29,734

Notes to the Financial Statements

for the financial year ended 31 December 2018

36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

2017	Holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Commission	–	–	–	146
Income derived from investment of depositors' funds	50,727	19,746	–	–
Other income	77,693	4	–	–
	128,420	19,750	–	146
Expenditure				
Profit expense on deposits and placements	26,816	108	4,971	1,251
Profit expense on investment account	310,130	–	–	–
Reimbursement of operating expenses to holding company	239,036	–	–	–
Other expenses	435	–	–	1,584
	576,417	108	4,971	2,835
Amounts due from				
Cash and short-term funds	10,403	–	–	–
Deposits and placements with banks and other financial institutions	14,613	–	–	–
Securities purchased under resale agreements	1,587,979	–	–	–
Financial investments AFS	–	45,214	–	–
Financing and advances	–	792,394	–	–
Derivative assets	321,607	–	–	–
	1,934,602	837,608	–	–
Amounts due to				
Derivative liabilities	14,588	–	–	–
Demand and investment deposits	–	101,668	755	25,861
Deposits and placements of banks and other financial institutions	211,477	–	–	–
Investment account due to designated financial institutions	8,102,698	–	–	–
Other liabilities	168,364	–	–	259
	8,497,127	101,668	755	26,120

Notes to the Financial Statements

for the financial year ended 31 December 2018

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of Directors and other members of key management are as follows:

	2018 RM'000	2017 RM'000
Short-term employee benefits:		
– Fees	**616**	607
– Salary and other remuneration	**1,802**	2,264
– Defined contribution plan	**202**	218
– Benefits-in-kind (based on an estimated monetary value)	**9**	24
	2,629	3,113

The above includes Directors' remuneration as disclosed in Note 32.

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	2018	2017
Outstanding credit exposure with connected parties (RM'000)	**3,125,715**	1,767,706
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	**5.43**	3.74
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	**0.39**	–

The credit exposures above are derived based on BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

36 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Intercompany charges

Breakdown of intercompany charges by type of services received and geographical distribution as per BNM's Guidelines on Financial Reporting for Islamic Banking Institutions issued on 2 February 2018 are as follows:

	Profit expense on deposits and placements RM'000	Profit expense on investment account RM'000	Reimbursement of operating expenses to holding company RM'000	Other expenses RM'000
2018				
Malaysia	**18,344**	**357,697**	**295,564**	**1,643**
2017				
Malaysia	28,067	310,130	239,036	2,019

37 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers.

	2018 RM'000	2017 RM'000
Transaction-related contingent items	**212,768**	195,298
Short-term self-liquidating trade related contingencies	**65,253**	111,779
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	**–**	629,085
Irrevocable commitments to extend credit:		
– Maturity less than one year	**11,659**	–
– Maturity more than one year	**6,567,847**	5,800,512
Foreign exchange related contracts*:		
– Less than one year	**8,926,427**	7,910,145
– One year to less than five years	**1,398,451**	1,713,345
– More than five years	**959,044**	949,178
Profit rate related contracts*:		
– Less than one year	**1,265,000**	3,690,000
– One year to less than five years	**939,596**	767,338
– More than five years	**685,000**	–
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**2,102,309**	2,513,842
	23,133,354	24,280,522

* These derivatives are revalued on gross position basis and the unrealised gains or losses has been reflected in the income statement and statement of financial position as derivative assets and liabilities.

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38 OPERATING LEASE COMMITMENTS

The Bank has 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:

Rental of premises:	2018 RM'000	2017 RM'000
– Within one year	**3,542**	4,250
– Between one to five years	**2,802**	5,069
	6,344	9,319

39 CAPITAL COMMITMENTS

	2018 RM'000	2017 RM'000
Capital expenditure for property, plant and equipment:		
– Authorised and contracted for	**577**	6,460

40 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 Bank has determined RHB Bank's Group Management Committee as its chief operating decision-maker.

The business segment results are prepared based on the Bank's internal management reporting, which reflect the organisation's management structure. Internal allocation of costs has been used in preparing the segmental reporting.

The Bank's business segment can be organised into the following main segments reflecting the Bank's internal reporting structure:

(a) Wholesale Banking

(i) Corporate and Investment Banking

Corporate and Investment Banking caters to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, government and state owned entities as well as high net worth individual related to the above. The division also generates fee-based income from private debt securities issuances ('PDS'), financing restructuring and syndication as well as general and project advisory services.

(ii) Treasury

Treasury operation is involved in money market operation and securities trading on behalf of the Bank and also for the Bank's customers. The division also provides solutions to serve investment needs of the Bank and the Bank's customers.

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40 SEGMENT REPORTING (CONTINUED)

(b) Business Banking

Business Banking caters to funding or lending needs of small and medium sized enterprises. The products and services offered to customers include term financing, revolving financing and hire purchase financing.

(c) Retail Banking

Retail Banking focuses on providing products and services to individual customers. The products and services offered to customers include term financing (house and shop house financing), Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles, deposit portfolios (savings and current account), credit cards, remittance services, investment products (term deposit/investment account) and bancatakaful products.

	← Wholesale Banking →				
	Corporate and Investment Banking RM'000	**Treasury RM'000**	**Business Banking RM'000**	**Retail Banking RM'000**	**Total RM'000**
2018					
External revenue	1,026,725	372,227	191,865	1,390,880	2,981,697
Inter-segment revenue	(85,600)	574,031	(14,234)	(474,197)	–
Segment revenue	941,125	946,258	177,631	916,683	2,981,697
Depositors' payout	(644,043)	(752,163)	(49,447)	(458,069)	(1,903,722)
Net income	297,082	194,095	128,184	458,614	1,077,975
Operating overheads	(50,014)	(29,697)	(54,428)	(245,675)	(379,814)
Depreciation of property, plant and equipment	(349)	(13)	(606)	(770)	(1,738)
Amortisation of computer software	(357)	(396)	(251)	(733)	(1,737)
Allowance for credit losses on financial assets	(7,442)	(86)	(46,591)	(61,401)	(115,520)
Profit before zakat and taxation	238,920	163,903	26,308	150,035	579,166
Zakat					(4,000)
Profit after zakat before taxation					575,166
Taxation					(140,333)
Net profit for the financial year					434,833

Note:
Total segment revenue comprise of net profit income and other operating income.

Notes to the Financial Statements

for the financial year ended 31 December 2018

40 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
	Corporate and Investment Banking RM'000	Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
2018					
Segment assets	22,438,134	10,290,648	3,626,264	28,787,389	65,142,435
Unallocated assets					452,846
Deferred tax assets					23,241
Total assets					65,618,522
Segment liabilities	19,374,175	25,233,834	3,400,927	13,272,383	61,281,319
Unallocated liabilities					289,934
Total liabilities					61,571,253
Other segment items:					
Capital expenditure	141	–	277	606	1,024

Notes to the Financial Statements

for the financial year ended 31 December 2018

40 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
	Corporate and Investment Banking RM'000	Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
2017					
External revenue	894,189	449,995	152,300	1,012,025	2,508,509
Inter-segment revenue	(58,290)	519,730	(474)	(460,966)	–
Segment revenue	835,899	969,725	151,826	551,059	2,508,509
Depositors' payout	(626,735)	(783,539)	(38,767)	(190,539)	(1,639,580)
Net income	209,164	186,186	113,059	360,520	868,929
Operating overheads	(44,353)	(21,394)	(46,104)	(206,393)	(318,244)
Depreciation of property, plant and equipment	(353)	(80)	(814)	(1,344)	(2,591)
Amortisation of computer software	(305)	(427)	(212)	(902)	(1,846)
Allowance for credit losses on financial assets	1,159	–	(53,235)	(14,658)	(66,734)
Segmental results	165,312	164,285	12,694	137,223	479,514
Impairment losses written back on other non-financial assets					336
Profit before zakat and taxation					479,850
Zakat					(3,500)
Profit after zakat before taxation					476,350
Taxation					(108,958)
Net profit for the financial year					367,392

Note:

Total segment revenue comprise of net profit income and other operating income.

Notes to the Financial Statements

for the financial year ended 31 December 2018

40 SEGMENT REPORTING (CONTINUED)

	← Wholesale Banking	→			
	Corporate and Investment Banking RM'000	Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
2017					
Segment assets	20,487,482	10,411,651	2,875,102	21,827,440	55,601,675
Unallocated assets					99,275
Deferred tax assets					16,513
Total assets					55,717,463
Segment liabilities	20,392,163	19,268,148	2,758,567	9,625,320	52,044,198
Unallocated liabilities					361,416
Total liabilities					52,405,614
Other segment items:					
Capital expenditure	544	–	599	2,868	4,011

41 CAPITAL ADEQUACY RATIO

BNM guidelines on capital adequacy requires 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.

On 31 May 2018, BNM granted approval for the Bank to adopt Internal Ratings-Based ('IRB') approach for Credit Risk for its regulatory capital reporting and to submit the actual reporting based on IRB approach beginning with its position as at 30 September 2018. Comparative figures are not restated for first time adoption of the IRB approach.

Notes to the Financial Statements
for the financial year ended 31 December 2018

41 CAPITAL ADEQUACY RATIO (CONTINUED)

The capital adequacy ratios of the Bank are as follows:

	2018 RM'000	2017 RM'000
Common Equity Tier-l ('CET-l') Capital/Tier-I Capital		
Share capital	**1,673,424**	1,273,424
Retained profits	**2,013,893**	1,787,323
FVOCI/AFS reserve	**(3,499)**	(15,929)
	3,683,818	3,044,818
Less:		
Deferred tax assets	**(23,499)**	(17,140)
Intangible assets (include associated deferred tax liabilities)	**(4,271)**	(4,412)
Ageing Reserve and Liquidity Reserve*	**(4,849)**	(4,296)
Total CET-l/Total Tier-I Capital	**3,651,199**	3,018,970
Tier-II Capital		
Subordinated obligations	**750,000**	750,000
Surplus eligible provisions over expected losses	**94,333**	–
Collective impairment allowances^ and regulatory reserve~	**–**	343,212
General provisions[v~]	**54,330**	–
Total Tier-II Capital	**898,663**	1,093,212
Total Capital	**4,549,862**	4,112,182
Capital ratios		
CET-I capital ratio	**13.222%**	10.376%
Tier-I capital ratio	**13.222%**	10.376%
Total capital ratio	**16.476%**	14.134%

* Pursuant to the Basel II Market Risk para 5.18 and 5.19 – Valuation Adjustments, the Capital Adequacy Framework for Islamic Banks (Basel II – Risk Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments/reserves on its trading portfolio.

^ Excludes collective assessment impairment allowance attributable to advances and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

v Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 'Financial Instruments'; and regulatory reserve, to the extent they are ascribed to non-credit-impaired exposures, determined under standardised approach for credit risk.

~ Includes the qualifying regulatory reserve of the Bank of RM42,756,000 (2017: RM204,312,000).

Notes to the Financial Statements

for the financial year ended 31 December 2018

41 CAPITAL ADEQUACY RATIO (CONTINUED)

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

	2018 RM'000	**2017 RM'000**
Credit risk	**25,943,117**	34,726,152
Credit risk absorbed by PSIA+	**(5,874,587)**	(7,269,199)
Market risk	**268,130**	240,688
Operational risk	**1,679,551**	1,397,487
Additional RWA due to capital floor	**5,599,323**	–
Total risk-weighted assets	**27,615,534**	29,095,128

The total risk-weighted assets of the Bank are computed based on BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): IRB and Standardised Approach for Credit (31 December 2018 and 31 December 2017 respectively), Standardised Approach for Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

+ In accordance with BNM's "Guidelines on the Recognition and Measurement of Profit Sharing Investment Account ('PSIA') as Risk Absorbent", the credit and market risks of the assets funded by the Restricted Profit Sharing Investment account ('RPSIA') which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2018, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM5,874,587,000 (2017: RM7,269,199,000).

42 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

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, Shariah, 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 shareholder's 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 Group, as follows:

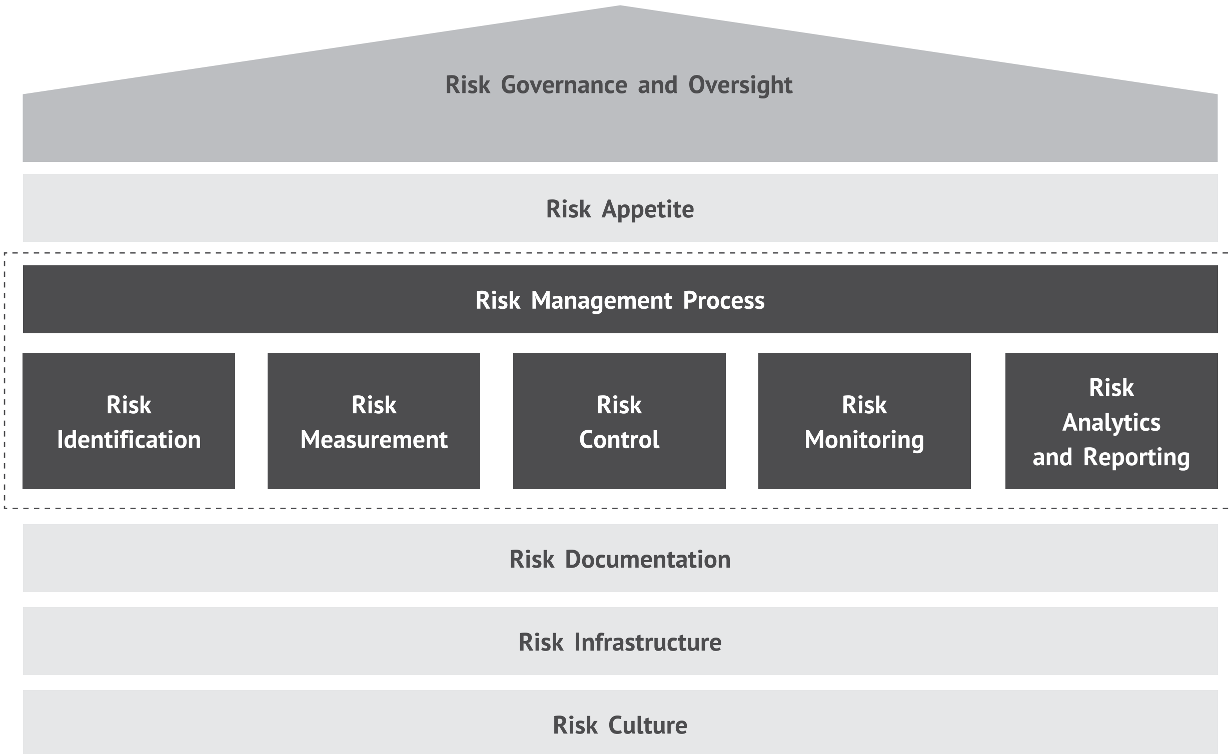
(1) It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.

(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.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

The Group Risk Management Framework is represented in the following diagram:



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 Board 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.

<u>Risk Governance and Organisation</u>

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, framework, policies and models. The Islamic Risk Management Committee ('IRMC') is responsible for assisting the Board of Directors of the Bank on issues relevant and unique to Islamic finance.

Notes to the Financial Statements

for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

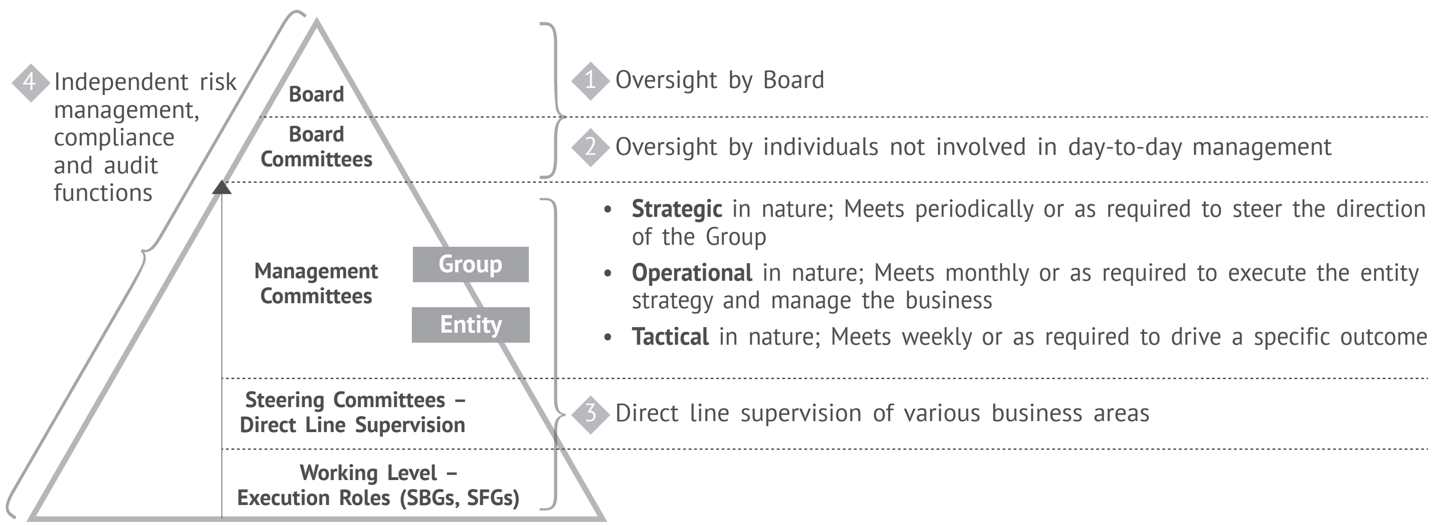
(a) Financial risk management objectives and policies (continued)

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are (continued):

(1) Risk governance from the Board of Directors of various operating entities within the Group (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 Group Capital and Risk Committee ('GCRC') comprising senior management of the Group and which reports to the BRC/IRMC and the Group Management Committee ('GMC'). The Group Asset and Liability Committee ('Group ALCO') assists the GCRC to oversee market risk, liquidity risk and balance sheet management whilst the Investment Bank Risk Management Committee ('IBRMC') is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business. An overview of this governance framework at Group level is as below:



Notes to the Financial Statements

for the financial year ended 31 December 2018

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):

Risk Culture

(2) Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The Strategic Business Groups ('SBGs') and Strategic Functional Groups ('SFGs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

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

Risk Environment and Infrastructure

(3) Institutionalisation of a risk-focused organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management function 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/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.

Notes to the Financial Statements

for the financial year ended 31 December 2018

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)

Risk Environment and Infrastructure (continued)

(3) Institutionalisation of a risk-focused organisation (continued)

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. Business activities and processes are continuously reviewed for areas of significant risks and for implementation of appropriate control procedures to ensure they operate within established corporate policies and limits.

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

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure that the risks can be managed and controlled within the risk appetite of the Group and the Bank, where necessary.

- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.

- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.

- Analytics and Reporting: Risk analysis and reports prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

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

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

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):

Risk Appetite

(4) Alignment of risk management to business strategies

The Group Risk Management Framework serves to align the Group's business strategy with its 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 describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and is set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

(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.

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate banking and advisory services, treasury products and services, 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 losses arising from adverse movements in market indicators, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices within the trading portfolios and certain exposures in the banking book.

(ii) Liquidity risk – the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due 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 with the agreed terms. It stems primarily from the Bank's lending/financing, trade finance and its funding, 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.

Notes to the Financial Statements
for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Market risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the Bank's financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Group Asset and Liability Committee ('Group ALCO') and the GCRC performs a critical role in the oversight of the management of market risk and supports the IRMC and 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 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.
- 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 ascertain market risk under abnormal market conditions.

Liquidity risk

- The Group ALCO plays a fundamental role in the asset and liability management of 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 Bank has established a 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.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (continued)

Credit risk

- 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.
- Industry best practices are incorporated into this policy.
- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.
- GCC submits to the Board Credit Committee ('BCC') for affirmation or veto if the financing facilities exceed a pre-defined threshold.
- 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. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.
- Internal credit rating models are an integral part of the Bank's credit risk management, decision-making process, and regulatory capital calculations.
- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.
- Counterparty, industry and product exposure limits/directions are set and risk reward relationship are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.
- The Bank has obtained BNM's approval to apply the Internal Ratings-Based ('IRB') approach for credit risk, whereby more advanced Basel II approaches and key program components are implemented, which includes (i) enhancing the returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit rating models for business financing, and (iii) designing and implementing modelling of expected and unexpected losses.
- Plans are underway to migrate other material portfolios to the IRB approach for credit risk.

Notes to the Financial Statements

for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Major Areas of Risk (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 operational risk tools used include Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management and Scenario Analysis.
- The Bank's operational risk management system has integrated applications to support the operational risk management process. This system facilitates the Bank' capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.
- 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

2018	At amortised cost RM'000	At fair value through the profit and loss RM'000	At fair value through other comprehensive income RM'000	Total RM'000
Assets				
Cash and short-term funds	3,463,278	–	–	3,463,278
Securities purchased under resale agreements	926,125	–	–	926,125
Financial assets at FVTPL	–	274,226	–	274,226
Financial assets at FVOCI				
– Debt instruments	–	–	4,150,325	4,150,325
Financial investments at amortised cost	2,856,789	–	–	2,856,789
Financing and advances	51,813,230	–	–	51,813,230
Derivative assets	–	204,543	–	204,543
Other financial assets	263,470	–	–	263,470
	59,322,892	478,769	4,150,325	63,951,986
Liabilities				
Deposits from customers	45,732,352	–	–	45,732,352
Deposits and placements of banks and other financial institutions	4,403,721	–	–	4,403,721
Investment account due to designated financial institutions	7,898,611	–	–	7,898,611
Bills and acceptances payable	9,515	–	–	9,515
Derivative liabilities	–	211,555	–	211,555
Recourse obligation on financing sold to Cagamas	2,270,239	–	–	2,270,239
Subordinated obligations	755,326	–	–	755,326
Other financial liabilities	261,614	–	–	261,614
	61,331,378	211,555	–	61,542,933

Notes to the Financial Statements
for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

2017	Financing and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Assets					
Cash and short-term funds	2,029,860	–	–	–	2,029,860
Securities purchased under resale agreements	1,587,979	–	–	–	1,587,979
Deposits and placements with banks and other financial institutions	447,210	–	–	–	447,210
Financial assets HFT	–	172,536	–	–	172,536
Financial investments AFS	–	–	3,394,493	–	3,394,493
Financial investments HTM	–	–	–	3,820,734	3,820,734
Financing and advances	42,701,794	–	–	–	42,701,794
Derivative assets	–	327,978	–	–	327,978
Other financial assets	7,617	–	–	–	7,617
	46,774,460	500,514	3,394,493	3,820,734	54,490,201

	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Liabilities			
Deposits from customers	–	37,850,205	37,850,205
Deposits and placements of banks and other financial institutions	–	4,394,801	4,394,801
Investment account due to designated financial institutions	–	8,102,698	8,102,698
Obligations on securities sold under repurchase agreements	–	604,163	604,163
Bills and acceptances payable	–	9,216	9,216
Derivative liabilities	327,723	–	327,723
Subordinated obligations	–	755,393	755,393
Other financial liabilities	–	281,991	281,991
	327,723	51,998,467	52,326,190

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as profit 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 Bank.

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 Bank seeks to ensure that the profit rate risk profile is managed to minimise losses and optimise net revenues.

(i) Profit rate sensitivity analysis

The profit rate sensitivity results below shows the impact on profit after tax and reserve of financial assets and financial liabilities bearing floating profit rate and fixed rate financial assets and financial liabilities:

	Impact on profit after tax RM'000	**Impact on reserve RM'000**
2018		
+100 bps	**36,107**	**(137,440)**
−100 bps	**(34,481)**	**147,469**
2017		
+100 bps	33,212	(102,890)
−100 bps	(32,068)	109,717

The results above represent financial assets and liabilities that have been prepared on the following basis:

(i) Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short-term profit 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 profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2017: 100 bps) profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

(ii) Impact on reserve represents the changes in fair values of fixed income instruments held in the FVOCI/AFS portfolio arising from the shift in the profit rate.

Notes to the Financial Statements

for the financial year ended 31 December 2018

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 on the currency position, while other variables remain constant.

	Impact on profit after tax RM'000
2018	
+10%	**(1,863)**
−10%	**1,863**
2017	
+10%	1,254
−10%	(1,254)

Impact on the profit after tax 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.

Notes to the Financial Statements

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

	Non-trading book								
2018	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-profit sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	2,945,217	–	–	–	–	–	518,061	–	3,463,278
Securities purchased under resale agreements	598,158	323,292	–	–	–	–	4,675	–	926,125
Financial assets at FVTPL	–	–	–	–	–	–	–	274,226	274,226
Financial assets at FVOCI	–	198,834	25,043	119,972	496,188	3,271,245	39,043	–	4,150,325
Financial investments at amortised cost	–	60,016	100,000	145,638	606,384	1,926,079	18,672	–	2,856,789
Financing and advances	36,974,603	961,056	284,393	26,022	281,181	13,033,536	252,439	–	51,813,230
Other assets	–	–	–	–	–	–	477,535	–	477,535
Derivative assets	–	–	–	–	–	–	–	204,543	204,543
Statutory deposits with BNM	–	–	–	–	–	–	1,420,450	–	1,420,450
Deferred tax assets	–	–	–	–	–	–	23,241	–	23,241
Property, plant and equipment	–	–	–	–	–	–	4,251	–	4,251
Intangible assets	–	–	–	–	–	–	4,529	–	4,529
TOTAL ASSETS	40,517,978	1,543,198	409,436	291,632	1,383,753	18,230,860	2,762,896	478,769	65,618,522

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2018	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-profit sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	9,566,610	8,533,810	9,703,490	10,301,239	181,648	89,516	7,356,039	–	45,732,352
Deposits and placements of banks and other financial institutions	1,822,418	1,688,589	769,184	10,530	65,244	37,188	10,568	–	4,403,721
Investment account due to designated financial institutions	–	–	87,500	–	1,652,189	6,077,013	81,909	–	7,898,611
Bills and acceptances payable	–	–	–	–	–	–	9,515	–	9,515
Derivative liabilities	–	–	–	–	237	4,201	–	207,117	211,555
Recourse obligation on financing sold to Cagamas	–	–	–	–	2,250,000	–	20,239	–	2,270,239
Subordinated obligations	–	–	500,000	–	–	250,000	5,326	–	755,326
Other liabilities	–	–	–	–	–	–	281,558	–	281,558
Provision for tax and zakat	–	–	–	–	–	–	8,376	–	8,376
TOTAL LIABILITIES	11,389,028	10,222,399	11,060,174	10,311,769	4,149,318	6,457,918	7,773,530	207,117	61,571,253
TOTAL EQUITY	–	–	–	–	–	–	4,047,269	–	4,047,269
TOTAL LIABILITIES AND EQUITY	11,389,028	10,222,399	11,060,174	10,311,769	4,149,318	6,457,918	11,820,799	207,117	65,618,522
On-balance sheet profit sensitivity gap	29,128,950	(8,679,201)	(10,650,738)	(10,020,137)	(2,765,565)	11,772,942			
Off-balance sheet profit sensitivity gap	–	–	(125,000)	(210,000)	(90,000)	(1,185,000)			
TOTAL PROFIT-SENSITIVITY GAP	29,128,950	(8,679,201)	(10,775,738)	(10,230,137)	(2,855,565)	10,587,942			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

	Non-trading book								
2017	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 years RM'000**	**Over 3 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS									
Cash and short-term funds	1,937,560	–	–	–	–	–	92,300	–	2,029,860
Securities purchased under resale agreements	–	968,712	609,921	–	–	–	9,346	–	1,587,979
Deposits and placements with banks and other financial institutions	–	414,627	30,000	–	–	–	2,583	–	447,210
Financial assets HFT	–	–	–	–	–	–	–	172,536	172,536
Financial investments AFS	200,000	15,004	115,363	120,262	600,774	2,309,485	33,605#	–	3,394,493
Financial investments HTM	10,000	1,672,002	218,123	223,468	278,465	1,401,427	17,249	–	3,820,734
Financing and advances:	29,557,681	625,940	344,756	57,303	2,478,619	9,384,282	253,213	–	42,701,794
– Performing	29,557,681	625,940	344,756	57,303	2,478,619	9,384,282	181,909	–	42,630,490
– Impaired	–	–	–	–	–	–	71,304*	–	71,304
Other assets	–	–	–	–	–	–	90,934	–	90,934
Derivative assets	–	–	35	–	–	–	–	327,943	327,978
Statutory deposits with BNM	–	–	–	–	–	–	1,116,200	–	1,116,200
Deferred tax assets	–	–	–	–	–	–	16,513	–	16,513
Property, plant and equipment	–	–	–	–	–	–	6,193	–	6,193
Intangible assets	–	–	–	–	–	–	5,039	–	5,039
TOTAL ASSETS	31,705,241	3,696,285	1,318,198	401,033	3,357,858	13,095,194	1,643,175	500,479	55,717,463

Included impairment loss.

* This represents outstanding impaired financing after deducting individual impairment allowance and collective impairment allowance.

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

2017	Non-trading book: Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 years RM'000	Over 3 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	8,924,939	4,722,821	10,988,768	7,887,756	4,651	2,061	5,319,209	–	37,850,205
Deposits and placements of banks and other financial institutions	1,446,420	2,768,363	56,652	–	101,859	19,990	1,517	–	4,394,801
Investment account due to designated financial institutions	–	–	–	911,150	2,411,380	4,497,775	282,393	–	8,102,698
Obligations on securities sold under repurchase agreements	603,909	–	–	–	–	–	254	–	604,163
Bills and acceptances payable	–	–	–	–	–	–	9,216	–	9,216
Derivative liabilities	–	–	55	3,217	–	–	–	324,451	327,723
Subordinated obligations	–	–	–	–	500,000	250,000	5,393	–	755,393
Other liabilities	–	–	–	–	–	–	345,792	–	345,792
Provision for tax and zakat	–	–	–	–	–	–	15,623	–	15,623
TOTAL LIABILITIES	10,975,268	7,491,184	11,045,475	8,802,123	3,017,890	4,769,826	5,979,397	324,451	52,405,614
TOTAL EQUITY	–	–	–	–	–	–	3,311,849	–	3,311,849
TOTAL LIABILITIES AND EQUITY	10,975,268	7,491,184	11,045,475	8,802,123	3,017,890	4,769,826	9,291,246	324,451	55,717,463
On-balance sheet profit sensitivity gap	20,729,973	(3,794,899)	(9,727,277)	(8,401,090)	339,968	8,325,368			
Off-balance sheet profit sensitivity gap	–	(220,000)	95,000	(650,000)	(425,000)	–			
TOTAL PROFIT-SENSITIVITY GAP	20,729,973	(4,014,899)	(9,632,277)	(9,051,090)	(85,032)	8,325,368			

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds upon maturity, extensions of credit and working capital needs.

The Bank 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 Bank continues to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity:

2018	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	2,675,738	787,540	–	–	–	–	–	3,463,278
Securities purchased under resale agreements	–	602,711	323,414	–	–	–	–	926,125
Financial assets at FVTPL	–	–	–	–	–	274,226	–	274,226
Financial assets at FVOCI	–	–	198,834	25,187	121,428	3,804,876	–	4,150,325
Financial investments at amortised cost	–	–	60,495	100,067	148,353	2,547,874	–	2,856,789
Financing and advances	1,055,016	3,756,699	1,027,054	463,056	31,844	45,479,561	–	51,813,230
Other assets	412,326	8,522	–	–	–	–	56,687	477,535
Derivative assets	4,741	17,199	26,317	72,764	8,357	75,165	–	204,543
Statutory deposits with BNM	–	–	–	–	–	–	1,420,450	1,420,450
Deferred tax assets	–	–	–	–	–	–	23,241	23,241
Property, plant and equipment	–	–	–	–	–	–	4,251	4,251
Intangible assets	–	–	–	–	–	–	4,529	4,529
TOTAL ASSETS	4,147,821	5,172,671	1,636,114	661,074	309,982	52,181,702	1,509,158	65,618,522

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for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) 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):

2018	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	10,721,929	5,751,389	8,654,718	9,867,169	10,463,407	273,740	–	45,732,352
Deposits and placements of banks and other financial institutions	336,890	1,488,602	1,693,458	771,230	10,544	102,997	–	4,403,721
Investment account due to designated financial institutions	–	–	–	88,347	–	7,810,264	–	7,898,611
Bills and acceptances payable	9,515	–	–	–	–	–	–	9,515
Derivative liabilities	987	17,296	31,301	74,630	8,452	78,889	–	211,555
Recourse obligation on financing sold to Cagamas	–	–	–	–	–	2,270,239	–	2,270,239
Subordinated obligations	–	–	–	505,326	–	250,000	–	755,326
Other liabilities	138,884	77,537	8,566	3,066	26,079	7,481	19,945	281,558
Provision for tax and zakat	–	–	–	–	–	–	8,376	8,376
TOTAL LIABILITIES	11,208,205	7,334,824	10,388,043	11,309,768	10,508,482	10,793,610	28,321	61,571,253
TOTAL EQUITY	–	–	–	–	–	–	4,047,269	4,047,269
TOTAL LIABILITIES AND EQUITY	11,208,205	7,334,824	10,388,043	11,309,768	10,508,482	10,793,610	4,075,590	65,618,522

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) 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):

2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	1,757,412	272,448	–	–	–	–	–	2,029,860
Securities purchased under resale agreements	–	–	975,560	612,419	–	–	–	1,587,979
Deposits and placements with banks and other financial institutions	–	–	417,106	30,104	–	–	–	447,210
Financial assets HFT	–	–	–	–	–	172,536	–	172,536
Financial investments AFS	–	–	15,004	115,581	121,694	2,941,594	200,620	3,394,493
Financial investments HTM	10,000	–	1,672,002	223,053	225,335	1,690,344	–	3,820,734
Financing and advances	698,661	3,239,159	627,124	1,950,488	1,198,708	34,987,654	–	42,701,794
Other assets	1	7,808	–	–	–	–	83,125	90,934
Derivative assets	1,571	15,995	73,762	95,894	54,341	86,415	–	327,978
Statutory deposits with BNM	–	–	–	–	–	–	1,116,200	1,116,200
Deferred tax assets	–	–	–	–	–	–	16,513	16,513
Property, plant and equipment	–	–	–	–	–	–	6,193	6,193
Intangible assets	–	–	–	–	–	–	5,039	5,039
TOTAL ASSETS	2,467,645	3,535,410	3,780,558	3,027,539	1,600,078	39,878,543	1,427,690	55,717,463

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) 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):

2017	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	9,758,640	4,126,733	4,795,720	11,195,747	7,966,481	6,884	–	37,850,205
Deposits and placements of banks and other financial institutions	98,613	1,348,628	2,768,375	56,760	–	122,425	–	4,394,801
Investment account due to designated financial institutions	–	–	–	–	937,147	7,165,551	–	8,102,698
Obligations on securities sold under repurchase agreements	604,163	–	–	–	–	–	–	604,163
Bills and acceptances payable	9,216	–	–	–	–	–	–	9,216
Derivative liabilities	1,112	14,039	73,648	95,343	57,120	86,461	–	327,723
Subordinated obligations	–	–	–	5,393	–	750,000	–	755,393
Other liabilities	206,792	29,313	26,460	–	19,425	–	63,802	345,792
Provision for tax and zakat	–	–	–	–	–	–	15,623	15,623
TOTAL LIABILITIES	10,678,536	5,518,713	7,664,203	11,353,243	8,980,173	8,131,321	79,425	52,405,614
TOTAL EQUITY	–	–	–	–	–	–	3,311,849	3,311,849
TOTAL LIABILITIES AND EQUITY	10,678,536	5,518,713	7,664,203	11,353,243	8,980,173	8,131,321	3,391,274	55,717,463

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) 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 statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payment:

2018	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	**16,485,226**	**18,745,805**	**10,758,430**	**192,904**	**109,490**	**–**	**46,291,855**
Deposits and placements of banks and other financial institutions	**1,827,156**	**2,475,196**	**10,895**	**67,305**	**37,771**	**–**	**4,418,323**
Investment account due to designated financial institutions	**–**	**89,402**	**–**	**1,663,696**	**2,422,759**	**3,830,801**	**8,006,658**
Bills and acceptances payable	**9,515**	**–**	**–**	**–**	**–**	**–**	**9,515**
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	**(1,016,227)**	**(2,751,141)**	**(739,607)**	**(434,294)**	**(347,291)**	**(521,906)**	**(5,810,466)**
– Outflow	**1,034,486**	**2,860,561**	**752,566**	**471,124**	**389,785**	**554,202**	**6,062,724**
– Net settled derivatives	**(743)**	**1,016**	**1,382**	**5,360**	**5,790**	**2,373**	**15,178**
Recourse obligation on financing sold to Cagamas	**54,362**	**54,362**	**54,362**	**2,242,894**	**–**	**–**	**2,405,980**
Subordinated obligations	**–**	**518,475**	**–**	**24,400**	**268,300**	**–**	**811,175**
Other financial liabilities	**216,474**	**11,580**	**26,079**	**7,481**	**–**	**–**	**261,614**
TOTAL FINANCIAL LIABILITIES	**18,610,249**	**22,005,256**	**10,864,107**	**4,240,870**	**2,886,604**	**3,865,470**	**62,472,556**
2017							
LIABILITIES							
Deposits from customers	13,896,522	16,185,088	8,181,978	5,080	2,501	–	38,271,169
Deposits and placements of banks and other financial institutions	1,450,382	2,840,958	–	130,188	19,906	–	4,441,434
Investment account due to designated financial institutions	–	–	970,164	2,870,324	509,259	5,333,370	9,683,117
Obligations on securities sold under repurchase agreements	604,265	–	–	–	–	–	604,265
Bills and acceptances payable	9,216	–	–	–	–	–	9,216
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(253,028)	(2,342,420)	(1,060,062)	(389,394)	(345,590)	(527,558)	(4,918,052)
– Outflow	268,389	2,525,659	1,133,357	460,683	406,511	579,548	5,374,147
– Net settled derivatives	61	969	1,675	(3,257)	(597)	–	(1,149)
Subordinated obligations	–	18,475	18,475	536,775	268,300	–	842,025
Other financial liabilities	236,105	26,461	19,425	–	–	–	281,991
TOTAL FINANCIAL LIABILITIES	16,211,912	19,255,190	9,265,012	3,610,399	860,290	5,385,360	54,588,163

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2018			
Transaction-related contingent items	**37,305**	**175,463**	**212,768**
Short-term self-liquidating trade-related contingencies	**6,111**	**59,142**	**65,253**
Irrevocable commitments to extend credit	**11,659**	**6,567,847**	**6,579,506**
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**19,146**	**2,083,163**	**2,102,309**
TOTAL COMMITMENTS AND CONTINGENCIES	**74,221**	**8,885,615**	**8,959,836**
2017			
Transaction-related contingent items	122,516	72,782	195,298
Short-term self-liquidating trade-related contingencies	87,417	24,362	111,779
Commitment to buy back the Islamic securities arising from the Sell and Buy Back ('SBBA') transaction	–	629,085	629,085
Irrevocable commitments to extend credit	–	5,800,512	5,800,512
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,405,272	1,108,570	2,513,842
TOTAL COMMITMENTS AND CONTINGENCIES	1,615,205	7,635,311	9,250,516

Undrawn financing and advances commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Bank. The Bank expects that not all of the contingent liabilities and undrawn financing commitments will be drawn before expiry.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement 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 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 credit exposure of the Bank that is subject to impairment:

	2018 RM'000	**2017 RM'000**
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**3,443,876**	2,009,202
Securities purchased under resale agreements	**926,125**	1,587,979
Deposits and placements with banks and other financial institutions	**–**	447,210
Financial investments AFS	**–**	3,193,873*
Financial investments HTM	**–**	3,820,734
Financial assets at FVOCI	**4,150,325**	–
Financial investments at amortised cost	**2,856,789**	–
Financing and advances	**51,813,230**	42,701,794
Other financial assets	**263,470**	7,617
	63,453,815	53,768,409
Credit risk exposure relating to off-balance sheet assets:		
Commitments and contingencies	**8,959,836**	9,250,516
Total maximum credit risk exposure that are subject to impairment	**72,413,651**	63,018,925

The table below shows the credit exposure of the Bank that is not subject to impairment:

	2018 RM'000	**2017 RM'000**
Financial assets at FVTPL/HFT	**274,226**	172,536
Financial investments AFS	**–**	200,620
Derivative assets	**204,543**	327,978
	478,769	701,134

* Exclude perpetual sukuk

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

The main types of collateral obtained by the Bank are as follows:

(a) Fixed deposits, Commodity Murabahah Deposit-i, negotiable instrument of deposits, Islamic negotiable instrument of deposits, foreign currency deposits and cash deposits/margins;

(b) Land and/or buildings;

(c) Vessels and automobiles;

(d) Quoted shares, unit trusts, government bonds and securities and private debt securities;

(e) Other tangible business assets, such as inventory and equipment

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract proceeds, which are subject to internal guidelines on eligibility.

The outstanding balance for financing and advances for which no allowances is recognised because of collateral as at 31 December 2018 amounted to RM55.1 million.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances balances as at 31 December 2018 for the Bank is 79.0% (2017: 66.7%). The financial effect of collateral held for the remaining on-balance sheet assets are insignificant.

The following table shows the financing and advances that are credit-impaired and related collateral held:

	Gross outstanding RM'000	Credit losses RM'000	Net carrying amount RM'000	Collateral value over gross outstanding %
2018				
Financing and advances	**509,183**	**(233,219)**	**275,964**	**72.5**

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit exposure by stage

Financial assets of the Bank is classified into three stages as below:

Stages	**Description**
Stage 1: 12 months ECL – not credit impaired	For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL – not credit impaired	For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL – credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

For further details on the stages, refer to accounting policy Note 2(d).

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality

The Bank assesses credit quality of financing 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 officer's 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 Bank
Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degrees of concern to the Bank
No Rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system
Credit impaired	When one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows have occurred

The credit quality of financial assets other than financing 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:

Credit Quality	Ratings
Good	Aaa to A3
Fair	Baa1 to Baa3
No Rating	Unrated
Credit impaired	Default

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for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

2018	Gross Carrying Amount Good RM'000	Fair RM'000	No rating RM'000	Credit-impaired RM'000	Total RM'000	Provision for credit loss RM'000
General Approach						
Short-term funds (exclude cash)	473,211	3,356	2,967,507	–	3,444,074	(198)
Stage 1	473,211	3,356	2,967,507	–	3,444,074	(198)
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Securities purchased under resale agreements	926,125	–	–	–	926,125	–
Stage 1	926,125	–	–	–	926,125	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial assets at FVOCI	1,070,355	–	3,079,970	–	4,150,325	(5,397)
Stage 1	1,060,240	–	3,079,970	–	4,140,210	(5,090)
Stage 2	10,115	–	–	–	10,115	(307)
Stage 3	–	–	–	–	–	–
Financial investments at amortised cost	329,830	–	2,533,109	–	2,862,939	(6,150)
Stage 1	329,830	–	1,889,977	–	2,219,807	(3,897)
Stage 2	–	–	643,132	–	643,132	(2,253)
Stage 3	–	–	–	–	–	–
Financing and advances	30,613,346	12,181,268	8,950,400	509,183	52,254,197	(423,088)
Stage 1	29,759,060	10,285,164	8,550,722	–	48,594,946	(73,615)
Stage 2	854,286	1,896,104	399,678	–	3,150,068	(116,254)
Stage 3	–	–	–	509,183	509,183	(233,219)
	33,412,867	12,184,624	17,530,986	509,183	63,637,660	(434,833)

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for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

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

2018	Short-term funds, and deposits and placements with banks and other financial institutions^ RM'000	Securities purchased under resale agreements RM'000	Financial assets at FVTPL RM'000	Financial assets at FVOCI RM'000	Financial investments at amortised cost@ RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	–	20,110	105,486	1,073,170	–	233,740	1,432,506
Mining and quarrying	–	–	–	–	–	242,461	–	4,131	246,592
Manufacturing	–	–	–	–	–	1,267,096	570	639,556	1,907,222
Electricity, gas and water	–	–	–	100,283	–	157,655	–	15,278	273,216
Construction	–	–	–	279,314	107,564	4,030,095	–	1,416,250	5,833,223
Real estate	–	–	–	224,074	303,343	989,784	–	–	1,517,201
Wholesale and retail trade and restaurant and hotel	–	–	–	–	–	1,477,370	37	393,178	1,870,585
Transport, storage and communication	–	–	–	541,672	40,651	4,712,367	–	142,753	5,437,443
Finance, insurance and business services	478,495	926,125	–	694,725	1,351,279	4,444,028	203,936	2,015,282	10,113,870
Government and government agencies	2,965,579	–	274,226	2,290,147	954,616	3,507,239	–	–	9,991,807
Consumption credit	–	–	–	–	–	281,562	–	604,619	886,181
Others	–	–	–	–	–	29,838,151	263,470	3,495,049	33,596,670
	3,444,074	926,125	274,226	4,150,325	2,862,939	52,020,978	468,013	8,959,836	73,106,516

^ Excludes stage 1 expected credit losses amounting to RM198,000.

@ Excludes stage 1 and stage 2 expected credit losses amounting to RM6,150,000.

Excludes stage 1 and stage 2 expected credit losses amounting to RM189,869,000.

* Other financial assets include other assets amounting to RM263,470,000 and derivative assets amounting to RM204,543,000.

Notes to the Financial Statements
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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by geographical in respect of the Bank's financial assets, including commitments and contingencies, are set out below:

2018	Short-term funds, and deposits and placements with banks and other financial institutions^ RM'000	Securities purchased under resale agreements RM'000	Financial assets at FVTPL RM'000	Financial assets at FVOCI RM'000	Financial investments at amortised cost@ RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Southeast Asia	2,960,118	926,125	274,226	4,124,843	2,862,939	51,829,623	468,013	8,959,836	72,405,723
Malaysia	2,836,896	926,125	274,226	4,124,843	2,862,939	51,745,062	468,013	8,959,836	72,197,940
Other Southeast Asia	123,222	–	–	–	–	84,561	–	–	207,783
Other Asia	460,826	–	–	25,482	–	105,957	–	–	592,265
Europe	4,957	–	–	–	–	77,211	–	–	82,168
America	18,173	–	–	–	–	5,387	–	–	23,560
Africa	–	–	–	–	–	2,800	–	–	2,800
	3,444,074	926,125	274,226	4,150,325	2,862,939	52,020,978	468,013	8,959,836	73,106,516

^ Excludes stage 1 expected credit losses amounting to RM198,000.

@ Excludes stage 1 and stage 2 expected credit losses amounting to RM6,150,000.

Excludes stage 1 and stage 2 expected credit losses amounting to RM189,869,000.

* Other financial assets include other assets amounting to RM263,470,000 and derivative assets amounting to RM204,543,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(a) Financing and advances

Financing and advances are summarised as follows:

	2017 RM'000
Neither past due nor impaired	39,079,609
Past due but not impaired	3,550,881
Individually impaired	343,961
Gross financing and advances	42,974,451
Less: Individual impairment allowance	(42,612)
Collective impairment allowance	(230,045)
Net financing and advances	42,701,794

(i) Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2017 RM'000
Good	17,998,549
Fair	792,436
No Rating	20,288,624
Neither past due nor impaired	39,079,609

Financing and advances classified as non-rated mainly comprise financing under the Standardised Approach for credit risk.

(ii) Financing and advances past due but not impaired

Analysis of ageing of financing and advances that are past due but not impaired is as follows:

	2017 RM'000
Past due up to 30 days	3,072,249
Past due 31 to 60 days	372,076
Past due 61 to 90 days	106,556
Past due but not impaired	3,550,881

Notes to the Financial Statements

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(a) Financing and advances (continued)

(iii) Impaired financing and advances

Financing and advances that are individually determined to be impaired are as follows:

	2017 RM'000
Individually impaired financing	343,961

(b) Short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank are summarised as follows:

	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
2017							
Neither past due nor impaired	**2,456,412**	**1,587,979**	**172,536**	**3,193,873**	**3,820,734**	**7,617**	**327,978**

Notes to the Financial Statements

for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows:

	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
2017							
AAA to AA3	14,641	1,587,979	–	1,237,955	141,833	–	324,225
A1 to A3	102,717	–	–	20,352	–	–	–
P1 to P3	414,790	–	–	–	–	–	–
Non-rated of which:	1,924,264	–	172,536	1,935,566	3,678,901	7,617	3,753
– Malaysian Government Investment Issues	–	–	172,536	648,592	335,325	–	–
– BNM	1,400,849	–	–	–	–	–	–
– Private debt securities	–	–	–	1,277,571	1,473,702	–	–
– Khazanah bonds	–	–	–	9,403	21,799	–	–
– Negotiable Islamic debt certificates	–	–	–	–	1,838,090	–	–
– Others	523,415	–	–	–	9,985	7,617	3,753
	2,456,412	1,587,979	172,536	3,193,873	3,820,734	7,617	327,978

@ Exclude equity instrument and perpetual sukuk amounting to RM200,620,000.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(v) Credit quality (continued)

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

2017	Short-term funds, and deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	–	160,536	120,225	1,122,652	–	289,501	1,692,914
Mining and quarrying	–	–	–	–	–	245,208	426	2,658	248,292
Manufacturing	–	–	–	–	101,157	1,214,436	496	626,629	1,942,718
Electricity, gas and water	–	–	–	352,873	700,029	187,516	–	15,278	1,255,696
Construction	–	–	–	185,917	–	2,981,228	–	1,988,111	5,155,256
Real estate	–	–	–	131,165	126,287	1,274,802	–	–	1,532,254
General commerce	–	–	–	10,016	132,766	1,265,732	2,539	309,342	1,720,395
Transport, storage and communication	–	–	–	724,976	107,137	4,870,770	–	195,491	5,898,374
Finance, insurance and business services	1,055,563	1,587,979	–	730,799	1,914,308	3,768,181	324,517	1,981,074	11,362,421
Government and government agencies	1,400,849	–	172,536	897,591	618,825	3,864,895	–	–	6,954,696
Others	–	–	–	–	–	22,136,419	7,617	3,842,432	25,986,468
	2,456,412	1,587,979	172,536	3,193,873	3,820,734	42,931,839	335,595	9,250,516	63,749,484

@ Exclude equity instrument and perpetual sukuk amounting to RM200,620,000.

\# Excludes collective impairment allowance amounting to RM230,045,000.

* Other financial assets include other assets amounting to RM7,617,000 and derivative assets amounting to RM327,978,000.

Notes to the Financial Statements

for the financial year ended 31 December 2018

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(vi) Write-off policy

The Bank writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will be written back as bad debts recovered in the income statement.

The contractual amount outstanding on financing and advances and securities portfolio that were written off during the financial year ended 31 December 2018, and are still subject to enforcement activities was RM8.3 million for the Bank.

(vii) Modification of contractual cash flows

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within impairment in the income statement with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification.

Although financing and advances may be modified for non-credit reasons, a significant increase in credit risk may occur. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from stage 3 or stage 2 to stage 1. This is only the case for assets which have been monitored for consecutive six months observation period or more.

42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(viii) Sensitivity analysis

The Bank has performed ECL sensitivity assessment on financing and advances based on the changes in key variables, such as GDP growth, unemployment rates, inflation and house prices, 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 ECL of the Bank.

The table below outlines the effect of ECL on the changes in key variables used while other variables remain constant:

(a) Retail

		RM'000	RM'000
Private Consumption	+/- 50bps	**(1,061)**	1,029
Unemployment rates	+/- 10bps	**1,857**	(1,803)
Inflation	+/- 5bps	**68**	(97)

(b) Non-retail

		RM'000	RM'000
Private Consumption	+/- 50bps	**(2,342)**	2,034
KLIBOR-3M	+/- 25bps	**7,606**	(7,827)

Retail comprises substantially household sector as disclosed in Note 10(iii) under financing and advances by economic sector.

Non-retail comprises other than household sector as disclosed in Note 10(iii) under financing and advances by economic sector.

Notes to the Financial Statements
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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of financial instruments

The Bank analyses its 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:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Financial assets at FVTPL:				
– Money market instruments	–	274,226	–	274,226
Financial assets at FVOCI:	–	4,150,325	–	4,150,325
– Money market instruments	–	1,251,214	–	1,251,214
– Unquoted securities	–	2,899,111	–	2,899,111
Derivative assets	–	204,543	–	204,543
	–	4,629,094	–	4,629,094
Financial liabilities				
Derivative liabilities	–	211,555	–	211,555

Notes to the Financial Statements

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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of financial instruments (continued)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Financial assets				
Financial assets HFT:				
– Money market instruments	–	172,536	–	172,536
Financial investments AFS:	–	3,193,873	200,620	3,394,493
– Money market instruments	–	688,480	–	688,480
– Unquoted securities	–	2,505,393	200,620	2,706,013
Derivative assets	–	327,978	–	327,978
	–	3,694,387	200,620	3,895,007
Financial liabilities				
Derivative liabilities	–	327,723	–	327,723

There were no transfers between Level 1 and 2 during the financial year.

Notes to the Financial Statements
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42 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

(i) 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. This would include quoted securities.

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 Bank 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 non-transferable and non-tradable perpetual sukuk and impaired securities.

(ii) Reconciliation of fair value measurements in Level 3

The following represents the changes in Level 3 instruments for the Bank:

Financial assets at FVOCI/financial investments AFS

	2018 RM'000	**2017 RM'000**
Balance as at the beginning of the financial year	**200,620**	200,619
Profit recognised	**9,455**	11,900
Payment received	**(10,075)**	(11,899)
Disposal	**(200,000)**	–
Balance as at the end of the financial year	**–**	200,620

Notes to the Financial Statements
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43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Carrying value RM'000	Fair value RM'000
2018		
Financial assets		
Financial investments at amortised cost	**2,856,789**	**2,873,160**
Financing and advances	**51,813,230**	**51,814,792**
Financial liabilities		
Deposits from customers	**45,732,352**	**45,836,669**
Deposits and placements of banks and other financial institutions	**4,403,721**	**4,397,304**
Investment account due to designated financial institutions	**7,898,611**	**7,754,917**
Recourse obligation on financing sold to Cagamas	**2,270,239**	**2,357,620**
Subordinated obligations	**755,326**	**760,229**
2017		
Financial assets		
Financial investments HTM	3,820,734	3,822,095
Financing and advances	42,701,794	42,707,274
Financial liabilities		
Deposits from customers	37,850,205	37,894,547
Deposits and placements of banks and other financial institutions	4,394,801	4,384,542
Investment account due to designated financial institutions	8,102,698	7,873,600
Subordinated obligations	755,393	759,318

Notes to the Financial Statements

for the financial year ended 31 December 2018

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2018				
Financial assets				
Financial investments at amortised cost	**–**	**1,374,150**	**1,499,010**	**2,873,160**
Financing and advances	**–**	**51,814,792**	**–**	**51,814,792**
Financial liabilities				
Deposits from customers	**–**	**45,836,669**	**–**	**45,836,669**
Deposits and placements of banks and other financial institutions	**–**	**4,397,304**	**–**	**4,397,304**
Investment account due to designated financial institutions	**–**	**7,754,917**	**–**	**7,754,917**
Recourse obligation on financing sold to Cagamas	**–**	**2,357,620**	**–**	**2,357,620**
Subordinated obligations	**–**	**760,229**	**–**	**760,229**
2017				
Financial assets				
Financial investments HTM	–	2,657,421	1,164,674	3,822,095
Financing and advances	–	42,707,274	–	42,707,274
Financial liabilities				
Deposits from customers	–	37,894,547	–	37,894,547
Deposits and placements of banks and other financial institutions	–	4,384,542	–	4,384,542
Investment account due to designated financial institutions	–	7,873,600	–	7,873,600
Subordinated obligations	–	759,318	–	759,318

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 of six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using prevailing market rates for the remaining term to maturity.

(iii) Financial assets FVTPL/HFT, financial assets at FVOCI, financial investments at amortised cost and financial investments HTM and AFS

The estimated fair value for financial assets FVTPL/HFT, financial assets at FVOCI, financial investments at amortised cost and 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 indicative 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 a similar instrument at the date of statement of financial position.

(iv) Financing and advances

For floating rate financing, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risk and maturities.

The fair values of impaired financing are represented by their carrying value, net of impairment allowance.

(v) 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 profit rates.

(vi) 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.

Notes to the Financial Statements

for the financial year ended 31 December 2018

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(vii) Deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable.

The estimated fair values of deposits and placements of banks and other financial institutions, investment account due to designated financial institutions, obligations on securities sold under repurchase agreements 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 profit rates with similar remaining period to maturity.

(viii) Recourse obligation on financing sold to Cagamas

For amounts due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

(ix) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statement of financial position.

(x) 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.

(xi) Foreign exchange and profit rate related contracts

The fair values of foreign exchange and profit rate related contracts are the estimated amounts the Bank would receive to sell or pay to transfer the contracts at the date of statement of financial position.

44 CHANGE IN ACCOUNTING POLICIES

(1) Adoption of MFRS 9 'Financial Instruments'

The Bank has adopted MFRS 9 'Financial Instruments', issued by the MASB with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparatives figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current year.

MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'. Consequently, the amendments to MFRS 7 disclosures have only been applied to the current financial year, and comparative year's disclosures have not been restated as shown in Note 42.

The adoption of MFRS 9 has resulted in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Bank:

(a) Classification and measurement of financial assets

From 1 January 2018, the Bank has applied MFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income ('FVOCI')
- Fair value through profit or loss ('FVTPL')

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows represent solely payments of principal and interest. All other financial assets are classified and measured at FVTPL.

Upon adoption of MFRS 9, the following is noted:

(i) All of the Bank's debt instruments that were classified as HTM and measured at amortised cost meet the condition for classification as amortised cost under MFRS 9; and
(ii) All the Bank's debts and equity instruments that were classified as financial instruments AFS satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets.

(b) Classification and measurement of financial liabilities

The Bank's financial liabilities continue to be measured at amortised cost.

There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities as at the balance sheet date.

Notes to the Financial Statements

for the financial year ended 31 December 2018

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(1) Adoption of MFRS 9 'Financial Instruments' (continued)

(c) Hedge accounting

The Bank has elected to continue to apply the hedge accounting requirements of MFRS 139 on the adoption of MFRS 9.

(d) Impairment of financial assets

As a result of the changes in basis of determining the level of allowances for credit losses as explained under the accounting policies, the total ECL allowances computed under MFRS 9 is higher by RM85,156,000 (net of tax) for the Bank, than the total allowance for impairment on financial assets under MFRS 139.

The financial effects of the adoption of MFRS 9 are presented in Note 44(3).

(2) BNM's Revised Policy Documents on Financial Reporting for Islamic Banking Institutions

With effect from 1 January 2018, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures, in accordance with the revised policy documents on Financial Reporting for Islamic Banking Institutions issued by BNM.

The financial effects of the adoption of the revised policy are presented in Note 44(3).

Notes to the Financial Statements

for the financial year ended 31 December 2018

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows:

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification/ remeasurement RM'000	MFRS 9 expected credit losses RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
ASSETS						
Cash and short-term funds	Loans and receivables	Amortised cost	2,029,860	–	(222)	**2,029,638**
Securities purchased under resale agreements	Loans and receivables	Amortised cost	1,587,979	–	–	**1,587,979**
Deposits and placements with banks and other financial institutions	Loans and receivables	Amortised cost	447,210	–	–	**447,210**
Financial assets at FVTPL	FVTPL	FVTPL	172,536	–	–	**172,536**
Financial investments AFS	Financial investments AFS	NA	3,394,493	(3,394,493)	–	**–**
Financial investments HTM	Financial investments HTM	NA	3,820,734	(3,820,734)	–	**–**
Financial assets at FVOCI – debt instruments	NA	FVOCI	–	3,394,493	–	**3,394,493**
Financial investments at amortised cost	NA	Amortised cost	–	3,820,734	(3,026)	**3,817,708**
Loans, advances and financing	Loans and receivables	Amortised cost	42,701,794	(42,216)	(103,621)	**42,555,957**
Other assets	Loans and receivables	Amortised cost	90,934	–	–	**90,934**
Derivative assets	FVTPL	FVTPL	327,978	–	–	**327,978**
Statutory deposits	Loans and receivables	Amortised cost	1,116,200	–	–	**1,116,200**
Tax recoverable	NA	NA	–	10,132	11,269	**21,401**
Deferred tax assets	NA	NA	16,513	–	–	**16,513**
Property, plant and equipment	NA	NA	6,193	–	–	**6,193**
Intangible assets	NA	NA	5,039	–	–	**5,039**
TOTAL ASSETS			55,717,463	(32,084)	(95,600)	**55,589,779**

Notes to the Financial Statements

for the financial year ended 31 December 2018

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

Summary of the impact on classification and measurement, and a reconciliation of the financial position of the Bank upon adoption of MFRS 9 as at 1 January 2018 are as follows (continued):

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification/ remeasurement RM'000	MFRS 9 expected credit losses RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
LIABILITIES						
Deposits from customers	Amortised cost	Amortised cost	**37,850,205**	–	–	**37,850,205**
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost	**4,394,801**	–	–	**4,394,801**
Investment account due to designated financial institutions	Amortised cost	Amortised cost	**8,102,698**	–	–	**8,102,698**
Obligations on securities sold under repurchase agreements	Amortised cost	Amortised cost	**604,163**	–	–	**604,163**
Bills and acceptances payable	Amortised cost	Amortised cost	**9,216**	–	–	**9,216**
Derivative liabilities	FVTPL	FVTPL	**327,723**	–	–	**327,723**
Subordinated obligations	Amortised cost	Amortised cost	**755,393**	–	–	**755,393**
Other liabilities	Amortised cost	Amortised cost	**345,792**	–	–	**345,792**
Provision for tax and zakat	NA	NA	**15,623**	–	**(15,623)**	–
TOTAL LIABILITIES			**52,405,614**	–	**(15,623)**	**52,389,991**
EQUITY						
Share capital			1,273,424	–	–	**1,273,424**
Reserves			2,038,425	(32,084)	**(79,977)**	**1,926,364**
TOTAL EQUITY			3,311,849	(32,084)	**(79,977)**	**3,199,788**
TOTAL LIABILITIES AND EQUITY			55,717,463	(32,084)	**(95,600)**	**55,589,779**

44 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(3) Financial effects (continued)

The following table shows the effects on FVOCI/AFS reserve, regulatory reserve and retained profits as at 31 December 2017 and 1 January 2018:

	RM'000
FVOCI/AFS reserve	
Closing balance under MFRS 139 as at 31 December 2017	(15,929)
Recognition of expected credit losses	5,179
Opening balance under MFRS 9 as at 1 January 2018	(10,750)
Regulatory reserve	
Closing balance under MFRS 139 as at 31 December 2017	267,031
Transfer from retained profits	54,411
Opening balance under MFRS 9 as at 1 January 2018	321,442
Retained profits	
Closing balance under MFRS 139 as at 31 December 2017	1,787,323
Effect of reclassification and remeasurement of financial assets, net of tax	(32,084)
Effect of ECL adjustments, net of tax	(85,156)
Transfer to regulatory reserve	(54,411)
	(171,651)
Opening balance under MFRS 9 as at 1 January 2018	1,615,672

The following table reconciles the prior year's closing impairment allowance measured in accordance with MFRS 139 incurred loss model to the new impairment allowance measured in accordance with MFRS 9 ECL model as at 1 January 2018:

	MFRS 139 Allowance as at 31 December 2017 RM'000	Remeasurement RM'000	MFRS 9 Allowance as at 1 January 2018 RM'000
Cash and short term funds	–	222	222
Financial assets at FVOCI/FVOCI reserve	–	5,179	5,179
Financial investments at amortised cost	–	3,026	3,026
Financing and advances	272,657	103,621	376,278
	272,657	112,048	384,705

Statement by Directors

pursuant to section 251(2) of the Companies Act 2016

We, Abdul Aziz Peru Mohamed and Dato' Adissadikin Ali, being two of the Directors of RHB Islamic Bank Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 57 to 180 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018 and financial performance of the Bank for the financial year ended on 31 December 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 27 February 2019.

ABDUL AZIZ PERU MOHAMED
DIRECTOR

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur
27 February 2019

Statutory Declaration

pursuant to section 251(1) of the Companies Act 2016

I, Khairul Hakeem Mohamed Sahari, the Officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 57 to 180 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

KHAIRUL HAKEEM MOHAMED SAHARI
(MIA Membership No: 44413)

Subscribed and solemnly declared by the abovenamed Khairul Hakeem Mohamed Sahari at Kuala Lumpur in Malaysia on 27 February 2019.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur

Independent Auditors' Report

to the member of RHB Islamic Bank Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Islamic Bank Berhad ('the Bank') give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2018 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 180.

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 Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditors' report, and the 2018 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the 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 Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report
to the member of RHB Islamic Bank Berhad

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 Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the Directors are responsible for assessing 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 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 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 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 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 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 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 Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Independent Auditors' Report
to the member of RHB Islamic Bank Berhad

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
02682/10/2019 J
Chartered Accountant

Kuala Lumpur
27 February 2019

BASEL II PILLAR 3 DISCLOSURES

AS AT 31 DECEMBER 2018

List of Tables

Statement by Managing Director

In accordance with the requirements of Bank Negara Malaysia's Guideline on Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), and on behalf of the Board of Directors and Senior Management of RHB Islamic Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of RHB Islamic Bank Berhad for the year ended 31 December 2018 are accurate and complete.

DATO' ADISSADIKIN BIN ALI

Managing Director

Basel II Pillar 3 Disclosures
as at 31 December 2018

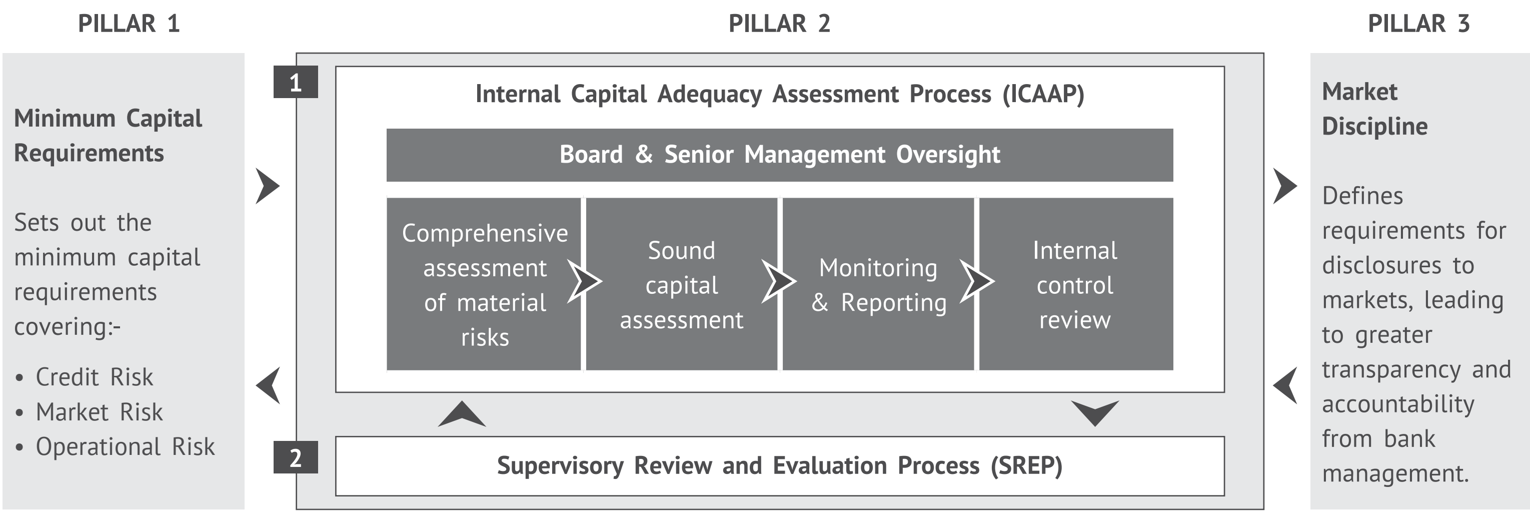
1.0 INTRODUCTION

This document describes RHB Islamic Bank Berhad's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3) issued by Bank Negara Malaysia (BNM's Pillar 3 Guidelines).

BNM's guidelines on Capital Adequacy Framework for Islamic Banks (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. It 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 Islamic Bank	Internal Ratings-Based Approach	Standardised Approach	Basic Indicator Approach

* On 31 May 2018, BNM granted approval for RHB Islamic Bank Berhad to adopt Internal Ratings-Based (IRB) approach for Credit Risk for its regulatory capital reporting and to submit the actual reporting based on IRB approach beginning with its position as at 30 September 2018.

Basel II Pillar 3 Disclosures
as at 31 December 2018

1.0 INTRODUCTION (CONTINUED)

Pillar 2 comprises two components as follows:

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

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

Basis of Disclosure

The annual Pillar 3 disclosure report is published in accordance with BNM's Pillar 3 Guidelines. This disclosure report has been verified and approved internally in line with the RHB Banking Group: Basel II Pillar 3 Disclosure Policy.

Comparative Information

This document covers the qualitative and quantitative information for financial year ended 31 December 2018 with comparative quantitative information of the preceding financial year 2017.

Frequency of Disclosure

The qualitative disclosures contained herein are updated on an annual basis and more frequently, if there are significant changes in the interim reporting period. The disclosures on capital adequacy and structure are made on a quarterly basis and all other quantitative disclosures are made on a semi-annual basis in accordance to the Group's reporting period.

Medium and Location of Disclosure

RHB Islamic Bank Berhad's Pillar 3 disclosure report is made available under the Investor Relations section of RHB Banking Group's website at www.rhbgroup.com as a separate report in the Bank's Annual Report 2018, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Islamic Bank Berhad's information is presented at entity level and is referred to as the "Bank". The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31 December 2018.

The Bank's capital requirements are as guided by BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Capital Components) (hereinafter collectively referred to as the 'Capital Adequacy Framework'). In 2018, changes in BNM's policy documents/frameworks were as follows:

a. The Capital Adequacy Framework was updated and reissued by BNM on 2 February 2018 for application with effect from 1 January 2018. The main updates in the said framework are:

   - Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9.
   - Definition of General Provision and its recognition in Tier II Capital.
   - Alignment of terminologies used under Malaysian Financial Reporting Standards 'Financial Instruments' (MFRS 9) for the purpose of capital recognition and regulatory adjustment.

b. BNM's Revised Policy Document on Financial Reporting issued on 2 February 2018 requires the Bank and its domestic banking subsidiary companies must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures with effect from 1 January 2018.

   In the previous year, the Bank has maintained in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of impairment allowance.

   The impact to the capital adequacy ratios of the Bank are disclosed in Note 41 to the Financial Statements as at 31 December 2018.

   The Group adopted MFRS 9 effective 1 January 2018.

   As permitted by the transitional provisions of MFRS 9, comparative figures are not restated for first time adoption of the Standards. Refer to Note 44 to the Financial Statements for more details.

Basel II Pillar 3 Disclosures

as at 31 December 2018

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to manage capital prudently and to maintain a strong capital position to drive sustainable business growth and seek strategic opportunities to enhance shareholders' value, and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting regulatory requirements.

With a comprehensive capital management, the Bank aims to have a sound capital management practice that is aligned to BNM's ICAAP requirements.

The management of capital involves capital strategy, capital planning and capital allocation/structuring/optimisation.

- **Capital Strategy**

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

- **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) and for endorsement, and submitted to Islamic Risk Management Committee (IRMC), Board Risk Committee (BRC) and the Board for approval.

- **Capital Allocation/Structuring/Optimisation**

  The Bank determines the amount of capital allocated to each 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.

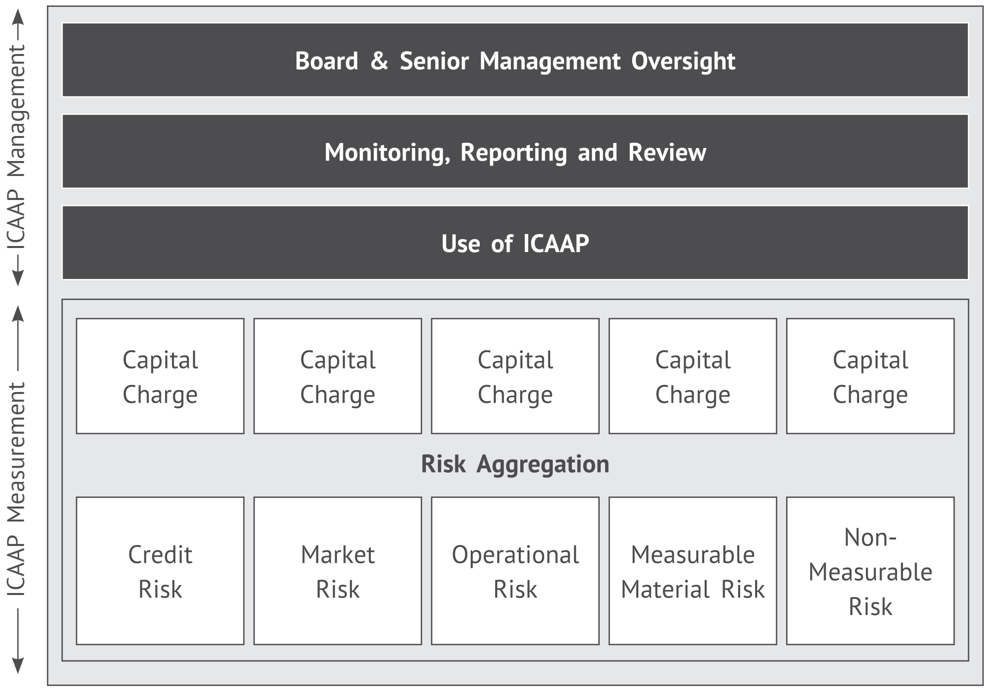
  The Bank also aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

In line with BNM's Guideline on ICAAP under the Capital Adequacy Framework for Islamic Banks (CAFIB) – 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 an 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.

3.2 Basel III Implementation

The implementation of Basel III for capital components by BNM in Malaysia has commenced with effect from 1 January 2013. Under the Basel III rules, banking institutions are required to strengthen the quality of their capital by maintaining higher minimum capital requirements and holding capital buffers namely the capital conservation buffer and the countercyclical capital buffer. However, the requirements are subject to a series of transitional arrangements with a gradual phase-in commencing 2013.

The Bank has implemented BNM's liquidity standards on Liquidity Coverage Ratio (LCR) effective from 1 June 2015 after reporting the LCR under observation since June 2012. BNM has adopted the phased-in arrangement for Malaysian banking institutions to comply with the minimum requirement of 60% in 2015 with incremental of 10% each year thereafter until 100% from 1 January 2019 onwards. The Bank continues to report on Net Stable Funding Ratio (NSFR) under observation. The result produced during the observation period facilitates the Bank's strategy in managing the appropriate balance sheet structure for achieving optimal NSFR.

Basel II Pillar 3 Disclosures
as at 31 December 2018

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework for Islamic Banks (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:

Common Equity Tier I (CET I) Capital Ratio	4.5%
Tier I Capital Ratio	6.0%
Total Capital Ratio	8.0%

In addition, the Bank is required to maintain additional capital buffers in the form of CET I capital above the minimum CET I, Tier I and total capital ratios set out above. The capital buffers shall comprise of capital conservation buffer (CCB) and countercyclical capital buffer (CCyB). The CCB is intended to enable the banking system to withstand future periods of stress and will be phased-in as follows:

Calendar Year	CCB
2018	1.875%
2019 onwards	2.500%

CCyB is determined based on the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures. This buffer is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. Application of CCyB above the minimum capital ratios is in the range of 0.0% to 2.5%. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

The capital ratios of the Bank as at 31 December 2018 and 31 December 2017 are:

Table 1: Capital Adequacy Ratios

	RHB Islamic Bank	
	2018	**2017**
Before proposed dividends		
Common Equity Tier I Capital Ratio	**13.222%**	10.376%
Tier I Capital Ratio	**13.222%**	10.376%
Total Capital Ratio	**16.476%**	14.134%
After proposed dividends		
Common Equity Tier I Capital Ratio	**13.222%**	10.376%
Tier I Capital Ratio	**13.222%**	10.376%
Total Capital Ratio	**16.476%**	14.134%

The above capital ratios are above the minimum level required by BNM.

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3.0 CAPITAL MANAGEMENT (CONTINUED)

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 2018 and 31 December 2017:

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

	RHB Islamic Bank	
Risk Types	**2018 RM'000**	**2017 RM'000**
Credit RWA	**25,943,117**	34,726,152
Credit RWA Absorbed by Profit Sharing Investment Account (PSIA)	**(5,874,587)**	(7,269,199)
Market RWA	**268,130**	240,688
Operational RWA	**1,679,551**	1,397,487
Additional RWA due to Capital Floor	**5,599,323**	–
Total	**27,615,534**	**29,095,128**

Table 3: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements

	RWA		Minimum Capital Requirements	
RHB Islamic Bank Risk Types	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Credit Risk	**20,068,530**	27,456,953	**1,605,482**	2,196,556
Under Foundation Internal Rating Based (F-IRB) Approach	***13,735,988***	–	***1,098,879***	–
Under Advanced Internal Rating Based (A-IRB) Approach	***7,206,853***	–	***576,548***	–
Under Standardised Approach	***5,000,276***	*34,726,152*	***400,022***	*2,778,092*
Absorbed by PSIA under F-IRB Approach	***(5,220,725)***	–	***(417,658)***	–
Absorbed by PSIA under Standardised Approach	***(653,862)***	*(7,269,199)*	***(52,309)***	*(581,536)*
Market Risk				
Under Standardised Approach	**268,130**	240,688	**21,450**	19,255
Operational Risk				
Under Basic Indicator Approach	**1,679,551**	1,397,487	**134,364**	111,799
Additional RWA due to Capital Floor	**5,599,323**	–	**447,946**	–
Total	**27,615,534**	**29,095,128**	**2,209,242**	**2,327,610**

Capital requirement for the three risk types is derived by multiplying the risk-weighted assets by 8%.

RHB Islamic Bank obtained BNM's approval for the migration to IRB approach effective September 2018 for entity reporting which contributed to the reduction in Credit RWA.

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4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Capital Components). These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Bank. Tier I capital consists primarily of ordinary share capital, retained profits and other reserves. Tier II capital consists of subordinated obligations, surplus eligible provisions over expected losses and general provisions. Refer to Note 41 to the Financial Statements for the terms of these capital instruments.

The following table represents the capital position of the Bank as at 31 December 2018 and 31 December 2017:

Table 4: Capital Structure

	RHB Islamic Bank	
	2018 RM'000	**2017 RM'000**
Common Equity Tier I Capital/Tier I Capital		
Paid up ordinary share capital	**1,673,424**	1,273,424
Retained profits	**2,013,893**	1,787,323
Other reserves	**–**	–
Fair value through other comprehensive income (FVOCI)/Available for sale (AFS) reserves	**(3,499)**	(15,929)
Less:		
Other intangibles	**(4,271)**	(4,412)
Deferred tax assets	**(23,499)**	(17,140)
Ageing Reserves and Liquidity Reserve*	**(4,849)**	(4,296)
Total Common Equity Tier I Capital/Tier I Capital	**3,651,199**	**3,018,970**
Tier II Capital		
Subordinated obligations	**750,000**	750,000
Surplus eligible provisions over expected losses	**94,333**	–
Collective impairment allowances^ and regulatory reserves~	**–**	343,212
General provisions°, ~	**54,330**	–
Total Tier II Capital	**898,663**	**1,093,212**
Total Capital	**4,549,862**	**4,112,182**

* Pursuant to the Basel II Market Risk para 5.18 and 5.19 – Valuation Adjustments, the Capital Adequacy Framework for Islamic Banks (Basel II - Risk-Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments/reserves on its trading portfolio.

^ Excludes collective impairment allowance attributable to advances and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

° Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 Financial Instruments; and regulatory reserves, to the extent they are ascribed to non-credit-impaired exposures, determined under standardised approach.

~ Includes the qualifying regulatory reserve of the Bank of RM42,756,000 (31 December 2017: RM204,312,000).

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, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group (the Group), as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:

The following sections describe some of these risk management content areas.

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5.0 RISK MANAGEMENT (CONTINUED)

OVERARCHING RISK MANAGEMENT PRINCIPLES

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group.

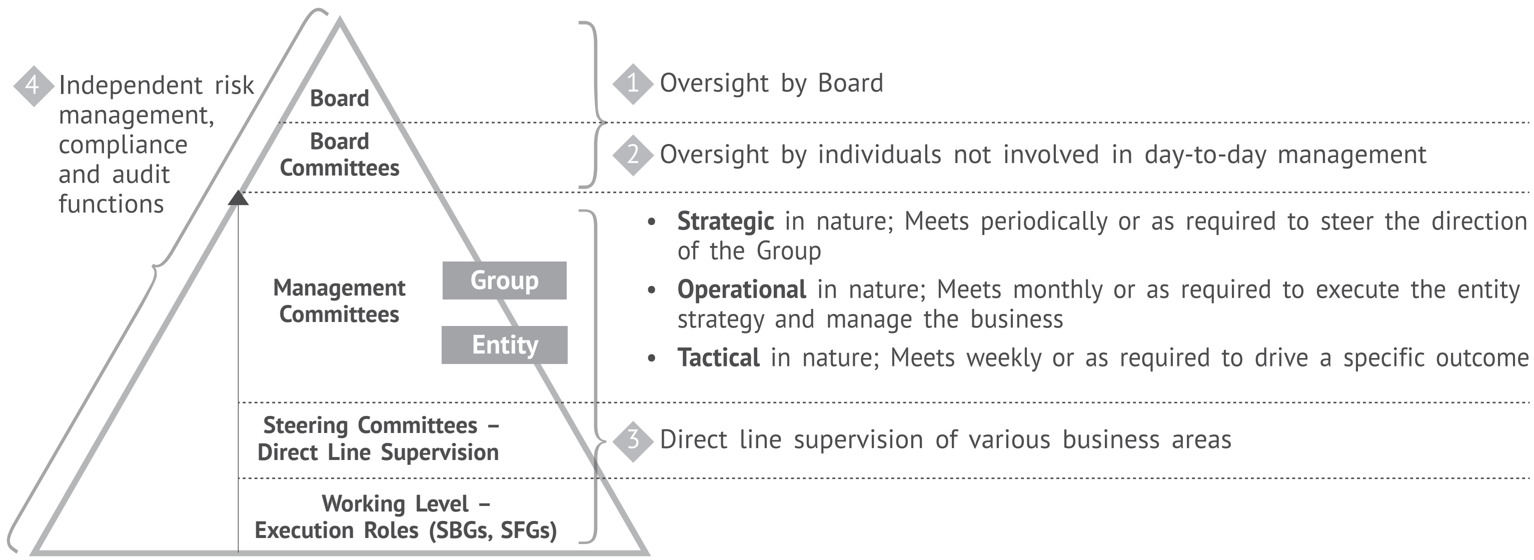
Principle 1: Risk Governance from the Boards of Directors of various operating entities within the Group

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/IRMC, GCRC and the Group Risk & Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. The IRMC is responsible for assisting the Board of RHB Islamic Bank on risk issues relevant and unique to RHB Islamic Bank.

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/IRMC and the Group Management Committee (GMC). The Group Asset and Liability Committee (Group ALCO) assists the BRC/IRMC to oversee market risk, liquidity risk and balance sheet management. An overview of this governance framework at Group level is as below:



5.0 RISK MANAGEMENT (CONTINUED)

RISK CULTURE

Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that 'Risk and Compliance is Everyone's Responsibility'.

The strategic business units (SBUs) and strategic functional units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE **Business/Functional Level**	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day 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 ENVIRONMENT AND INFRASTRUCTURE

Principle 3: Institutionalisation of a Risk-Focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.

Central Risk Management Function

Group Risk & Credit Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The roles and responsibilities of the Group Chief Risk Officer include:
- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing a pro-active, balanced and risk-attuned culture within the Group; and
- Advising senior management and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

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5.0 RISK MANAGEMENT (CONTINUED)

RISK ENVIRONMENT AND INFRASTRUCTURE (continued)

Group Risk & Credit Management consisting of Group Risk Management, Group Credit Management and Group Risk Operations provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Key areas for which Group Risk Management is responsible for include the Group's risk policy and framework, day-to-day risk measurement and monitoring, providing timely risk analysis to management, and ensuring compliance to regulatory risk reporting requirements.

Group Credit Management oversees the Group-wide credit evaluation and assessment, approval and credit monitoring functions by providing credit risk assessment assurance on credit proposals, highlighting key risks and potential problematic accounts, and improving credit process efficiency.

Group Risk Operations is responsible for strategising and implementing a comprehensive enterprise-wide risk governance framework, and managing the development of robust risk management infrastructure and tools, aligned with the Group's strategy for growth and keeping pace with the market requirements and competitive business environment. Group Risk Operations drives the operationalisation of the Group's risk transformation initiatives in establishing risk management as a valuable business partner.

Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. Business activities and processes are continuously reviewed for areas of significant risks and for implementation of appropriate control procedures to ensure that they operate within established corporate policies and limits.

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

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

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

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

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5.0 RISK MANAGEMENT (CONTINUED)

RISK APPETITE

Principle 4: Alignment of Risk Management to Business Strategies

The Group Risk Management Framework serves to align the Group's business strategy with its 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 describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and is set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

Principle 5: Optimisation of Risk-Adjusted Returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's financing, trade finance and its funding, investment and trading activities from both on and off-balance sheet transactions.

6.1 Credit Risk Management Oversight and Organisation

The Group Credit Committee (GCC) is the senior management committee empowered to approve or reject all financial investments, counterparty credit and financing up to the defined threshold limits.

GCC will direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Bank's asset book. GCC also acts as the body which, through the relevant Board committees, recommends to the respective Boards, on matters pertaining to credit risk (such as credit and underwriting evaluation/approval/procedure, and delegated financing authorities).

The Board Credit Committee's (BCC) main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC, (ii) overseeing the management of impaired and high risk accounts, and (iii) approving credit transactions to connected parties up to the defined threshold limits. BCC also endorses policy financing and financing required by BNM to be referred to the respective Boards for approval.

The Group Credit Management has the functional responsibility to ensure that internal processes and credit underwriting standards are adhered to before financing proposals are approved. All financing proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit manager and decided upon by delegated financing authority/relevant committees.

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6.0 CREDIT RISK (CONTINUED)

6.1 Credit Risk Management Oversight and Organisation (continued)

All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review by Group Internal Audit. With the exception of credit applications for consumer and approved products under programme financing which can be approved by business units' supervisors, all other credit facilities, are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary financing between business and independent credit underwriters. Financing which are beyond the delegated financing authority limits will be escalated to the relevant committees for approval.

Within Group Risk Management, the Group Credit Risk Management has the functional responsibility for credit risk management, portfolio risk monitoring, risk reporting and development of credit policies and guidelines. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the GCRC, IRMC and the Board. These reports include various credit risk aspects such as portfolio quality, expected losses, and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

The Bank's credit risk management framework is founded upon BNM's Policy on Credit Risk. The Bank abides by its Group Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Industry best practices are instilled in the continual updating of the Group Credit Policy.

The Bank's credit risk management process is documented in the Group Credit Guidelines (GCG) and Group Credit Procedures Manual (GCPM) which sets out the operational procedures and guidelines governing the credit processes within the Bank.

The GCG and GCPM have been designed to ensure that:

- The process of credit initiation, administration, supervision and management of financing and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- Procedures and guidelines governing the credit function are in compliance with the credit policies of the Group.

Financing to Corporate and Institutional Customers

Financing to corporate and institutional customers are individually evaluated and risk-rated. Credit underwriters identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment activities, the Bank is also exposed to credit risks from trading, derivative and 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.

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6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (continued)

Financing to Consumers and Small Businesses

For the consumer and small business sectors, credit risk is managed on a portfolio basis. Such products include home financing, credit cards, auto financing, commercial property financing, personal financing, other term financing and retail small and medium-sized enterprises (RSMEs). Credit is prudently assessed and extended leveraging on the product program, which clearly define the credit risk acceptance criteria, post approval review and credit risk control. Credit scorecard together with business rules are adopted to enable objective risk evaluation and consistent decisions, cost efficient processing, and behavioural score monitoring of expected portfolio performance.

Credit Risk Measurement

Along with judgement and experience, risk measurement or quantification plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by financing type, the Bank applies different credit risk measuring tools, so that the credit risk of each financing type is appropriately reflected. These measurement tools are developed for the material credit exposures, which fall under the IRB Approach.

The followings represent the dimensions considered in the credit risk measurement:

1. **Probability of Default (PD)**

   For corporate/non-retail financing, the probability of default is measured from obligor (or customer) rating obtained from the risk rating system to determine obligor's level of default risk. The risk rating of each obligor is regularly reviewed to ensure that it actually reflects the debtor's/customer's updated default risk. For retail exposures/financing, the default risk is measured via different credit scoring or behavioural scoring model.

2. **Loss Given Default (LGD)**

   For corporate financing, LGD is determined via the credit risk mitigation adjustment, in which collateral and security will determine the level of LGD for a specific transaction. For retail financing, LGD is captured at respective segment (or pool) level.

3. **Exposure at Default (EAD)**

   Exposure at default is calculated from the current outstanding balance and availability of committed financing line. In this regard, the key factor is the Bank's obligation related to the available financing line. For corporate financing, the EAD is measured at an individual obligor exposure as per BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets). For retail financing, the principle of credit risk measurement is similar, but measured on a pooled basis, based on internal models.

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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:

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that its customer cannot meet its obligations to third-parties. These exposures carry the same credit risk as financing even though they are contingent in nature;
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of its customers. These exposures are usually collateralised by the underlying shipment of goods to which they relate;
- Commitments to extend financing, which includes the unutilised or undrawn portions of financing facilities;
- Unutilised credit card lines; and
- Credit equivalent 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 profit rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and financing.

Derivative financial instruments are primarily entered into for hedging purposes. 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.

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6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches

All credit exposures of the Bank are booked in Malaysia. The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2018 compared with 31 December 2017, 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;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights.

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 2018

RHB Islamic Bank Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under Standardised Approach (SA)						
On Balance Sheet Exposures						
Sovereigns & Central Banks	5,521,764	5,521,764	–	–	–	–
Public Sector Entities	5,809,258	5,809,258	8,019	–	8,019	641
Banks, Development Financial Institutions & MDBs	1,020,165	1,020,165	286,730	–	286,730	22,938
Takaful Cos, Securities Firms & Fund Managers	176,910	176,910	176,910	–	176,910	14,153
Corporates	1,088,467	729,943	547,168	–	547,168	43,773
Regulatory Retail	3,478,859	3,478,756	3,424,694	(653,745)	2,770,949	221,676
Residential Mortgages	2,749	2,749	1,020	–	1,020	82
Higher Risk Assets	–	–	–	–	–	–
Other Assets	495,816	495,816	476,415	–	476,415	38,113
Securitisation Exposures	–	–	–	–	–	–
Equity Exposures	–	–	–	–	–	–
Defaulted Exposures	12,324	10,308	10,051	(117)	9,934	795
Total On Balance Sheet Exposures	17,606,312	17,245,669	4,931,007	(653,862)	4,277,145	342,171
Off Balance Sheet Exposures						
OTC Derivatives	272,184	272,176	54,435	–	54,435	4,355
Off balance sheet exposures other than OTC derivatives or credit derivatives	364,498	348,532	14,834	–	14,834	1,187
Defaulted Exposures	–	–	–	–	–	–
Total Off Balance Sheet Exposures	636,682	620,708	69,269	–	69,269	5,542
Total On and Off Balance Sheet Exposures under SA	18,242,994	17,866,377	5,000,276	(653,862)	4,346,414	347,713

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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 2018 (continued)

RHB Islamic Bank Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under F-IRB Approach						
On Balance Sheet Exposures						
Corporates, of which	20,957,417	20,957,417	11,964,780	(4,925,212)	7,039,568	563,165
Corporate Exposures (excluding exposures with firm size adjustments)	*12,757,496*	*13,139,612*	*7,757,571*	*(3,781,451)*	*3,976,120*	*318,089*
Corporate Exposures (with firm size adjustments)	*7,099,954*	*7,099,954*	*3,626,115*	*(1,079,351)*	*2,546,764*	*203,741*
Specialised Financing Exposures (Slotting Approach)						
Project Finance	*105,473*	*5,190*	*4,671*	*–*	*4,671*	*374*
Income Producing Real Estate	*994,494*	*712,661*	*576,423*	*(64,410)*	*512,013*	*40,961*
Defaulted Exposures	239,375	239,375	17,278	–	17,278	1,382
Total On Balance Sheet Exposures	21,196,792	21,196,792	11,982,058	(4,925,212)	7,056,846	564,547
Off Balance Sheet Exposures						
OTC Derivatives	33,101	33,101	61,376	–	61,376	4,910
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,200,251	2,200,251	915,045	–	915,045	73,204
Defaulted Exposures	121	121	–	–	–	–
Total Off Balance Sheet Exposures	2,233,473	2,233,473	976,421	–	976,421	78,114

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 2018 (continued)

RHB Islamic Bank Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under A-IRB Approach						
On Balance Sheet Exposures						
Retail, of which	**25,689,375**	**25,689,375**	**6,239,430**	**–**	**6,239,430**	**499,154**
Residential Mortgages Exposures	*12,248,469*	*12,248,469*	*2,710,869*	–	*2,710,869*	*216,869*
Qualifying Revolving Retail Exposures	*275,179*	*275,179*	*205,276*	–	*205,276*	*16,422*
Hire Purchase Exposures	*6,731,434*	*6,731,434*	*2,275,708*	–	*2,275,708*	*182,057*
Other Retail Exposures	*6,434,293*	*6,434,293*	*1,047,577*	–	*1,047,577*	*83,806*
Defaulted Exposures	331,193	331,193	73,260	–	73,260	5,861
Total On Balance Sheet Exposures	**26,020,568**	**26,020,568**	**6,312,690**	**–**	**6,312,690**	**505,015**
Off Balance Sheet Exposures						
OTC Derivatives	–	–	–	–	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,612,629	2,612,629	485,632	–	485,632	38,851
Defaulted Exposures	3,188	3,188	596	–	596	48
Total Off Balance Sheet Exposures	**2,615,817**	**2,615,817**	**486,228**	**–**	**486,228**	**38,899**
Total On and Off Balance Sheet Exposures before scaling factor under the IRB Approach	**52,066,650**	**52,066,650**	**19,757,397**	**(4,925,212)**	**14,832,185**	**1,186,575**
Total On and Off Balance Sheet Exposures after scaling factor, 1.06 under the IRB Approach			**20,942,841**	**(5,220,725)**	**15,722,116**	**1,257,769**
Total (Exposures under the SA Approach and Exposures under the IRB Approach)	**70,309,644**	**69,933,027**	**25,943,117**	**(5,874,587)**	**20,068,530**	**1,605,482**

Note:
In 2018, the Credit Risk-Weighted Assets were computed based on the Internal Based Ratings Based Approach while in 2017, it was based on the Standardised Approach

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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 2017

RHB Islamic Bank Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under the Standardised Approach						
On Balance Sheet Exposures						
Sovereigns & Central Banks	5,317,479	5,317,479	65	–	65	5
Public Sector Entities	4,315,960	4,315,960	30,188	–	30,188	2,415
Banks, Development Financial Institutions & MDBs	2,959,428	2,959,428	591,712	–	591,712	47,337
Takaful Cos, Securities Firms & Fund Managers	283,629	281,286	281,286	–	281,286	22,503
Corporates	20,785,998	19,831,636	16,750,555	(6,618,528)	10,132,027	810,562
Regulatory Retail	13,492,830	12,923,049	10,933,236	(527,567)	10,405,669	832,454
Residential Mortgages	8,029,511	8,023,801	3,047,224	(115,179)	2,932,045	234,564
Higher Risk Assets	3,342	3,342	5,012	(305)	4,707	376
Other Assets	112,863	112,863	92,263	–	92,263	7,381
Defaulted Exposures	264,563	256,656	268,490	(6,925)	261,565	20,925
Total On Balance Sheet Exposures	**55,565,603**	**54,025,500**	**32,000,031**	**(7,268,504)**	**24,731,527**	**1,978,522**
Off Balance Sheet Exposures						
OTC Derivatives	866,940	866,940	352,011	–	352,011	28,161
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,987,740	3,865,576	2,371,638	(336)	2,371,302	189,704
Defaulted Exposures	1,794	1,728	2,472	(359)	2,113	169
Total Off Balance Sheet Exposures	**4,856,474**	**4,734,244**	**2,726,121**	**(695)**	**2,725,426**	**218,034**
Total On and Off Balance Sheet Exposures	**60,422,077**	**58,759,744**	**34,726,152**	**(7,269,199)**	**27,456,953**	**2,196,556**

Note:
In 2018, the Credit Risk-Weighted Assets were computed based on the Internal Based Ratings Based Approach while in 2017, it was based on the Standardised Approach

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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 2018

RHB Islamic Bank 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
Transaction related contingent items	212,768		106,384	66,999
Short term self liquidating trade related contingencies	65,253		13,050	4,111
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	–		–	–
Commitment to buy back the Islamic securities arising from the Sell and Buy Back (SBBA) transaction	–		–	–
Foreign exchange related contracts	673,348	751	20,384	26,052
1 year or less	*478,508*	*651*	*8,739*	*5,791*
Over 1 year to 5 years	*194,840*	*100*	*11,645*	*20,261*
Over 5 years	–	–	–	–
Profit rate related contracts	930,000	348	678	136
1 year or less	*930,000*	*348*	*678*	*136*
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	12,570,170	49,080	284,223	89,623
Other commitments, such as formal standby facilities and financing lines, with original maturity of over 1 year	6,567,847		5,052,509	1,344,997
Other commitments, such as formal standby facilities and financing lines, with original maturity of up to 1 year	11,659		8,744	–
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 customer's creditworthiness	2,102,309		–	–
Total	23,133,354	50,179	5,485,972	1,531,918

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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 2017

RHB Islamic Bank 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
Transaction related contingent items	195,298		97,649	71,982
Short term self liquidating trade related contingencies	111,779		22,356	8,084
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	–		–	–
Commitment to buy back the Islamic securities arising from the Sell and Buy Back (SBBA) transaction	629,085		629,085	–
Foreign exchange related contracts	10,572,668	324,340	819,299	346,962
1 year or less	*7,910,145*	*241,526*	*387,092*	*131,035*
Over 1 year to 5 years	*1,713,345*	*51,517*	*220,566*	*102,865*
Over 5 years	*949,178*	*31,297*	*211,641*	*113,062*
Profit rate related contracts	4,457,338	28,171	47,641	5,049
1 year or less	*3,690,000*	*24,858*	*28,908*	*817*
Over 1 year to 5 years	*767,338*	*3,313*	*18,733*	*4,232*
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and financing lines, with original maturity of over 1 year	5,800,512		3,106,777	2,193,794
Other commitments, such as formal standby facilities and financing lines, with original maturity of up to 1 year	–		–	–
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	2,513,842		133,667	100,250
Total	**24,280,522**	**352,511**	**4,856,474**	**2,726,121**

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 Industry Sector as at 31 December 2018

RHB Islamic Bank 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/ Takaful, 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	-	-	-	-	-	-	-	4,285,861	1,243,857	-	-	5,529,718
Public Sector Entities	-	-	-	-	-	116	-	410,981	5,862,704	-	-	6,273,801
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,152,797	-	-	-	1,152,797
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	176,910	-	-	-	176,910
Corporates	11,609	8,394	62,738	1,495	73,404	82,507	99,871	733,949	52,132	977	-	1,127,076
Regulatory Retail	1,771	4,123	11,510	-	10,972	16,087	5,398	12,142	1,566	3,420,554	-	3,484,123
Residential Mortgages	-	-	-	-	-	-	-	-	-	2,753	-	2,753
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	495,816	495,816
Total Exposures under Standardised Approach	13,380	12,517	74,248	1,495	84,376	98,710	105,269	6,772,640	7,160,259	3,424,284	495,816	18,242,994

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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 Industry Sector as at 31 December 2018

RHB Islamic Bank 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/ Takaful, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under IRB Approach												
Corporates, of which	1,232,638	857,070	1,157,834	729,197	5,570,487	1,259,917	5,302,029	6,797,112	523,981	-	-	23,430,265
Corporate Exposures (excluding exposures with firm size adjustments)	*473,019*	*847,790*	*593,085*	*566,990*	*2,138,076*	*833,122*	*3,804,955*	*4,663,840*	*220,502*	-	-	*14,141,379*
Corporate Exposures (with firm size adjustments)	*759,619*	*9,280*	*564,749*	*29,316*	*2,204,442*	*426,795*	*1,497,074*	*2,026,919*	*303,479*	-	-	*7,821,673*
Specialised Financing Exposures (Slotting Approach)												
Project Finance	-	-	-	*132,891*	*5,190*	-	-	-	-	-	-	*138,081*
Income Producing Real Estate	-	-	-	-	*1,222,779*	-	-	*106,353*	-	-	-	*1,329,132*
Retail, of which	53,867	2,525	239,312	748	260,626	596,586	67,762	331,403	43,840	27,039,716	-	28,636,385
Residential Mortgages Exposures	-	-	-	-	-	-	-	-	-	*12,581,096*	-	*12,581,096*
Qualifying Revolving Retail Exposures	-	-	-	-	-	-	-	-	-	*434,259*	-	*434,259*
Hire Purchase Exposures	-	-	-	-	-	-	-	-	-	*6,779,488*	-	*6,779,488*
Other Retail Exposures	*53,867*	*2,525*	*239,312*	*748*	*260,626*	*596,586*	*67,762*	*331,403*	*43,840*	*7,244,873*	-	*8,841,542*
Total Exposures under IRB Approach	1,286,505	859,595	1,397,146	729,945	5,831,113	1,856,503	5,369,791	7,128,515	567,821	27,039,716	-	52,066,650
Total Exposures under Standardised and IRB Approaches	1,299,885	872,112	1,471,394	731,440	5,915,489	1,955,213	5,475,060	13,901,155	7,728,080	30,464,000	495,816	70,309,644

Note:
In 2018, the Credit Risk-Weighted Assets were computed based on the Internal Based Ratings Based Approach while in 2017, it was based on the Standardised Approach

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6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2017

RHB Islamic Bank 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/ Takaful, 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	-	-	-	-	-	-	-	2,706,406	3,272,768	-	-	5,979,174
Public Sector Entities	-	-	-	-	-	3,007	-	-	4,577,139	-	-	4,580,146
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	3,569,055	-	-	-	3,569,055
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	283,629	-	-	-	283,629
Corporates	1,482,616	906,500	1,601,116	372,279	4,656,433	1,278,382	5,221,428	7,232,221	482,234	-	-	23,233,209
Regulatory Retail	9,745	4,019	96,409	1,222	114,450	234,580	27,158	155,724	13,069	13,866,171	-	14,522,547
Residential Mortgages	-	-	-	-	-	-	-	-	-	8,138,037	-	8,138,037
Higher Risk Assets	-	-	-	-	-	-	-	-	-	3,417	-	3,417
Other Assets	-	-	-	-	-	-	-	-	-	-	112,863	112,863
Total	**1,492,361**	**910,519**	**1,697,525**	**373,501**	**4,770,883**	**1,515,969**	**5,248,586**	**13,947,035**	**8,345,210**	**22,007,625**	**112,863**	**60,422,077**

Note:
In 2018, the Credit Risk-Weighted Assets were computed based on the Internal Based Ratings Based Approach while in 2017, it was based on the Standardised Approach

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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 Remaining Maturity as at 31 December 2018

RHB Islamic Bank 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	2,818,728	501,960	2,209,030	5,529,718
Public Sector Entities	509,042	2,408,941	3,355,818	6,273,801
Banks, Development Financial Institutions & MDBs	914,618	238,179	–	1,152,797
Takaful Cos, Securities Firms & Fund Managers	1,741	175,169	–	176,910
Corporates	248,613	761,650	116,813	1,127,076
Regulatory Retail	14,785	484,261	2,985,077	3,484,123
Residential Mortgages	–	12	2,741	2,753
Higher Risk Assets	–	–	–	–
Other Assets	–	–	495,816	495,816
Total Exposures under Standardised Approach	4,507,527	4,570,172	9,165,295	18,242,994
Exposures under IRB Approach				
Corporates, of which	5,174,450	8,845,964	9,409,851	23,430,265
Corporate Exposures (excluding exposures with firm size adjustments)	*2,517,963*	*5,832,173*	*5,791,243*	*14,141,379*
Corporate Exposures (with firm size adjustments)	*2,597,910*	*2,632,214*	*2,591,549*	*7,821,673*
Specialised Financing Exposures (Slotting Approach)				
Project Finance	*35,196*	*65,087*	*37,798*	*138,081*
Income Producing Real Estate	*23,381*	*316,490*	*989,261*	*1,329,132*
Retail, of which	231,950	3,331,016	25,073,419	28,636,385
Residential Mortgages Exposures	*2,670*	*51,740*	*12,526,686*	*12,581,096*
Qualifying Revolving Retail Exposures	*16,563*	*417,694*	*2*	*434,259*
Hire Purchase Exposures	*50,886*	*2,126,082*	*4,602,520*	*6,779,488*
Other Retail Exposures	*161,831*	*735,500*	*7,944,211*	*8,841,542*
Total Exposures under IRB Approach	5,406,400	12,176,980	34,483,270	52,066,650
Total Exposures under Standardised and IRB Approaches	9,913,927	16,747,152	43,648,565	70,309,644

6.0 CREDIT RISK (CONTINUED)

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches (continued)

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2017

RHB Islamic Bank 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	1,990,163	2,244,359	1,744,652	5,979,174
Public Sector Entities	2,357,171	1,893,855	329,120	4,580,146
Banks, Development Financial Institutions & MDBs	3,214,834	230,937	123,284	3,569,055
Takaful Cos, Securities Firms & Fund Managers	4,751	278,878	–	283,629
Corporates	5,155,607	7,682,503	10,395,099	23,233,209
Regulatory Retail	130,406	3,053,371	11,338,770	14,522,547
Residential Mortgages	1,527	50,040	8,086,470	8,138,037
Higher Risk Assets	–	10	3,407	3,417
Other Assets	–	–	112,863	112,863
Total	**12,854,459**	**15,433,953**	**32,133,665**	**60,422,077**

Note:
In 2018, the Credit Risk-Weighted Assets were computed based on the Internal Based Ratings Based Approach while in 2017, it was based on the Standardised Approach

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6.0 CREDIT RISK (CONTINUED)

Standardised Approach

The Standardised Approach is applied to portfolios that are classified as permanently exempted from the IRB approach, and those portfolios that are currently in transition to the IRB approach. Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

The following tables show the Bank's credit exposures for its portfolios with the corresponding risk weights and RWA under the Standardised Approach, after credit risk mitigation (CRM):

Table 9a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2018

RHB Islamic Bank Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Takaful 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%	5,521,764	6,094,165	25,242	–	–	–	–	–	19,401	–	11,660,572	–
20%	7,954	179,636	1,007,530	–	228,468	–	–	–	–	–	1,423,588	284,718
35%	–	–	–	–	–	–	2,663	–	–	–	2,663	932
50%	–	–	16,550	–	4,503	1,826	–	–	–	–	22,879	11,439
75%	–	–	–	–	–	218,198	–	–	–	–	218,198	163,649
100%	–	–	103,475	176,910	516,246	3,263,219	90	–	476,415	–	4,536,355	4,536,355
150%	–	–	–	–	2,122	–	–	–	–	–	2,122	3,183
Total Exposures	5,529,718	6,273,801	1,152,797	176,910	751,339	3,483,243	2,753	–	495,816	–	17,866,377	5,000,276

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6.0 CREDIT RISK (CONTINUED)

Table 9b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2017

RHB Islamic Bank Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Takaful 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%	5,971,060	4,368,270	25,257	–	2,323,849	–	–	–	20,600	–	12,709,036	–
20%	8,114	207,061	3,527,541	–	1,491,838	118	–	–	–	–	5,234,672	1,046,934
35%	–	–	–	–	–	–	6,449,437	–	–	–	6,449,437	2,257,303
50%	–	–	16,257	–	134,406	5,113	1,622,636	–	–	–	1,778,412	889,206
75%	–	–	–	–	–	8,401,788	–	–	–	–	8,401,788	6,301,341
100%	–	–	–	281,286	18,195,169	5,467,805	59,939	–	92,263	–	24,096,462	24,096,462
150%	–	–	–	–	53,915	32,605	–	3,417	–	–	89,937	134,906
Total Exposures	**5,979,174**	**4,575,331**	**3,569,055**	**281,286**	**22,199,177**	**13,907,429**	**8,132,012**	**3,417**	**112,863**	**–**	**58,759,744**	**34,726,152**

6.5 Use of External Ratings

For exposures such as 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.

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6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

Table 10a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2018

The following tables show the Bank's credit exposures for 31 December 2018 compared with 31 December 2017, according to the ratings by ECAIs:

RHB Islamic Bank

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures						
Public Sector Entities		25,464	–	–	–	6,248,337
Takaful Cos, Securities Firms & Fund Managers		–	–	–	–	176,910
Corporates		128,343	3,693	–	–	519,178

Short Term Ratings of Corporates by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Corporates		100,125	–	–	–	–

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6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

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		–	5,529,718	–	–	–	–

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		511,135	10,515	930	–	–	630,217

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6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

Table 10b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2017

RHB Islamic Bank

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		–	–	–	–	4,575,331
Takaful Cos, Securities Firms & Fund Managers		–	–	–	–	281,286
Corporates		1,450,886	130,716	–	–	20,617,575

Short Term Ratings of Corporates by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Corporates		–	–	–	–	–

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6.0 CREDIT RISK (CONTINUED)

6.5 Use of External Ratings (continued)

Table 10b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2017 (continued)

RHB Islamic Bank

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		–	5,979,174	–	–	–	–

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		2,549,740	239,745	1,636	–	–	777,934

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6.0 CREDIT RISK (CONTINUED)

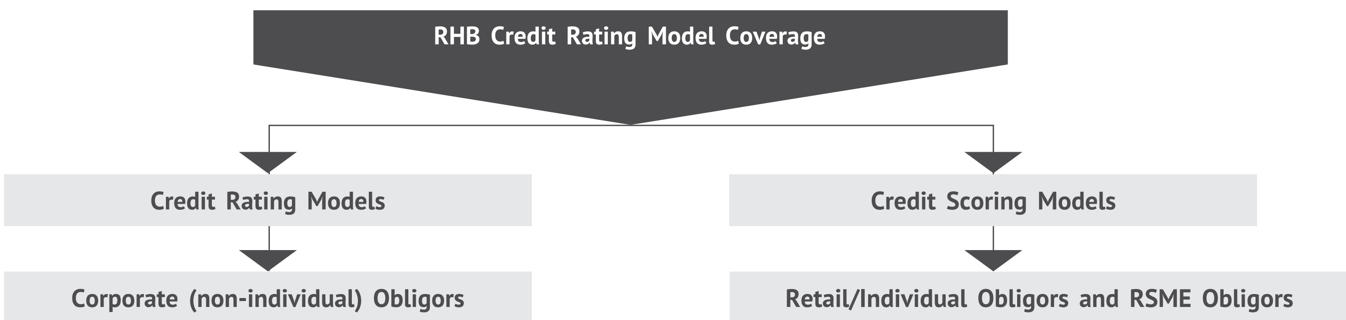
6.6 Internal Credit Rating Models

Internal credit rating models are an integral part of the Bank's credit risk management, decision-making process, and regulatory capital calculations. These internal credit rating models are developed by Group Risk Operations with active participation by the relevant credit experts from the Bank's functional units and/or business units.

Internal rating model development and implementation process have been established to govern the development and validation of rating models and the application of these models. Specifically, all newly developed models prior to implementation, material changes of the rating systems and validation results must be endorsed by GCRC, IRMC and approved by Board. All models are also subject to independent validation by the Model Validation Team before implementation to ensure that all aspects of the model development process have been satisfied. In addition, the models are also subject to annual review and independent validation by the Model Validation Team to ensure that they are performing as expected.

Credit risk/rating models can be broadly classified into:

- Credit Rating Models
- Credit Scoring Models



The credit rating models for corporate (or non-individual) obligors are used to risk rate the creditworthiness of the corporate obligors/guarantors/debt issuers based on their financial standing (such as gearing, expenses and profit) and qualitative aspects (such as management effectiveness and industry environment). Different rating models will be applied subject to the obligor's asset and sales volume to create further risk differentiation.

The credit scoring models are for large volume of exposures that are managed on a portfolio basis, which includes program financing for RSMEs. These models are developed through statistical modelling and applied onto the portfolio accordingly. For portfolios where data are readily available or when more granular segmentation is required to support business strategy, more models will be developed and deployed.

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Application of Internal Ratings

The three components of expected loss, the PD, LGD and EAD are used in variety of applications that measure credit risk across the entire portfolio.

- Credit Approval : PD models are used in the credit approval process in both retail and non-retail portfolios. In high-volume retail portfolios, application scorecard and behaviour scorecard are used as one of the risk management tools.
- Policy : Policies are established to govern the use of ratings in credit decisions and monitoring as well as impairment.
- Reporting : Reports are generated to senior management on a monthly basis on the performance of the rating models to show the distribution of the credit exposures by risk rating and monitoring of their performance.
- Capital Management : The capital management and allocation plan takes into consideration the projected RWA computed based on internal rating.
- Risk Limits : The internal ratings are used in establishing the Group's various internal limits (such as industry risk limit).
- Risk Reward and Pricing : PD, EAD and LGD metrics are used to assess profitability of deals to allow for risk-informed pricing considerations and strategic decisions.

F-IRB for Non-Retail Portfolios

The major non-retail portfolios of the Bank are on the Foundation Internal Ratings-Based (F-IRB) approach for regulatory capital requirements. Specialised financing uses supervisory slotting criteria. Under this approach, internal rating models are used to estimate the PD for each obligor, while the LGD and EAD parameters are prescribed by BNM. The PD rating model is statistically calibrated, with overlay of qualitative factors and notching guide to arrive at the credit rating.

A-IRB for Retail Portfolios

For regulatory capital requirements, the Bank has adopted the Advanced Internal Ratings-Based (A-IRB) approach for the retail portfolios, ie residential home financing, credit cards, auto financing, commercial property financing, other term financing and RSMEs. The Bank is continuously working on migrating its relevant significant portfolio under the Standardised Approach towards IRB compliance. The risk estimates – PD, LGD and EAD; are calibrated for these retail portfolios/pools. In addition, credit application scorecard and behavioural scorecard are developed and implemented for use in credit approval decision support such as limit setting, credit score cut-off and approval, monitoring and reporting.

The following tables set out:

- Exposures subject to the Supervisory Risk Weights;
- Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight; and
- Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weight.

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6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 11: Exposures Subject to the Supervisory Risk Weights under the IRB Approach as at 31 December 2018

Disclosure on Specialised Financing Exposures under the Supervisory Slotting Criteria

RHB Islamic Bank

	Exposure After Credit Risk Mitigation					
Supervisory Categories/Risk Weights	**Strong RM'000**	**Good RM'000**	**Satisfactory RM'000**	**Weak RM'000**	**Default RM'000**	**Total RM'000**
Specialised Financing Exposures						
Project Finance	–	5,190	–	–	–	5,190
Income Producing Real Estate	321,014	668,474	656	–	–	990,144
Total Exposures after Credit Risk Mitigation	**321,014**	**673,664**	**656**	**–**	**–**	**995,334**
Total Risk-Weighted Assets	**220,821**	**606,298**	**754**	**–**	**–**	**827,873**

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6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 12: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight as at 31 December 2018

RHB Islamic Bank Probability of Default (PD) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average LGD (%)	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Non Retail Exposures				
Corporate Exposures (excluding exposures with firm size adjustments)				
0 to 1	9,969,154	41.47	45.01	903,746
>1 to 4	1,255,271	38.14	91.69	426,640
>4 to 12	3,173,080	18.90	80.05	1,452,602
>12 to <100	137,458	0.45	2.52	–
Default or 100	78,295	32.69	22	–
Total for Corporate Exposures (excluding exposures with firm size adjustments)	14,613,258			2,782,988
Corporate Exposures (with firm size adjustments)				
0 to 1	3,207,998	32.05	35.93	400,247
>1 to 4	2,494,003	39.58	78.59	540,089
>4 to 12	671,408	34.58	103.41	107,066
>12 to <100	1,287,063	2.36	9.72	28,285
Default or 100	161,201	40.63	–	–
Total for Corporate Exposures (with firm size adjustments)	7,821,673			1,075,687
Total Non Retail Exposures	22,434,931			3,858,675
Retail Exposures				
Residential Mortgages Exposures				
0 to 3	11,405,287	16.40	18.41	165,062
>3 to 10	687,514	16.55	51.94	1,545
>10 to 20	39,477	16.14	87.39	413
>20 to <100	283,379	16.30	88.42	168
Default or 100	165,439	16.50	19.20	193
Total for Residential Mortgages Exposures	12,581,096			167,381

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6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 12: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weight as at 31 December 2018 (continued)

RHB Islamic Bank Probability of Default (PD) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average LGD (%)	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Qualifying Revolving Retail Exposures				
0 to 3	198,562	56.94	27.96	504,921
>3 to 10	161,882	57.76	75.36	78,514
>10 to 20	36,919	55.90	117.58	10,347
>20 to <100	27,802	52.81	144.62	10,837
Default or 100	9,094	54.79	129.74	–
Total for Qualifying Revolving Retail Exposures	434,259			604,619
Hire Purchase Exposures				
0 to 3	6,452,389	43.62	31.57	–
>3 to 10	61,146	46.02	68.90	–
>10 to 20	184,253	44.89	84.69	–
>20 to <100	33,646	45.04	119.63	–
Default or 100	48,054	45.63	0.24	–
Total Hire Purchase Exposures	6,779,488			–
Other Retail Exposures				
0 to 3	6,134,122	19.10	18.25	2,316,451
>3 to 10	2,004,580	7.86	11.81	49,142
>10 to 20	332,093	7.16	15.35	4,541
>20 to <100	258,953	6.32	15.23	8,859
Default or 100	111,794	22.71	27.00	2,804
Total Other Retail Exposures	8,841,542			2,381,797
Total Retail Exposures	28,636,385			3,153,797
Total Non Retail & Retail Exposures under IRB Approach	51,071,316			7,012,472

6.0 CREDIT RISK (CONTINUED)

6.6 Internal Credit Rating Models (continued)

Table 13: Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weight as at 31 December 2018

RHB Islamic Bank Expected Losses (EL) Range	Exposure At Default After Credit Risk Mitigation RM'000	Exposure Weighted Average Risk Weight (%)	Undrawn Commitments RM'000
Retail Exposures			
Residential Mortgages Exposures			
0 to 1	11,924,921	20	166,062
>1 to 10	464,363	87	1,144
>10 to <100	181,963	21	175
100	9,849	–	–
Total Residential Mortgages Exposures	12,581,096		167,381
Qualifying Revolving Retail Exposures			
0 to 1	149,106	23	418,055
>1 to 10	245,344	74	175,271
>10 to <100	39,809	141	11,293
100	–	–	–
Total Qualifying Revolving Retail Exposures	434,259		604,619
Hire Purchase Exposures			
0 to 1	6,233,228	30	–
>1 to 10	464,560	72	–
>10 to <100	71,164	57	–
100	10,536	–	–
Total Hire Purchase Exposures	6,779,488		–
Other Retail Exposures			
0 to 1	8,273,474	15	2,344,690
>1 to 10	453,823	44	31,959
>10 to <100	89,949	20	5,096
100	24,296	–	52
Total Other Retail Exposures	8,841,542		2,381,797
Total Retail Exposures	28,636,385		3,153,797

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6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the customer, source of repayment/payment and debt/financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Bank's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation 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 has defined standards on the acceptance of guarantors as credit risk mitigants.

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.

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6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach and IRB Approach respectively as at 31 December 2018 compared with 31 December 2017:

Table 14a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2018

RHB Islamic Bank 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	5,521,764	–	–
Public Sector Entities	5,809,258	5,769,165	–
Banks, Development Financial Institutions & MDBs	1,020,165	25,242	–
Takaful Cos, Securities Firms & Fund Managers	176,910	–	–
Corporates	1,088,467	–	358,523
Regulatory Retail	3,478,859	–	101
Residential Mortgages	2,749	–	–
Higher Risk Assets	–	–	–
Other Assets	495,816	–	–
Defaulted Exposures	12,324	–	2,017
Total On Balance Sheet Exposures	17,606,312	5,794,407	360,641
Off Balance Sheet Exposures			
OTC Derivatives	272,184	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	364,498	325,000	15,975
Defaulted Exposures	–	–	–
Total Off Balance Sheet Exposures	636,682	325,000	15,975
Total On and Off Balance Sheet Exposures	18,242,994	6,119,407	376,616

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6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Table 14b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2017

RHB Islamic Bank 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	5,317,479	–	–
Public Sector Entities	4,315,960	4,165,019	–
Banks, Development Financial Institutions & MDBs	2,959,428	25,257	–
Takaful Cos, Securities Firms & Fund Managers	283,629	–	2,342
Corporates	20,785,998	1,919,148	954,363
Regulatory Retail	13,492,830	118	569,780
Residential Mortgages	8,029,511	–	5,710
Higher Risk Assets	3,342	–	–
Other Assets	112,863	–	–
Defaulted Exposures	264,563	20,653	7,907
Total On Balance Sheet Exposures	**55,565,603**	**6,130,195**	**1,540,102**
Off Balance Sheet Exposures			
OTC Derivatives	866,940	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,987,740	628,250	122,165
Defaulted Exposures	1,794	–	65
Total Off Balance Sheet Exposures	**4,856,474**	**628,250**	**122,230**
Total On and Off Balance Sheet Exposures	**60,422,077**	**6,758,445**	**1,662,332**

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6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Table 15: Credit Risk Mitigation of Portfolios under the IRB Approach as at 31 December 2018

RHB Islamic Bank 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	Gross Exposures Covered by Other Eligible Collateral RM'000
On Balance Sheet Exposures				
Corporates, of which	20,957,417	5,171,810	896,295	2,844,134
Corporate Exposures (excluding exposures with firm size adjustments)	*12,757,496*	*3,030,696*	*93,546*	*643,932*
Corporate Exposures (with firm size adjustments)	*7,099,954*	*1,758,997*	*802,749*	*2,200,202*
Specialised Financing Exposures (Slotting Approach)				
Project Finance	*105,473*	*100,283*	–	–
Income Producing Real Estate	*994,494*	*281,834*	–	–
Retail, of which	25,689,375	1,466	2,276,196	15,144,755
Residential Mortgages Exposures	*12,248,469*	–	–	*12,235,406*
Qualifying Revolving Retail Exposures	*275,179*	–	–	–
Hire Purchase Exposures	*6,731,434*	–	–	–
Other Retail Exposures	*6,434,293*	*1,466*	*2,276,196*	*2,909,349*
Defaulted Exposures	570,568	32,662	1,625	248,340
Total On Balance Sheet Exposures	47,217,360	5,205,938	3,174,116	18,237,229
Off Balance Sheet Exposures				
OTC Derivatives	33,101	–	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	4,812,880	1,044,754	78,974	2,455,444
Defaulted Exposures	3,309	–	106	2,986
Total Off Balance Sheet Exposures	4,849,290	1,044,754	79,080	2,458,430
Total On and Off Balance Sheet Exposures	52,066,650	6,250,692	3,253,196	20,695,659

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6.0 CREDIT RISK (CONTINUED)

6.7 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 Bank manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in financing to single customer groups, customers engaged in similar activities, or diverse groups of customers that could be affected by similar economic or other factors. To manage this concentration risk, exposure limits are established for single financing groups and industry segments. Analysis of any single large exposure and group of exposures is regularly conducted and the financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sector-specific analysis are also incorporated within the overall credit risk management regiment. In this respect, the Bank seeks to continually update financing guidelines based on periodic reviews and updates of industry and sector risk factors and economic outlook. This facilitates better management of credit concentration risk.

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management, GCRC, IRMC and Board, include information on portfolio quality, credit rating migration and concentration risk exposures by business portfolios.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Specific financings 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 customer exhibits early warning signals such as defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Within Group Risk & Credit Management, there is a mechanism in place for credit monitoring to flag-out problematic financing (watch list accounts) for intensive monitoring under Watchlist Credit Management. These are accounts which may be exhibiting early distress patterns or in the early stages of delinquency but not yet in default.

For these cases, Watchlist Credit Management department will conduct independent assessment and work closely with the business units to implement strategies to address financing/business relationships under Watchlist Credit Management to rehabilitate the accounts after discussion with the customer to determine the root cause of the problem which may result in rescheduling, restructuring or "exit" strategies to be applied. For the larger accounts, regular position update meetings are held with the business units to review or revise these strategies. The relevant guidelines are refined from time to time, to better identify, monitor and resolve such accounts.

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 underwriting standards and financing policies established by the Bank's management, and relevant laws and regulations.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing

The Bank adopts BNM's guidelines on Financial Reporting. The principles in this guidelines are in line with those applicable under the International Financial Reporting Standards compliant framework, the MFRS 9.

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss (ECL), replacing the incurred loss methodology model under MFRS 139, for all financial assets, except for financial assets classified or designated as Fair Value Through Profit and Loss and equity securities, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn financing commitments.

MFRS 9 does not distinguish between individual assessment and collective assessment. The Group first assess whether objective evidence of impairment exists for financial assets which are individually significant. If the Group determine that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised for impairment loss which has been incurred. Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, level of collateralisation and other relevant factors) for collective assessment. Collectively, the individual assessment allowance and collective assessment allowance form the total expected credit allowance for the Group.

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cashflows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

The changes in ECL between two-periods will be recognised in profit and loss.

The assessment of significant deterioration in credit risk since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the PD, LGD and EAD models. Certain ECL models are leveraging on the existing Group's Basel II Internal Ratings-Based model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements.

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6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

Individual Assessment - Impairment Triggers

The customer assessed under Impairment Allowances (IA) shall be classified as impaired under any one of the following situations:

1. When the principal or profit or both, of any facility(s) of the customer is past due for 90 days or 3 months and above.
2. In the case of revolving facilities (eg overdraft facilities), the customer of the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for 90 days or 3 months and above.
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, the financing exhibits weaknesses (refer to impairment triggers) that would render it to be classified as impaired.
4. Where repayments/payments of the financing are scheduled on intervals of 3 months or longer, the customer is classified as impaired as soon as a default occurs.
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 customer shall be classified as impaired in accordance with paras 1 to 4 above based on the revised or restructured terms.

Individual Impairment Allowances

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 customers, based on reasonable and well documented estimates of the future cashflows/realisations of collateral that is expected to be recovered from the impaired customers ie. net present value of future cashflows are discounted based on original effective profit rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

Re-classification and Recovery of Impaired Customers

An impaired customer may be re-classified as a non-impaired status under the following situations:

1. When the financing repayment/payment of the impaired customer has improved with the principal or profit or both, of its facilities with the Bank being past due less than 90 days or 3 months.
2. Where the customer exhibits weakness(es) that render it to be classified as impaired, even though the financing is past-due less than 90 days or 3 months, such customers may be reclassified as non-impaired status when these weaknesses have been subsequently addressed or resolved.
3. Where the customer has been individually assessed as impaired due to either any one or more MSTs or any two or more ASTs, the customer may be reclassified as non-impaired status when these triggers have since been addressed and resolved totally, or with only one AST remaining.
4. When the margin account's equity exceeds 130% of the outstanding balance, as determined in accordance with Chapter 7 Rule 703 of Bursa Malaysia Securities Berhad at the end of the calendar month of that occurring.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

Write-Off of Impaired Financing

All 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. Completed projects but is left abandoned or no occupancy for 12 months with 2 rounds of abortive auctions. This includes units/lots in the same complex/project but have not put up for auction due to cost savings reason.
5. Financing secured with properties which have undergone more than 5 rounds of abortive auctions.
6. Financings secured with property with balance outstanding below RM5,000 subject to judgment obtained against all and customer(s) uncontactable.
7. 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.
8. 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. For financings secured with properties classified as impaired > 3 years with 3 rounds of abortive auctions, the balance outstanding is permitted to be written down to 50% of the value of security, with the shortfall to be written off.

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.

For year 2018 and 2017 respectively, all impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia.

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6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

The following tables show the Bank's impaired and past due financing and allowances by industry sector as at 31 December 2018 compared with 31 December 2017:

Table 16a: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2018

RHB Islamic Bank Industry Sector	Impaired Financing RM'000	Past Due Financing RM'000	Allowance For Credit Losses RM'000
Agriculture	356	1,501	8,088
Mining & Quarrying	1,588	3,963	11,449
Manufacturing	31,550	16,303	22,061
Electricity, Gas & Water Supply	57,120	34	17,109
Construction	83,903	11,247	87,368
Wholesale, Retail Trade, Restaurants & Hotels	63,362	19,444	45,894
Transport, Storage & Communication	9,799	1,437	35,596
Finance, Takaful, Real Estate & Business	27,029	14,342	19,261
Education, Health & Others	8,452	1,496	9,189
Household	226,024	1,708,746	138,550
Others	–	3	28,523
Total	**509,183**	**1,778,516**	**423,088**

Table 16b: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2017

RHB Islamic Bank Industry Sector	Impaired Financing RM'000	Past Due Financing RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	304	1,644	–	9,797
Mining & Quarrying	530	552	–	875
Manufacturing	22,380	18,559	834	20,369
Electricity, Gas & Water Supply	29,822	39	–	1,312
Construction	40,724	16,869	13,164	22,685
Wholesale, Retail Trade, Restaurants & Hotels	54,481	10,949	28,337	38,604
Transport, Storage & Communication	9,391	1,386	–	10,534
Finance, Takaful, Real Estate & Business	10,072	10,065	–	33,671
Education, Health & Others	3,800	1,606,926	277	8,312
Household	172,457	1,883,891	–	81,926
Others	–	1	–	1,960
Total	**343,961**	**3,550,881**	**42,612**	**230,045**

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6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

The following tables show the reconciliation of changes to financing impairment allowances as at 31 December 2018 compared with 31 December 2017:

Table 17: Net Charges/(Write-back) and Write-Offs for Impairment by Industry Sector

RHB Islamic Bank	Twelve Months Period Ended 2018		Twelve Months Period Ended 2017	
Industry Sector	Net Charges/ (Write-back) for Lifetime ECL Credit Impaired (Stage 3) RM'000	Write-Offs RM'000	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-Offs RM'000
Agriculture	(113)	–	–	–
Mining & Quarrying	(173)	–	–	–
Manufacturing	8,744	805	834	5,526
Electricity, Gas & Water Supply	16,163	–	–	–
Construction	2,344	1,872	3,802	936
Wholesale, Retail Trade, Restaurants & Hotels	(533)	2,943	27,060	3,975
Transport, Storage & Communication	(387)	30	–	–
Finance, Takaful, Real Estate & Business	5,632	66	–	1,560
Education, Health & Others	1,509	30	(2,492)	150
Household	34,305	40,193	–	32,715
Others	7,977	13,913	–	1,636
Total	**75,468**	**59,852**	**29,204**	**46,498**

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6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

The following tables show the Bank's Reconciliation of Changes to Loan/Financing Impairment Allowances as at 31 December 2018 compared with 31 December 2017:

Table 18a: Reconciliation of Changes to Loan/Financing Impairment Allowances as at 31 December 2018

RHB Islamic Bank	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
Balance as at the beginning of the financial period				
– As previously reported	–	–	–	–
– Effect of adoption of MFRS 9	*53,225*	*105,450*	*217,603*	*376,278*
– As restated	53,225	105,450	217,603	376,278
Changes due to financial assets recognised in the opening balance that have:				
– Transferred to 12–month ECL (Stage 1)	*34,882*	*(22,784)*	*(12,098)*	–
– Transferred to Lifetime ECL not credit impaired (Stage 2)	*(13,222)*	*20,844*	*(7,622)*	–
– Transferred to Lifetime ECL credit impaired (Stage 3)	*(679)*	*(5,966)*	*6,645*	–
	20,981	(7,906)	(13,075)	–
New financial assets originated or purchased	–	–	–	–
Allowance made/(written back) during the financial period	10,513	31,760	122,537	164,810
Bad debts written off	–	–	(59,852)	(59,852)
Derecognised during the financial period	(11,104)	(13,050)	(33,994)	(58,148)
Balance as at the end of the financial period	73,615	116,254	233,219	423,088

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

Table 18b: Reconciliation of Changes to Loan/Financing Impairment Allowances as at 31 December 2017

RHB Islamic Bank

	Total RM'000
<u>**Individual Impairment Allowance**</u>	
Balance as at the beginning of financial year	15,864
Net allowance made/(written back)	29,204
Amount written off	(2,456)
Balance as at the end of financial year	**42,612**
<u>**Collective Impairment Allowance**</u>	
Balance as at the beginning of financial year	236,525
Net allowance made	37,562
Amount written off	(44,042)
Balance as at the end of financial year	**230,045**

Note:
- *All impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia.*
- *The impairment as at 31 December 2017 is computed based on MFRS 139 while the impairment as at 31 December 2018 is computed based on MFRS 9. Comparatives have not been restated as provided in the transitional provision of MFRS 9 for Tables 16 to 18.*

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7.0 MARKET RISK

Market risk is the risk of losses arising from adverse movements in market indicators, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices within the trading portfolios and certain exposures in the banking book.

The Bank transacts financial instruments such as debt papers and financial derivative instruments such as futures, forwards, swaps, and options transactions. Derivative instruments are contracts whose characteristics and value are derived from the underlying instruments that can be a reference to profit rates, exchange rates, debt paper, or equity and indices.

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 implement measurement methodologies to ensure adequate risk control and oversight are in place. The main responsibility of managing market risk as the first line of defence remains at the respective business units.

The Group Asset and Liability Committee (Group ALCO) and GCRC perform a critical role in the management of market risk and supports the IRMC in the overall market risk management. Both committees meet regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Bank's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Bank has an established Group Trading Book Policy Statement, frameworks and risk limits as guidance for market risk management. These documents are reviewed regularly and/or upon change in significant event that has a material impact on policy compliance or regulatory changes.

Market Risk Measurement and Control

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. Market risk exposure reports are presented to the senior management, GCRC, IRMC and the Board.

7.0 MARKET RISK (CONTINUED)

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.

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 the Bank as at 31 December 2018 and 31 December 2017 are shown in the tables below:

Table 19a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2018

RHB Islamic Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Benchmark Rate Risk	**10,408,900**	**10,160,321**	**241,398**	**19,312**
Foreign Currency Risk	**2,218**	**26,733**	**26,732**	**2,138**
Total			**268,130**	**21,450**

Table 19b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2017

RHB Islamic Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Benchmark Rate Risk	9,548,359	9,373,985	199,064	15,925
Foreign Currency Risk	41,624	25,128	41,624	3,330
Total			**240,688**	**19,255**

Note:
For year 2018 and year 2017, RHB Islamic Bank did not have any exposure under
- *equity risk, commodity risk, inventory risk and options risk, and*
- *market risk exposure absorbed by PSIA.*

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8.0 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 IRMC 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 profit rates for liabilities products as well as reference rates for financing products and services. Group ALCO is supported by Group Asset and Liability Management (Group ALM) at the working level. Group ALM monitors liquidity risk limits/Management Action Triggers (MATs) and reports to Group ALCO the liquidity risk profile on monthly basis.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

The Bank has adopted the BNM's liquidity standards on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar days under liquidity stress condition. The Bank continues to report NSFR under the Basel III observation reporting to BNM.

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Rate of return risk in the banking book refers to the risk of the Group's earnings and economic value of equity due to the adverse movements in benchmark 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.

Rate of return 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 benchmark 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 benchmark 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 Bank's income or underlying economic value; and
- Embedded optionality risk – Arises primarily from options that are embedded in many banking book positions (eg some fixed rate home financing 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 rate of return 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 IRMC 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 rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net profit income and economic value of equity, as well as to ensure rate of return 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 rate of return risk in the banking book. Benchmark rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its rate of return 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 benchmark rates, rate of return 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 benchmark rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of rate of return risk in the banking book in an environment of rapid financial market changes.

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9.0 RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in benchmark rates to net earnings and economic value as at 31 December 2018 and 31 December 2017 are shown in the following tables:

Table 20a: Rate of Return Risk in the Banking Book as at 31 December 2018

RHB Islamic Bank	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	73,635	(73,635)	(414,076)	414,076
USD – US Dollar	(1,175)	1,175	1,332	(1,332)
Others[1]	(6,571)	6,571	5,228	(5,228)
Total	**65,889**	**(65,889)**	**(407,516)**	**407,516**

Table 20b: Rate of Return Risk in the Banking Book as at 31 December 2017

RHB Islamic Bank	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	51,022	(51,022)	(229,533)	229,533
USD – US Dollar	5,859	(5,859)	1,667	(1,667)
Others[1]	(945)	945	177	(177)
Total	**55,936**	**(55,936)**	**(227,689)**	**227,689**

Note:
1. Inclusive of GBP, EUR, SGD, etc
2. The EaR and EVE exposures are additive and do not take into account any correlation impact in the aggregation.
3. The earnings and economic values were computed based on the standardised approach adopted by BNM.
4. PSIA (Profit Sharing Investment Account) between RHB Islamic and RHB Bank which qualifies as a risk absorbent, is excluded from the computation of rate of return risk.

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9.0 RATE OF RETURN 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:

- Benchmark 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 benchmark 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 behavior of benchmark rate bearing items.

Economic value is characterised by the impact of benchmark rates changes on the value of all net cash flows, ie, the effect on the economic value of the Group's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in benchmark 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.

10.0 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 Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational 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.

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10.0 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, GCRC, IRMC 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

RHB Islamic 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.

10.0 OPERATIONAL RISK (CONTINUED)

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used:

- **Risk and Control Self-Assessment (RCSA)**

  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational and Technology Risk Management.

- **Key Risk Indicators (KRI)**

  KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal; once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Key Control Testing (KCT)**

  KCT is a methodology to assist business/functional units in performing assessments periodically to determine the effectiveness of key controls by evaluating whether the control procedures/activities are adequately designed to achieve the goals of the function and control objectives; and testing whether the key controls are operating as intended in actual practice. Effective KCT can lead to early detection of control weakness and deficiencies which will assist the senior management and business/functional units to quickly focus on control weakness and take concentrated efforts where they are most needed.

- **Incident Management and Loss Data Collection (IMLDC)**

  IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

- **Scenario Analysis**

  Scenario Analysis is used to identify plausible risk scenario that could materialise for assessment. A plausible risk scenario is a possible event resulting in unexpected and extreme losses which may arise when considering a sequence of control failures or individually significant events. Business/functional units are required to assess the potential outcomes related to a variety of operational risks failure, evaluate the vulnerabilities of the Bank to the manifestation of plausible risk scenario, and put in appropriate risk mitigation plans to safeguard the Bank's safety and soundness.

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10.0 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:

- **Strengthening internal controls**

  Internal controls are designed to commensurate operational risk exposures faced by the Group. It is mainly categorised into five components, namely:

  a. Control environment – management oversight and risk culture, which sets the tone and serves as a foundation for all other components;

  b. Risk assessment – analyses identified risks to achieve objectives and ensure risks are well managed;

  c. Control activities – policies and procedures implemented manually and/or system-based to ensure management's directives are executed effectively and efficiently;

  d. Information and communication – relevant operational risk information are captured and communicated accordingly for decision making. Such information must be effective for utilisation, delivered timely, confidentiality is preserved, conform to integrity needs, comply with relevant law/regulations, sufficient availability and reliable; and

  e. Monitoring – ongoing assessment and correcting deficiencies of internal control to assure it is operating as intended.

- **Business Continuity Management**

  To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Management (BCM) programme for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCM programme is subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Group Business Continuity Management Department.

  The Board of Directors has an oversight function through the BRC and GMC. The Group Business Continuity Committee, which reports to the GCRC is the committee that oversees the Bank's business continuity framework, policies, budget and plans.

- **Outsourcing**

  With the increasing need to outsource for cost and operational efficiency, the Group Sourcing Policy 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.

- **Takaful Management**

  The Bank considers risk transfer by means of Takaful to mitigate operational risk. The Bank has a programme of Takaful designed to reduce its exposure to liability and to protect its assets. The Bank purchases Takaful from leading Takaful providers 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 Takaful providers and will financially mitigate the economic consequences of risks.

10.0 OPERATIONAL RISK (CONTINUED)

Technology Risk

Technology Risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

The Bank recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

New Product and Services Approval Process

The Group has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Bank's legal counsel and external legal counsel to ensure that legal risk is effectively managed.

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 2018 and 31 December 2017, are shown below:

Table 21: Operational Risk-Weighted Assets and Minimum Capital Requirements

	RHB Islamic Bank	
Operational Risk	**2018 RM'000**	**2017 RM'000**
Risk-Weighted Assets	**1,679,551**	1,397,487
Minimum Capital Requirements	**134,364**	111,799

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11.0 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 financing and advances, profit 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.

12.0 REPUTATIONAL RISK

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputational risk in the Group is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented a reputational risk management policy. The key elements in the management of reputational risk include:

- Practice good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.
- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach for incident that affects the Group's reputation.
- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.
- Maintain proper mechanisms to monitor and escalate material lapses/breaches of internal and regulatory policies/guidelines that may place the Group's reputation at risk.
- Maintain proper channels of communication in dealing with internal and external stakeholders.

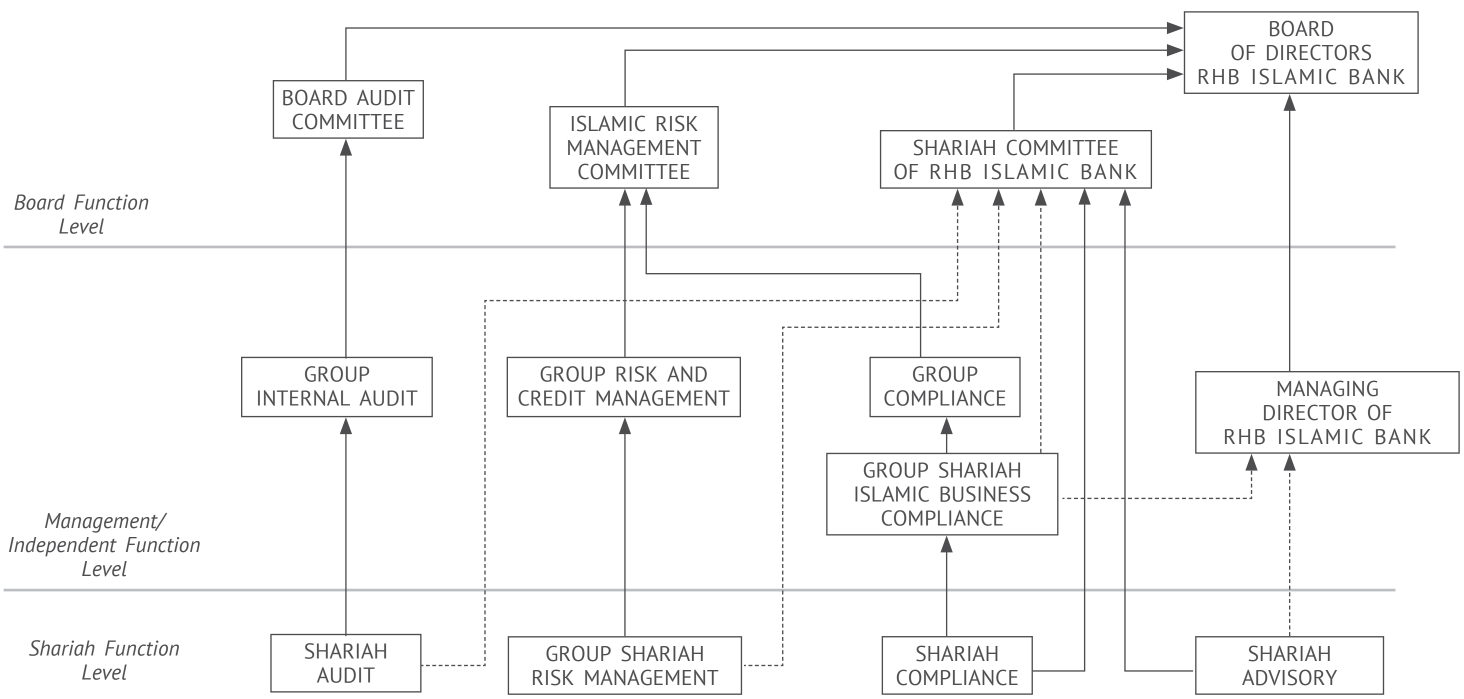
13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

Shariah non-compliance risk is the risk of loss arising from the failure to comply with the Shariah rules and principles and operationalisation of principles as determined by the Shariah Committee of RHB Islamic Bank or any other relevant body, such as BNM's Shariah Advisory Council and Securities Commission's Shariah Advisory Council.

A Shariah Governance Framework has been developed with the objective of governing the entire Shariah compliance process within Islamic banking operations, and to:

- Ensure that the planning, development, and implementation of the Islamic Bank's products, services and conduct of business are in accordance with Shariah principles;
- Ensure that the Bank's operations do not contravene any of the Shariah principles and authorities' regulations related to the Shariah; and
- Act as a guide on the Bank's expectations to all personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



The Shariah Committee of RHB Islamic Bank (SCR) was established under BNM's Shariah Governance Framework.

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13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

The main duties and responsibilities of SCR are to advise the Board of Directors on Shariah matters in relation to Islamic Banking business and operations, to endorse Shariah compliance manuals, to endorse and validate relevant documents as well as to provide written Shariah opinion on new products and RHB Islamic Bank's financial statements.

On a functional basis, RHB Islamic Bank is supported by Shariah Advisory Division, Group Shariah Risk Management, Group Shariah Business Compliance and Shariah Audit.

The Head of Shariah Advisory Division reports functionally to the SCR and administratively to the Managing Director of RHB Islamic Bank. The key functions of the Shariah Advisory Division are undertaken by two sub-units, ie Shariah Advisory and Research; and Shariah Governance and Management.

The main duties and responsibilities of Shariah Advisory and Research are to conduct reviews on the Islamic products and services, provide internal Shariah advisory support to the management of RHB Islamic Bank in its daily business and operational matters, assist SCR in elaborating and discussing on pertinent Shariah issues, provide in-depth research on competitive analysis in order to help SCR in making decision and to represent RHB Islamic Bank in any Shariah-related matters. Meanwhile, the main duties and responsibilities of Shariah Governance and Management function are to ensure the internal Shariah governance as well as the internal process flow and policies and Shariah approval process is well managed and maintained in an efficient manner, ensure the Bank is in compliance with the highest standard of Shariah governance as set by BNM, serve as the secretariat of SCR and to act as the mediator between the management and the SCR, oversee the computation and distribution of zakat and funds to be channeled to charity, and conduct Shariah-related training.

The key role and responsibilities of Group Shariah Risk Management is to facilitate the identifying, measuring, monitoring and controlling of Shariah non-compliance risks inherent in the Islamic business and operations to mitigate any potential Shariah non-compliance events. Group Shariah Risk Management also performs independent assessment and provides support relating to Shariah non-compliance risk.

Group Shariah Business Compliance conducts review and assists the SCR in providing opinions from Shariah perspective in relation to the status of Shariah compliance of products, services and operations of the Islamic business operations. Shariah Audit provides independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the Islamic business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance.

Any incidences of Shariah non-compliance are reported to the SCR, the GCRC, IRMC, the Board of Directors of RHB Islamic Bank and BNM. Remedial actions may include the immediate termination of the Shariah non-compliant products or services and de-recognition of Shariah non-compliant income.

There is no major Shariah non-compliant event or income arising from the Islamic products or services during the financial year 2018.

14.0 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 profit 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.

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14.0 FORWARD LOOKING STATEMENTS (CONTINUED)

Table 22: Glossary of Terms

A-IRB	Advanced Internal Ratings-Based Approach
BCC	Board Credit Committee
BCM	Business Continuity Management
BNM	Bank Negara Malaysia
Board	Board of Directors
BRC	Board Risk Committee
CAFIB	Capital Adequacy Framework for Islamic Banks
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCYb	Countercyclical Capital Buffer
CET	Common Equity Tier
CRM	Credit Risk Mitigation
DFIs	Development Financial Institutions
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EL	Expected Loss
EUR	Euro Dollar
EVE	Economic Value of Equity
Fitch	Fitch Ratings
GBP	Pound Sterling
GCG	Group Credit Guidelines
GCPM	Group Credit Procedures Manual
GCRC	Group Capital and Risk Committee
GMC	Group Management Committee
GRM	Group Risk Management
Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management
ICAAP	Internal Capital Adequacy Assessment Process
IMLDC	Incident Management and Loss Data Collection
IRMC	Islamic Risk Management Committee
ISDA	International Swaps and Derivatives Association
KCT	Key Control Testing
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
MFRS 9	Malaysian Financial Reporting Standards 9
MFRS 139	Malaysia Financial Reporting Standards 139
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
PSIA	Profit Sharing Investment Accounts
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
SCR	Shariah Committee of RHB Islamic Bank
SBUs	Strategic Business Units
SFUs	Strategic Functional Units
SGD	Singapore Dollar
S&P	Standard & Poor's
RSMEs	Retail Small-and medium-sized enterprises
VaR	Value-at-Risk

Group Branch Network

as at 31 December 2018

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- Kelana Jaya
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- Auto City, Prai
- Sungai Petani
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