RHB Islamic Bank Berhad

100 years
RHB Banking Group
A Century of Commitment

YEARS
1913-2013

annual report 2012

Inside
this report

Financial Highlights

	2012 RM'000	2011* RM'000	2010 RM'000	2009 RM'000	2008 RM'000
RESULTS					
Operating revenue	**1,136,990**	792,691	548,746	483,741	454,203
Net income	**398,955**	366,808	236,055	237,010	239,138
Profit before taxation	**208,611**	211,026	90,625	86,594	114,421
BALANCE SHEET					
Shareholders' equity	**1,693,673**	1,341,141	984,665	895,462	843,396
Total assets	**25,609,662**	22,650,317	13,111,820	11,205,509	9,369,580
Financing and advances	**16,002,714**	12,732,595	8,713,761	5,842,302	5,351,744
Total deposits	**21,889,173**	20,811,963	12,013,575	9,958,802	8,229,041
RATIOS					
Return on average equity (%)	**10.30**	13.40	7.18	7.30	10.85
Return on average assets (%)	**0.65**	0.85	0.56	0.62	0.97
Risk Weighted Capital Ratio (%)	**14.74**	13.93	13.56	13.78	13.54
Core Capital Ratio (%)	**14.06**	12.88	12.23	12.50	12.07

* Restated to show the effect on full adoption of MFRS 139.

BOARD OF DIRECTORS

Haji Khairuddin Ahmad
Chairman
Independent Non-Executive Director

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

Datuk Haji Faisal Siraj
Independent Non-Executive Director

Charles Lew Foon Keong
Independent Non-Executive Director

Choong Tuck Oon
Independent Non-Executive Director

Dato' Mohd Ali Mohd Tahir
Independent Non-Executive Director

BOARD COMMITTEES

RISK MANAGEMENT COMMITTEE

Haji Md Ja'far Abdul Carrim
Chairman

Datuk Haji Faisal Siraj

Dato' Mohd Ali Mohd Tahir

GROUP RISK MANAGEMENT COMMITTEE#

Haji Khairuddin Ahmad
Chairman

Patrick Chin Yoke Chung

Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

Dato' Saw Choo Boon

GROUP NOMINATING AND HUMAN RESOURCE COMMITTEE#

Datuk Haji Faisal Siraj
Chairman

Dato' Mohamed Khadar Merican

Dato' Teo Chiang Liang

Dato' Saw Choo Boon

Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

GROUP AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Haji Md Ja'far Abdul Carrim

Dato' Saw Choo Boon

Dato' Mohd Ali Mohd Tahir

GROUP CREDIT COMMITTEE*

Dato' Mohamed Khadar Merican
Chairman

Haji Khairuddin Ahmad

Abdul Aziz Peru Mohamed

Patrick Chin Yoke Chung

GROUP IT & TRANSFORMATION STRATEGY COMMITTEE*

Choong Tuck Oon
Chairman

Ong Seng Pheow

Dato' Mohd Ali Mohd Tahir

Kellee Kam Chee Khiong

Johari Abdul Muid

COMPANY SECRETARY

Azman Shah Md Yaman

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

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong
Group Managing Director, RHB Capital Berhad

Johari Abdul Muid
Managing Director, RHB Bank Berhad

U Chen Hock
CEO, OSK Investment Bank Berhad

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

Kong Shu Yin
Managing Director, RHB Insurance Berhad

Haji Abd Rani Lebai Jaafar^
Managing Director, RHB Islamic Bank Berhad

Prem Kumar
Group Chief Financial Officer

Norazzah Sulaiman
Director, Group Corporate Services

Michael Lim Kheng Boon
Director, Group Transaction Banking
Director, Group Treasury

Vince Au Yoong
Director, Retail Banking

Amy Ooi Swee Lian
Director, Business Banking

Ee Yew Chai
Director, Operations

Yeoh Beng Hooi
Director, Branch Management

Azaharin Abd Latiff
Director (Acting), Human Resource Management

Patrick Ho Kwong Hoong
Director, Group Risk Management

Wong Yih Yin
Chief Internal Auditor

Azman Shah Md Yaman
Group Company Secretary

Note:
^ Ceased as Chief Executive Officer/Managing Director of RHB Islamic Bank Berhad on 14 February 2013

REGISTERED OFFICE

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

BUSINESS ADDRESS

Level 11, Menara Yayasan Tun Razak
200, Jalan Bukit Bintang
55100 Kuala Lumpur
Malaysia
or
P.O. Box 6100 Pudu
55720 Kuala Lumpur
Malaysia
Tel : 603-2171 5000
Fax : 603-2171 5001
Swift : RHBAMYKL
Call Centre : 603-9206 8118
(Peninsular Malaysia – 24 hours)
082-276 118
(Sabah & Sarawak – 7 a.m. to 7 p.m.)

COMPANY NO.

680329-V

AUDITORS

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

Dr. Ghazali Jaapar (Chairman)

Dr. Ghazali is currently serving as Assistant Professor of Ahmad Ibrahim Kulliyyah of Laws, International Islamic University Malaysia (IIUM). He was previously a Director at the Harun M. Hashim Law Centre, IIUM. He obtained his B.A. Shariah (Hons.) (1995) from University of Malaya, Kuala Lumpur. He subsequently obtained a Master of Comparative Law from IIUM, Kuala Lumpur, (1998) and his Ph.D. from University of Birmingham, United Kingdom (2005).

Dr. Ghazali started his career as a lecturer in 2007 at Ahmad Ibrahim Kulliyyah of Laws, IIUM 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 and Standard & Chartered).

He has written various journals and articles on Islamic Legal System, Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims, Siyasah Shar'iyyah (Shariah-oriented policy) for forums and seminars.

Professor Dr. Joni Tamkin Borhan

Prof. Dr. Joni Tamkin is currently serving as Head of Department of Shariah and Economics, Academy of Islamic Studies, University of Malaya. He is also a Registered Shariah Individual under Securities Commission for Islamic Unit Trust Schemes.

Prof. Dr. Joni Tamkin obtained a B.Sh (Shariah) from University of Malaya in 1990. He also received a Masters Degree in Islamic Economics from University of Malaya in 1994 and a Ph.D in Islamic Banking from Edinburgh, Scotland in 1997.

Prof. Dr. Joni Tamkin was a member of the National Shariah Advisory Council on Islamic Banking and Takaful (NSAC) (1999 – 2004), Fellow at the Religious Department at Victoria University of Wellington (2002), Fellow at the University of Leiden, Holland (June – September 2004), Visiting Professor of Edinburgh University (January – October 2010) and also a member of Shariah Committee of MAA Takaful (2006 – current).

Prof. Dr. Joni Tamkin was appointed as Professor in 2007 and served as Deputy Director of Undergraduate Degree, Academy of Islamic Studies, University of Malaya from September 2006 until August 2007.

He has published and written numerous books, articles and journals. He also participates as speaker for various workshops and conferences in various fields mostly in Islamic Banking.

Dr. Akhtarzaite Abd. Aziz

Dr. Akhtarzaite is currently serving as Assistant Professor at Department of Fiqh and Usul Al-Fiqh, Kulliyyah of Islamic Revealed Knowledge, International Islamic University Malaysia (IIUM).

Dr. Akhtarzaite obtained her LLB (1994), LLBs (Shariah) (1995) and subsequently her Master and Ph.D in Fiqh and Usul Fiqh (2000 & 2005) from IIUM.

Dr. Akhtarzaite was a Shariah Advisory Committee member for EONCAP Islamic Bank Berhad (2005 – 2011), Working Committee of IIUM Institute of Islamic Banking and Finance (IIiBF), Module Writer for Islamic Capital Market Graduate Training Scheme (ICMGTS), Securities Commission Malaysia, Shariah Advisory Committee Member, Great Eastern Takaful, Committee Member (Treasurer) – Association of Shariah Advisors in Islamic Finance (ASAS), Moderator for IBFIM Fundamental Certificate in Islamic Banking and Finance. She has also supervised Ph.D and Master students in Islamic Banking as well as Usul Fiqh thesis.

She has written various books and articles on Islamic Banking, Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims, and presented several papers in forums and seminars.

Dr. Amir Shaharuddin

Dr. Amir is currently Deputy Dean (Academic & Research), Faculty of Economic & Muamalat, Islamic Science University of Malaysia (USIM) since January 2011.

Dr. Amir obtained his B.A. Shariah (Hons) from Al-Azhar University, Egypt (2001), subsequently received his Master of Business Administration (MBA) in Islamic Banking & Finance, International Islamic University Malaysia (IIUM), Kuala Lumpur, (2005) and completed his Ph.D in Islamic Studies from Exeter University, United Kingdom (2010).

Dr. Amir started his career as a tutor in 2003 at Faculty of Economic & Muamalat, USIM, Negeri Sembilan and is still attached with the university as a senior lecturer, teaching several subjects such as Islamic Financial Institutions and Markets, Principles and Practice of Islamic Banking, Halaqah Studies, Credit Management, Qawaid Fiqhiyyah and Islamic Capital Market.

He has published a number of articles in refereed journals including the Journal of Muamalat and Islamic Finance Research (JMIFR), Jurnal Syariah and ISRA International Journal of Islamic Finance. He has also presented academic papers in various international seminars such as in Indonesia, Bahrain, United Kingdom and Italy.

He has written various journals and articles in Islamic Banking & Finance, Zakat, Islamic Law Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims and Siyasah Shar'iyyah (Shariah-oriented policy) for forums and seminars.

Dr. Marjan Muhammad

Dr. Marjan Muhammad is currently a Researcher at the International Shari'ah Research Academy for Islamic Finance (ISRA). Prior to joining ISRA in 2010, she was a tutor at the Faculty of Law and Syari'ah, Islamic Science University of Malaysia (USIM) from 2001 – 2005. She holds Bachelor (1998), Masters (2001) and Ph.D degrees (2006) in Fiqh and Usul al-Fiqh from the International Islamic University Malaysia (IIUM).

She also serves as a Shariah Committee member of Malaysia Building Society Berhad (MBSB) (September 2010 – now).

Her areas of interest are on Issues of *Ijtihad* (Intellectual Reasoning), Islamic Jurisprudence (*Usul al-Fiqh*), Islamic Law of Transaction (*Fiqh al-Mu'amalat*) and Islamic Criminal Laws (*Fiqh al-Jinayah*).

She has written various articles and research papers in the area of Islamic banking and finance, Islamic law of transaction and Islamic jurisprudence.

RHB CAPITAL BERHAD

Commercial Banking Group

RHB Bank Berhad

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

Investment Banking Group

RHB Investment Bank Berhad

- RHB Investment Management Sdn Bhd
  - RHB Islamic Asset Management Sdn Bhd
- RHB Research Institute Sdn Bhd
- RHB Merchant Nominees (Tempatan) Sdn Bhd
  - RHB Merchant Nominees (Asing) Sdn Bhd
- RHB Private Equity Holdings Sdn Bhd
  - RHB Private Equity Management Ltd
  - *RHB Private Equity Fund Ltd (Cayman Islands)*
- RHB Nominees Sdn Bhd
- RHB Nominees (Tempatan) Sdn Bhd
- RHB Nominees (Asing) Sdn Bhd
- RHB Excel Sdn Bhd[4]
- RHB Progressive Sdn Bhd[4]
- RHB Marketing Services Sdn Bhd[3]
- RHB Unit Trust Management Berhad[4]
- *Vietnam Securities Corporation* **(49%)**

OSK Investment Bank Berhad

- *OSK International Investments Pte Ltd*
  - *OSK International Asset Management Pte Ltd*
    - *OSK GC-Millennium Capital Pte Ltd* **(40.00%)**
- *OSK Indochina Bank Limited*
  - *OSK Indochina Securities Limited*
- **93.50%** *OSK Holdings Hong Kong Limited*
  - *OSK Securities Hong Kong Limited* **(100.00%)**
    - *OSK Nominees Hong Kong Limited* **(100.00%)**
  - *OSK Futures Hong Kong Limited*
  - *OSK Finance Hong Kong Limited*
  - *OSK Capital Hong Kong Limited*
  - *OSK Precious Metals Hong Kong Limited*
  - *OSK International Investments Hong Kong Limited*
    - *OSK Fideus Asia and Emerging Markets Value Fund Ltd.* **(51.00%)**
  - *OSK Wealth Management Hong Kong Limited*
  - *OSK (China) Investment Advisory Co Ltd*
- **99.00%** *PT OSK Nusadana Securities Indonesia*
  - *PT OSK Nusadana Asset Management* **(99.62%)**
- **51.00%** *DMG & Partners Securities Pte Ltd*
  - *DMG & Partners Nominees Pte Ltd* **(100.00%)**
  - *Summit Nominees Pte Ltd* **(100.00%)**
  - *DMG & Partners Research Pte Ltd* **(100.00%)**
- **97.41%** *OSK Securities (Thailand) PCL* **2.02%**
- OSK Futures and Options Sdn Bhd
- OSK Research Sdn Bhd
- OSK International Asset Management Sdn Bhd
- OSK Nominees (Tempatan) Sdn Bhd
- OSK Nominees (Asing) Sdn Bhd
- TCL Nominees (Tempatan) Sdn Bhd
- TCL Nominees (Asing) Sdn Bhd
- KE-ZAN Nominees (Tempatan) Sdn Bhd
- KE-ZAN Nominees (Asing) Sdn Bhd
- **80.00%** OSK Trustees Berhad[5] **20.00%**
- **80.00%** Malaysian Trustees Berhad[5] **20.00%**
- **70.00%** OSK-UOB Investment Management Berhad
  - OSK-UOB Islamic Fund Management Berhad **(70.00%)**
- iFast-OSK Sdn Bhd **(38.27%)**
  - iFast Capital Sdn Bhd **(100.00%)**
    - iFast Nominees Sdn Bhd **(100.00%)**
  - FA Corporate And Compliance Consultancy Sdn Bhd **(100.00%)**
- UOB-OSK Asset Management Sdn Bhd **30.00%**
- **40.05%** Finexasia.com Sdn Bhd **59.95%**
  - Stock 188.com Sdn Bhd

OSK Investment Bank (Labuan) Limited

Others

- **RHB Insurance Berhad** ***(94.7%)***
- RHB Equities Sdn Bhd[1]
  - KYB Sdn Bhd[4]
- *RHB Capital (Jersey) Limited*
  - *RHB (Philipines), Inc*[2]
- RHB Hartanah Sdn Bhd
  - Positive Properties Sdn Bhd
  - RHB Property Management Sdn Bhd
- Straits Asset Holdings Sdn Bhd
  - SSSB Services (Melaka) Sdn Bhd[4]
  - SFSB Services (Melaka) Sdn Bhd
- RHBF Sdn Bhd
  - KYF Sdn Bhd[4]
- RHB Venture Capital Sdn Bhd
- RHB Kawal Sdn Bhd

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company · Jointly Controlled Entity · Associate company

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

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

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

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

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

Country of incorporation is Malaysia unless otherwise indicated in italics

Board of Directors

Standing from left to right:

DATO' MOHD ALI MOHD TAHIR
Independent Non-Executive Director

CHOONG TUCK OON
Independent Non-Executive Director

HAJI KHAIRUDDIN AHMAD
Independent Non-Executive Chairman

DATUK HAJI FAISAL SIRAJ

Independent Non-Executive Director

CHARLES LEW FOON KEONG

Independent Non-Executive Director

HAJI MD JA'FAR ABDUL CARRIM

Senior Independent Non-Executive Director

Haji Khairuddin Ahmad

(70 years of age – Malaysian)
Independent Non-Executive Chairman

Haji Khairuddin Ahmad (Haji Khairuddin) was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 1 December 2011, and thereafter appointed as Chairman on 1 January 2012. He serves as the Chairman of Group Risk Management Committee as well as a Member of the Group Credit Committee.

Haji Khairuddin Ahmad began his career in the banking industry and was previously with Citibank N.A., Southern Bank Berhad, Bank of Commerce Berhad and Arab Malaysian Finance Berhad. He attended the Advance Management Course at Columbia Business School in New York, USA.

Haji Khairuddin's other directorships in public companies include RHB Bank Berhad.

Haji Md Ja'far Abdul Carrim

(58 years of age – Malaysian)

Senior Independent Non-Executive Director

Haji Md Ja'far Abdul Carrim (Haji Ja'far) was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 10 August 2009. He was re-designated to Senior Independent Non-Executive Director on 25 November 2009. He also serves as the Chairman of the Risk Management Committee of RHB Islamic Bank and a Member of the Group Audit Committee, Group Risk Management Committee and Group Nominating and Human Resource Committee.

A civil engineer by training, Haji Ja'far's career of some 32 years includes a stint in the public sector as well as a broad range of activities in the corporate sector as Chief Executive Officer and at the board of directors level. His extensive experience covers inter alia, the areas of manufacturing, property development and construction. He holds a Bachelor of Science in Civil Engineering from Loughborough University, United Kingdom. Haji Ja'far is a member of the Institution of Engineer, Malaysia and the Curriculum Development Board for Polytechnics at the Ministry of Higher Education, Malaysia and is a Council Member for the Chair on Financial Planning for Old Age at University Malaya.

Haji Ja'far's other directorship in a public company is at RHB Insurance Berhad, where he was appointed as Chairman with effect from 1 January 2012.

Datuk Haji Faisal Siraj

(67 years of age – Malaysian)
Senior Independent Non-Executive Director

Datuk Haji Faisal Siraj (Datuk Faisal) was appointed as an Independent Non-Executive Director of RHB Islamic on 3 December 2007, and appointed as the Chairman on 15 January 2008. He relinquished his position as Chairman of RHB Islamic Bank with effect from 1 January 2012 but remained on the Board as an Independent Non-Executive Director. Datuk Faisal also serves as the Chairman of the Group Nominating and Human Resource Committee, as well as a Member of the Risk Management Committee of RHB Islamic Bank.

Datuk Faisal was a Fellow of the Institute of Chartered Accountants in England & Wales, a Member of the Malaysian Institute of Accountants and a Member of the Malaysian Institute of Certified Public Accountants.

Datuk Faisal started his career in 1968 with KPMG, London. On his transfer from KPMG, London to KPMG, Kuala Lumpur, he was posted to KPMG Kota Kinabalu until 1976. Datuk Faisal joined the Malaysia Mining Corporation (MMC) Group in 1976. He was the Group Executive Director and a Member of the MMC Board from 1981 to 1994. In 1995, he joined DRB-HICOM Berhad (DRB-HICOM) as the Group Chief Financial Officer in the capacity of Senior Group Director, Financial Services and Treasury Division and was a member of DRB-HICOM Board, before his retirement in 2005.

Datuk Faisal's other directorships in public companies include RHB Insurance Berhad and RHB Capital Berhad.

Charles Lew Foon Keong

(55 years of age – Malaysian)

Independent Non-Executive Director

Charles Lew Foon Keong (Mr Lew) was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 14 October 2008.

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

Mr Lew has more than 26 years of investment banking experience. He started his career in 1983 in London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) and subsequently worked for British merchant bank, Robert Fleming prior to joining Credit Commercial de France in 1989. In 1990, he returned to Asia to join Hoare Govett Asia (HG Asia) in Singapore, where he was responsible for the regional corporate finance business. In 1997, following the sale of HG Asia to ABN AMRO Bank, Mr Lew was appointed as the Managing Director of ABN AMRO's investment banking operations in Singapore. In late 1999, Mr Lew founded Equator Capital, an investment management and advisory company primarily active in trading of US equities options and managed futures. He has also participated in a number of private equity and pre-Initial Public Offerings (IPOs) investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global IPOs, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

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

Choong Tuck Oon

(54 years of age – Malaysian)
Independent Non-Executive Director

Choong Tuck Oon (Mr Choong) was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 9 August 2010. He also serves as the Chairman of Group IT & Transformation Strategy Committee as well as a Member of Group Risk Management Committee and Group Nominating and Human Resource Committee.

Mr Choong holds a Bachelor of Science (First Class) from University of Malaya, a Masters of Science from the Asian Institute of Technology and an Executive Diploma in Directorship from Singapore Institute of Directors and Singapore Management University.

Mr Choong was with Accenture for 23 years until his retirement in 2010 as Senior Partner in the Financial Services Asia-Pacific practice. Mr Choong has extensive experience leading business and IT transformation, mergers and acquisitions, and risk management for more than 20 large domestic, regional/global financial institutions across ASEAN and North Asia; including various national multi-banks collaborative initiatives. He has also experiences with Oil & Gas, Telecommunication and Utilities industries. Mr Choong was also involved in voluntary non-governmental organisation (NGO) activities, such as launching a bank-of-banks for micro-finance institutions across Indonesia for a consortium of international aid agencies and developing a new growth strategy across eleven countries in Asia Pacific for an international conservation fund. Prior to Accenture, Mr Choong was with Petronas for 7 years in various upstream and downstream functions.

Mr Choong's other directorship in public companies include RHB Bank Berhad.

Dato' Mohd Ali Mohd Tahir

(60 years of age – Malaysian)

Independent Non-Executive Director

Dato' Mohd Ali Mohd Tahir (Dato' Ali) was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 1 January 2011. Dato' Ali is also a Member of Group IT & Transformation Strategy Committee, Group Audit Committee and RHB Islamic Bank Risk Management Committee.

Dato' Ali acquired his professional banking qualification from Institute of Bankers of United Kingdom and holds a Diploma in Investment Analysis from Malaysian Association of Productivity of Malaysia. He also attended the ICLIF Global Leadership Development Programme under the auspices of Bank Negara Malaysia, held in Harvard University, Boston and Stanford School of Management, San Francisco.

Dato' Ali was with HSBC Bank Malaysia Berhad (HSBC Bank) for 36 years until his retirement in 2008 as Chief Operating Officer. He was responsible for the entire banking operations that included processes for core banking products and services, property management, operational risk management, process design and development with six sigma discipline foundation, bank security and procurement. As a career banker, Dato' Ali has extensive experience in regional and branch management and has developed a core competency in Corporate banking. During his tenure of service, he led the strategic bank-wide banking system conversion involving the change of the entire core operating system and hardware from mainframe to server technology.

Dato' Ali's other directorship in public companies include RHB Bank Berhad.

Introduction

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

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

OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

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

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

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

The Board believes that sound corporate governance practices contribute to managing the Group effectively and to achieving our strategic and operational goals and objectives. Not only has it helped establish the Islamic Bank's credibility and bolster our corporate reputation, it has also enhanced our shareholder value, provided assurance to investors, strengthened customers' trust in our businesses and improved the overall RHB Banking Group's competitive positioning.

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

Given the Group's vision "to be a Leading Multinational Financial Services Group" as well as the five new customer-centric core values with the acronym P.R.I.D.E. (i.e. Professional, Respect, Integrity, Dynamic and Excellence), the Board also considers the tenets of transparency, accountability, integrity and corporate performance as the prerequisites of a responsible corporate entity.

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

(i) Malaysian Code on Corporate Governance 2012 (the Code);
(ii) Bank Negara Malaysia's (BNM) Guidelines on Corporate Governance for Licensed Institutions (BNM's CG Guidelines);
(iii) Bursa Malaysia Securities Berhad's (Bursa Securities) Main Market Listing Requirements (MMLR) and Corporate Governance Guide (CG Code); and
(iv) Minority Shareholders Watchdog Group (MSWG) Corporate Governance Best Practices.

While stringent corporate governance practices and internal controls are already in place, we believe there is always room for improvement and are always exploring new avenues and measures to enhance the Islamic Bank's and Group's system of governance. In doing so, the Board makes a significant effort to understand and manage stakeholders' expectations. Such understanding is essential to ensure that our position and reputation as a bank is held in good stead. Moreover, this understanding enables us to fulfil the evolving needs of our stakeholders and support the Group's efforts to compete in the global arena.

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

EASY BY RHB

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

BUSINESS BANKING

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

RETAIL BANKING

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

RHB INVESTMENT BANK BERHAD

- Project Finance International Awards – Asia Pacific Project Bond of the Year
- Islamic Finance News Awards Deals of the Year – Malaysian Deal of the Year

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

OSK INVESTMENT BANK BERHAD

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

RHB RESEARCH INSTITUTE SDN BHD

- Asiamoney Brokers' Poll 2012 – 2nd Best Strategy
- Asiamoney Brokers' Poll 2012 – 3rd Best Macroeconomics
- Asiamoney Brokers' Poll 2012 – 3rd Best Overall Country Research
- Asiamoney Brokers' Poll 2012 – 4th Best Analyst for Malaysia: Lim Chee Sing
- 2012 Financial Times and StarMine Analyst Awards for Asia – No. 2 Overall Stock Picker
- FactSet The Wall Street Journal's 2012 Asia's Best Analyst Survey – 1st Position for Oil & Gas
- FactSet The Wall Street Journal's 2012 Asia's Best Analyst Survey – 3rd Position for Food & Beverage

OSK RESEARCH SDN BHD

- Asiamoney Brokers Poll 2012

Malaysia

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

Singapore

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

- StarMine Analyst Awards

Asia

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

Singapore

- 3rd Most Productive Broker

- Wall Street Journal Asia's Best Analyst – 2nd Best Analyst in Malaysia: Alvin Tai Siew Shen

RHB ISLAMIC BANK

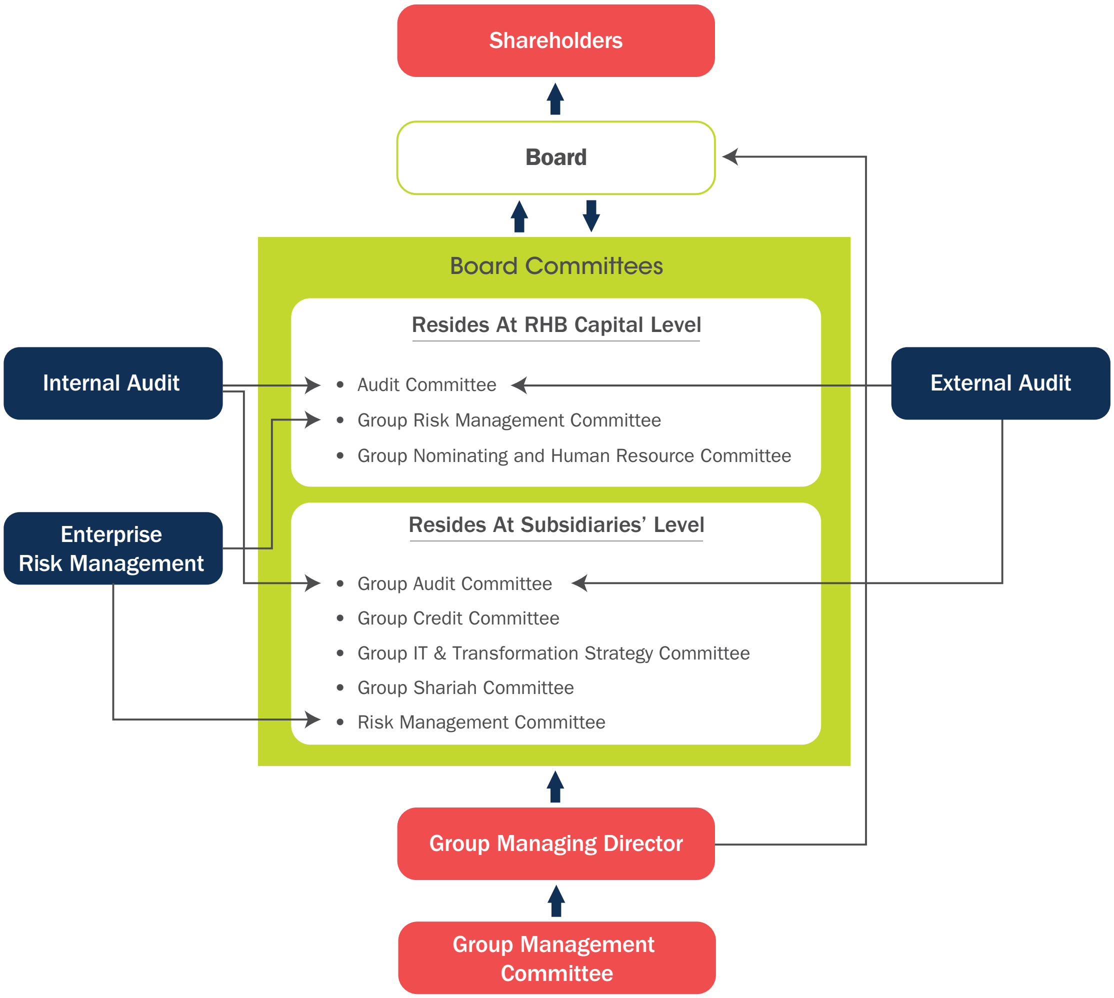
- CPI Financial – Islamic Business And Finance Award – Best Retail Bank Asia 2012

OSK-UOB INVESTMENT MANAGEMENT BERHAD

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

GOVERNANCE MODEL

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



BOARD OF DIRECTORS

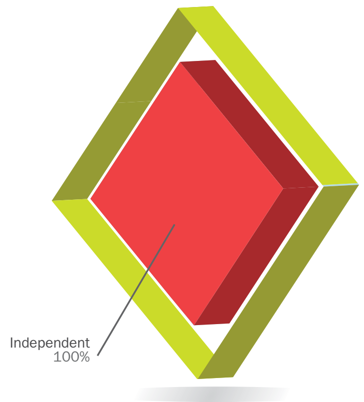
Board Composition and Balance

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

Currently, the Board has six Members, with an Independent Non-Executive Chairman and five Independent Non-Executive Directors (INEDs). The structure and composition of the Board comply with Code and BNM's CG Guidelines. The number of Independent Directors exceeds the requirement that one-third of Board Members be independent as set out in the Code and BNM's CG Guidelines.

The presence of the five INEDs ensures there is an effective check and balance in the functioning of the Board. These INEDs fulfil the criteria of independence as defined in BNM's CG Guidelines. They are not involved in the day-to-day management of the Company, nor do they participate in any business dealings of the Islamic Bank. This ascertains that they remain free of any conflict of interest and can undertake their roles and responsibilities as INEDs in an effective manner.

Composition of Board



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

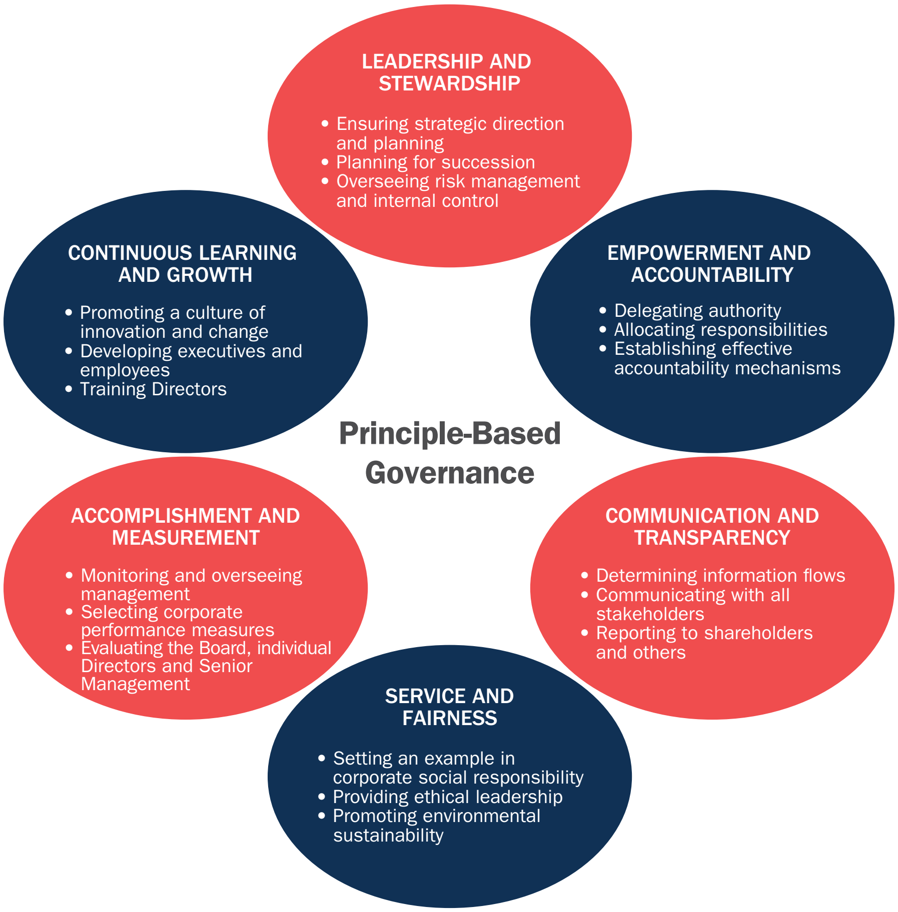
Directors' Qualification and Experience

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

The effectiveness of the Islamic Bank depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience. The Islamic Bank benefits from the diverse range of skills, knowledge and experience acquired by the non-executive Directors from their work experience and as Directors of other companies, both national and international (including banking, manufacturing, and consultancy). Collectively, the Board possesses skills and experience in a wide range of areas relevant to banking, business development, economics/finance, accounting/audit, IT risk, and general management skills. A brief profile of each member of the Board outlining their qualifications, experience and skills is presented on pages 10 to 15 of this Annual Report.

Duties and Responsibilities of the Board

The Board adopts the following six basic principles to form a good governance Board:



The Board is responsible for governing the business and affairs of the Islamic Bank and for exercising all such powers pursuant to the Articles of Association of the Islamic Bank. The Members of the Board are expected to perform their duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Islamic Bank's shareholder and stakeholders, and committed to ensuring that the highest corporate governance standards are adhered to. The overall principal responsibilities of the Board are as follows:

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

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

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

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

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

Chairman

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

The Chairman, Tuan Haji Khairuddin Ahmad, presides over Board and General Meetings of the Islamic Bank. He manages the affairs of the Board, with a view to ensuring that the Board functions effectively and meets its obligations and responsibilities, and leads the Board in the execution of its responsibilities to the shareholders. He ensures that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper decision making of the Board and the Islamic Bank. Additionally, the Chairman has to ensure that General Meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965, and that the shareholder has adequate opportunity to air its views and obtain answers to its queries.

In furtherance thereto, the Chairman also has these responsibilities:

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

The Chairman, Tuan Haji Khairuddin Ahmad, has over forty years' experience in financial and general management. He was the Vice President/Group Head of Citibank N.A. before being appointed as an Executive Director of Arab Malaysian Finance Berhad in 1999. Tuan Haji Khairuddin Ahmad joined the Group on 6 September 2001 and has served the Group for over eleven years. Tuan Haji Khairuddin Ahmad has attained the age of seventy on 10 February 2013 and pursuant to the Group's internal guidelines on the tenure of appointment and re-appointment of independent directors, he will retire at the forthcoming Annual General Meeting.

Managing Director (MD)

The day-to-day management of the business and operations of the Islamic Bank and ensuring the successful implementation of policies and directions as formulated by the Board is delegated to the Group MD of RHB Capital Berhad, who is assisted by the MD of RHB Bank Berhad, in view that the tenure of the Islamic Bank's MD has ceased on 14 February 2013. The search for the new MD of the Islamic Bank is ongoing and his appointment is subject to BNM's approval. The distinct and separate duties and responsibilities of the MD and the Chairman ensure the balance of power and authority in relation to the establishment of a fully effective Board.

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

- manage the business and operations and to put in place the policies and strategies adopted by the Board;

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

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

Non-Executive Directors (NEDs)

The roles of the NEDs are wide and varied. They provide considerable depth of knowledge collectively gained from their experience in a variety of public and private companies and other enterprises. The Board has determined that each current NEDs is independent within the meaning of the regulatory provisions. The Independent Directors provide unbiased and independent views in ensuring that the strategies proposed by the Management are fully deliberated on and take into account the interests of minority shareholders, employees, customers and the many communities in which the Group conducts its business. The Islamic Bank values and benefits from their judgement and the quality of their contributions to the deliberations of the Board and its Committees through their character, objectivity and integrity. The independence of the Independent Directors is reviewed on an annual assessment and benchmarked against best practices and regulatory provisions. The independent directors are required to provide their confirmations on their compliance with the criteria and definition of "independent director", as stipulated under Clause 2.26 and Clause 2.27 of BNM's CG Guidelines and Revised BNM/GP1-i, respectively.

In discharging their responsibilities, the Independent Directors engage with the Management as well as internal and external auditors, and participate in Board Committees within the Group. This is particularly so in the case of Tuan Haji Khairuddin Ahmad who is the Chairman of the Group Risk Management Committee and Member of Group Credit Committee; Tuan Haji Md Ja'far Abdul Carrim who is the Chairman of the Risk Management Committee of RHB Islamic Bank as well as Member of Group Risk Management Committee, Group Audit Committee and Group Nominating and Human Resource Committee; YBhg Datuk Haji Faisal Siraj who is the Chairman of the Group Nominating and Human Resource Committee and a Member of the Audit Committee of RHB Capital Berhad and Risk Management Committee of RHB Islamic Bank; YBhg Dato' Mohd Ali Mohd Tahir who is a Member of the Risk Management Committee of RHB Islamic Bank, Group Audit Committee and Group IT and Transformation Strategy Committee; and Mr Choong Tuck Oon who is the Chairman of the Group IT and Transformation Strategy Committee as well as Member of Group Risk Management Committee and Group Nominating and Human Resource Committee.

The Islamic Bank does not have any Non-Independent Non-Executive Directors on its Board of Directors.

Senior Independent Non-Executive Director (SINED)

The Board has appointed Tuan Haji Md Ja'far Abdul Carrim as the SINED, to whom concerns pertaining to the Islamic Bank may be conveyed by shareholder and the public.

Tuan Haji Md Ja'far Abdul Carrim has been an INED of RHB Islamic Bank since 10 August 2009 and was appointed as its SINED since 25 November 2009. Tuan Haji Md Ja'far Abdul Carrim was a civil engineer by training and his career of some thirty-two years includes stint in the public sector as well as a broad range of activities in the corporate sector as Chief Executive Officer and at the board of director's level. He also served on the Curriculum Development Board for Polytechnics at the Ministry of Higher Education, Malaysia and was Chairman of the Human Resource Consultative Panel at the Malaysian Productivity Corporation. Tuan Haji Md Ja'far Abdul Carrim is also a Member for the Chair on Financial Planning for Old Age at University Malaya.

The SINED has the following additional responsibilities:

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

All concerns relating to the Group can be channelled to the SINED's email address, *jafarcarrim@rhb.com.my*.

Board Charter

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

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

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

Code of Ethics and Business Conduct

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

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

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

The Group has in place a Group Code of Ethics and Conduct that is applicable to all its employees to ensure a high standard of ethical and professional conduct is upheld by all its employees in the performance of their duties and responsibilities. The Code establishes the standards that govern the way employees deal with each other, our shareholders, customers, suppliers, competitors and communities. Within this framework, employees are expected to exercise good judgment and be accountable for their actions. Compliance with the Code is part of the terms and conditions of employment of every employee of the Group.

Board Meetings and Access to Information

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

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

As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the Board Committees and main Management

Committees through minutes of these Committees. At each Meeting, the Board also receives updates from the respective Chairmen/representatives of the Group Audit Committee, Group Risk Management Committee and Risk Management Committee of RHB Islamic Bank on matters that have been deliberated at the Committees' Meetings, as well as on matters that require attention. This practice also applies for the rest of the entities of the Group.

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

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

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

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

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

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

The Group has in place the "Standard Procedures for Directors to Have Access to Independent Advice" which lays down the procedures for Directors to seek internal and/or external professional independent advice.

The objectives of these guidelines among others are as follows:

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

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

Expected Time Commitment

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

The Board convened fourteen meetings for the financial year ended 31 December 2012. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Directors	No. of Meetings Attended	Total Percentage of Attendance (%)
Tuan Haji Khairuddin Ahmad	14/14	**100**
YBhg Datuk Haji Faisal Siraj	14/14	**100**
Tuan Haji Md Ja'far Abdul Carrim	14/14	**100**
Mr Charles Lew Foon Keong	12/14	**86**
Mr Choong Tuck Oon	13/14	**93**
YBhg Dato' Mohd Ali Mohd Tahir	13/14	**93**
Tuan Haji Abd Rani Lebai Jaafar[1]	14/14	**100**

Notes:

[1] Ceased as Chief Executive Officer/Managing Director on 14 February 2013.

During the financial year, an offsite brainstorming session was held in September 2012 to deliberate specifically on the Islamic Bank's strategies and focus areas as well as 2013 business plans budget exercise. A Group Session was also held in October 2012. During the brainstorming, the Board and Senior Management of the Group collectively agreed on the long term strategies and business performance targets of the Group.

Appointments And Re-election To The Board

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

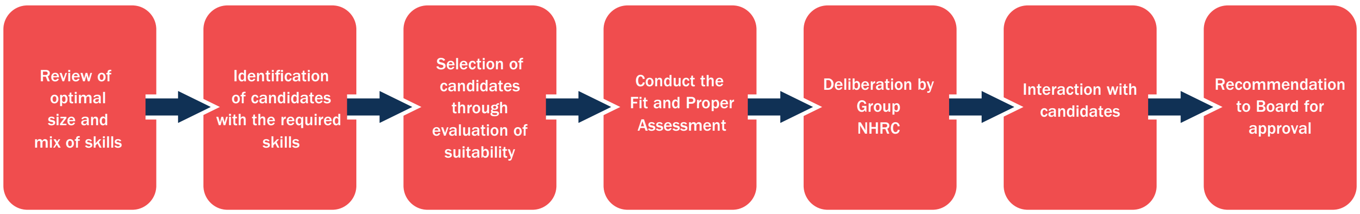
While the Board is responsible for the appointment of new Directors, the Group Nominating and Human Resource Committee (Group NHRC) is delegated with the role of reviewing and assessing the appointments/re-appointments of Directors.

Fit and Proper

RHB Banking Group has an effective and robust framework in place to ensure that individuals appointed to relevant senior positions within the Group have the appropriate fitness and propriety to properly discharge their prudential responsibilities on appointment and during the course of their appointment. It involves assessment being carried out for each Director and relevant senior executives. For the appointment of new Directors, a thorough and comprehensive fit and proper assessment (i.e. background, skills, knowledge and experience) of the nominee is undertaken by the Group NHRC in accordance with the Policy and Guidelines on Fit and Proper for Key Responsible Persons of RHB Banking Group (Fit and Proper Policy), through a transparent nomination process before a recommendation is made to the Board for approval. These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, and also involve declaration being completed by each individual as well as the obtaining of evidence of material qualification and the carrying out of checks such as criminal record, bankruptcy and regulatory disqualification checks, among others. These assessments are reviewed thereafter on an annual basis. The Fit and Proper Policy outlines the following criteria for assessment of the suitability of the candidate for appointment:

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

Nomination Framework



As for the re-appointment of existing Directors, the Group NHRC refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation besides their ongoing experience during their formal/informal interactions with the Directors. The application for the appointment/re-appointment of Directors will be submitted to BNM for consideration once the same is approved by the Board.

The Group has in place its internal guidelines on the Tenure of Appointment and Re-appointment of INEDs (Internal Guidelines) with the objective of preserving the independence of INEDs. The Board believes it should reflect a balance between experience and learning on the one hand, and the need for renewal and fresh perspectives on the other. Directors are expected to serve up to a maximum of ten years, assuming they receive satisfactory annual performance assessments, are annually re-elected by the shareholders, and meet the other requirements of the corporate governance requirements. In view of the current challenges in searching for suitably qualified and experienced INEDs (especially from the banking industry) in the market, the Group decided to maintain the two-year term of appointment or re-appointment of INEDs with a maximum service tenure of ten years for a transition period of one year. The maximum service tenure of nine years recommended in the Code will be adopted in 2014. However, the allowance for extension/re-designation will still not be adopted. The Board verily believes that the transitory approach is appropriate to address the immediate needs of the Group and the decision of not adopting the extension of tenure/re-designation will ensure the spirit of governance is adopted in its true context notwithstanding the test of time.

Pursuant to the Internal Guidelines, INEDs over seventy years of age will also not be eligible for appointment or re-appointment on the Board and shall retire at the next Annual General Meeting of the company concerned.

Article 68 of the Islamic Bank's Articles of Association provides that at least one-third of the Board is subject to retirement by rotation at each Annual

General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are subject to re-election by the shareholder at the next Annual General Meeting held following their appointment.

Succession Planning

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

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

Board Performance Evaluation

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

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

Part A: Board Effectiveness Assessment

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

Part B: Board of Directors – Self/Peer Assessment

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

Part C: Board Committees Assessment

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

The BEE is based on a combination of self and peer assessment performed via a customised questionnaire. To ensure integrity and independence of the appraisal process, Messrs PricewaterhouseCoopers Advisory Services Sdn Bhd (PwCAS) was engaged to collate and tabulate the results of the evaluation. This approach is in line with market best practices in ensuring the assessment is conduct independently from any internal influence. The BEE also includes interviews with Directors and Senior Management by PwCAS which are conducted in an in-depth manner to encompass areas which fall outside the realm of the written assessment. PwCAS will discuss the detailed BEE results with the Chairman of the Board as well as the Chairman of the Group NHRC. A summarised report will be presented to the Group NHRC as well as the Board of the Islamic Bank to enable the Board to identify areas for improvement. The Board will then analyse the gaps and put in place appropriate measures to ensure the overall effectiveness of the Boards within RHB Banking Group.

Training And Development

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

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

The Directors continuously participate in various seminars, conferences and training programmes and in-house workshops to keep themselves abreast of the relevant regulatory framework, financial sector issues as well as current and future market developments. The training and development of Directors are spelled out in the Group's Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group, the objectives of which are as follows:

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

The NEDs of the Islamic Bank and the Group also attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme (BHPP). This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that would engender organisational excellence.

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

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

Directors	Training Programmes
Tuan Haji Khairuddin Ahmad	Competition Act
	Internal Capital Adequacy Assessment Process (ICAAP) Directors Workshop
	Training Session No. 3 Of ICAAP
YBhg Datuk Haji Faisal Siraj	Competition Act
	ICAAP Directors Workshop
	Flex – Business Re-Imagined
	Training Session No. 2 Of ICAAP
	ICLIF Strategic Development Programme
	Training Session No. 3 Of ICAAP
Tuan Haji Md Ja'far Abdul Carrim	Insurance Insight
	Fide Elective Programme: ICAAP Programme
	Fide Elective Programme: The Director's Legal Tool Kit
	Fide Elective Programme: Risk Management Committee
	Competition Act
	Risk Committee Programme – Bank
	Managing Banking Operations and Innovation

Directors	Training Programmes
	The Framework of Shariah Compliance and Governance
	ICAAP Directors Workshop
	Flex – Business Reimagined
	Nomination/Remuneration Committee
	Training Session No. 2 Of ICAAP
	ICAA – MICPA Audit Forum
	ICLIF Strategic Development Programme
	Training Session No. 3 Of ICAAP
Mr Charles Lew Foon Keong	ICAAP Directors Workshop
	FIDE Elective Programme: Financial Statements Fundamentals "What's in the Numbers"
	Fide Elective Programme: ICAAP – Board IT Governance & Risk Management
	ICLIF Strategic Development Programme
Mr Choong Tuck Oon	Fide Elective Programme: Private Equity Programme
	Competition Act
	The Framework Of Shariah Compliance And Governance
	ICAAP Directors Workshop
	Training Session No. 3 Of ICAAP
YBhg Dato' Mohd Ali Mohd Tahir	ICAAP Directors Workshop
	FIDE Elective Programme: Banking Insight
	Fide Elective Programme: Board IT Governance
	Training Session No. 2 Of ICAAP
	Training Session No. 3 Of ICAAP
Tuan Haji Abd Rani Lebai Jaafar [1]	Competition Act
	The Framework of Shariah Compliance and Governance
	Flex – Business Re-Imagined
	Training Session No. 2 Of ICAAP
	ICLIF Strategic Development Programme
	Training Session No. 3 Of ICAAP

Notes:

[1] Ceased as Chief Executive Officer/Managing Director on 14 February 2013.

Board Professionalism

Directorships in Other Companies

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

Insider Trading

In accordance with the MMLR of Bursa Securities and the relevant provisions of the Capital Markets & Services Act 2007, Directors, key Management personnel and principal officers of RHB Banking Group are prohibited from trading in securities or any kind of property based on price sensitive information and knowledge which have not been publicly announced unless the procedures relating to dealing in securities during the closed period in accordance with paragraph 14.08 of the MMLR have been complied with. Notices on the closed period for trading in RHB Capital Berhad securities are circulated to Directors, key Management personnel and principal officers of RHB Banking Group who are deemed to be privy to any price sensitive information and knowledge, in advance of whenever the closed period is applicable.

Directors' and Officers' (D&O) Insurance

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

COMPANY SECRETARY

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

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

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

GROUP BOARD COMMITTEES

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

At RHB Capital Berhad Level

- **Group Nominating and Human Resource Committee (i.e. the consolidated committee of the Group Nominating Committee and the Group Remuneration and Human Resource Committee)**
  - All of its members are Independent NEDs; and
  - Its main objective is to support the Boards in providing oversight and direction on Human Resource matters and operations, and to recommend to the Boards for approval, the remuneration and human resource strategies, policies and frameworks.

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

At RHB Bank Level

- **Group Audit Committee**
  - All of its members are Independent NEDs; and
  - Its main objective is to provide independent oversight of the financial reporting and internal

control system and ensure checks and balances for entities within RHB Banking Group, excluding RHB Capital.

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

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

At RHB Islamic Bank level

- **Risk Management Committee**
  - Notwithstanding the Group Risk Management Committee at RHB Capital Berhad, BNM still requires a dedicated Risk Management Committee at RHB Islamic Bank to deal specifically with the risks and intricacies associated with Islamic Finance.

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

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

Group Nominating And Human Resource Committee

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

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

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

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

- Establish a documented procedure for the appointment of directors, board committee members, Group Shariah Committee (GSC) and key senior management officers.
- Establish and recommend for Board approval, minimum requirements for directors, GSC and key senior management officers.
- Establish and recommend for Board approval, the optimal size and mix of skills to ensure efficient operation of the Boards/Board Committees/ GSC.
- Review on a periodic basis, the policy on boardroom and gender diversity.
- Assess and recommend for Board approval, new and reappointed nominees for directorship, board committee members, GSC and key senior management officers.
- Establish and recommend for Board approval, the expectations on time commitment for the board members and protocols for accepting new directorships.
- Establish and recommend for Board approval, a mechanism for the formal assessment of the performance of Boards as a whole, Board Committees, GSC, each Director and key senior management officers.
- Review performance assessment results and recommend to the Board, the removal of any director, GSC or key senior management officer found to be ineffective, errant and negligent in the discharge or responsibilities.
- Ensure directors, board committee members and GSC receives an appropriate induction and continuous training programs for closure of skill gaps and keeping abreast with latest developments.
- Establish and recommend for Board approval, the criteria to assess independence of independent directors.
- Assess annually the independence of independent directors and that the directors and officers of the Group meet the identified independence criteria and are not disqualified under relevant regulations.
- Review and recommend for Board approval, any significant change in the organisation structure of the Group or/and the major operating subsidiaries.
- Whenever key expatriates at the Group are employed, to ensure there is in place a process for the transfer of expertise and skills from the expats to the staff of the Group.
- To recommend to the Board, a policy regarding the period of service for the Executive and Non-Executive Directors.
- Perform any other functions as defined by the Board.

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

- Ensure the establishment of formal and transparent procedures for developing Remuneration and HR policies, strategies and framework for directors, GSC, key senior management officers (which entails Group MD, Chief Executive Officer/ Managing Directors (CEO/MD), and Direct Reports of the Group MD and CEO/MD in major entities (save for Chief Internal Auditor) and any persons as may be decided by the Committee) and staff.
- Recommend remuneration strategies, policies and framework and specific remuneration packages for directors, board committee members, GSC and key senior management officers, which should be (where relevant):
  - Market competitive and in support of the Group's culture, vision, objectives and strategy
  - Reflective of the responsibilities and commitment required
  - Sufficient to attract and retain quality people but yet not excessive
  - Performance driven with sufficient emphasis on long term development of the Group to avoid excessive short-term risk-taking
  - The framework should cover all aspects of remuneration including directors' fees, salaries, allowances, bonuses, option and benefit-in-kind.
- Ensure Human Resource strategies, policies and frameworks are in place for all the building blocks of a quality Human Resource management system (e.g. succession planning, talent and leadership development, training, etc.) to support the Group in achieving its objectives.
- Review and assess the effectiveness of the Human Resource Division in supporting the Group.
- Review and recommend for Board approval, any significant change in the organisation structure of the Group or/and the major operating subsidiaries.
- Perform any other functions as defined by the Board.

Group Risk Management Committee

The Group Risk Management Committee (Group RMC) comprises solely INEDs.

The Group RMC met eighteen times during financial year 2012.

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

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (Chairman)	18/18 (100%)
Mr Patrick Chin Yoke Chung	16/18 (89%)
Tuan Haji Md Ja'far Abdul Carrim	18/18 (100%)
Mr Choong Tuck Oon	16/18 (89%)
YBhg Dato' Saw Choo Boon	15/18 (83%)

The salient terms of reference of the Group RMC are as follows:

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

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

Group Audit Committee

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

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

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

The composition of the Group AC and the attendance of the Members thereof together with the terms of reference and activities of the Group AC during the financial year are set out in the Group AC Report at pages 44 to 48 of this Annual Report.

Group Credit Committee

The Group Credit Committee (GCC) comprises four Independent Non-Executive Directors of whom one is the Chairman. During the financial year ended 31 December 2012, a total of thirty nine meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Directors	Attendance at Meetings
YBhg Dato' Mohamed Khadar Merican (Chairman)	34/39 (87%)
Tuan Haji Khairuddin Ahmad	38/39 (97%)
Encik Abdul Aziz Peru Mohamed	38/39 (97%)
Mr Patrick Chin Yoke Chung	32/39 (82%)

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

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

Group IT and Transformation Strategy Committee

The Group IT & Transformation Strategy Committee (GI&TSC) comprises three Independent Non-Executive Directors of whom one is the Chairman, the Group Managing Director and the Managing Director of RHB Bank. During the financial year ended 31 December 2012, a total of eleven meetings were held and the details of attendance of each member at the GI&TSC Meetings held during the financial year ended 31 December 2012 are as follows:

Name of Directors	Attendance at Meetings
Mr Choong Tuck Oon (Chairman)	11/11 (100%)
Mr Ong Seng Pheow	11/11 (100%)
YBhg Dato' Mohd Ali Mohd Tahir	11/11 (100%)
Mr Kellee Kam Chee Khiong	7/11 (64%)
Encik Johari Abdul Muid	8/11 (73%)

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

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

Below is the Group Board Committee that resides at RHB Islamic Bank level:

Risk Management Committee

The Risk Management Committee (RMC) comprises solely INEDs, of whom one is the Chairman. The RMC met seventeen times during financial year 2012. The composition of the RMC and the attendance of the Members at meetings held in 2012 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Md Ja'far Abdul Carrim (Chairman)	17/17 (100%)
YBhg Datuk Haji Faisal Siraj	17/17 (100%)
YBhg Dato' Mohd Ali Mohd Tahir	17/17 (100%)

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

- To provide risk oversight and guidance to ensure that the management of risk exposures in the bank are aligned to the principles of Islamic Banking as guided by the relevant regulatory authority.
- To provide risk oversight and guidance to ensure core risk policies are consistent with the RHB Group by setting tolerance level within prudent limits, facilitate the implementation of BNM's The New Capital Adequacy Framework for Islamic Banks, Internal Capital Adequacy Assessment Process (Pillar 2), Basel II Accord and Islamic Financial Services Board (IFSB) Standards and any other relevant regulatory authority.
- To oversee execution of risk policies and related decisions of the Board of Directors (BOD), as is appropriate.
- To provide oversight for major risk categories which are unique to Islamic finance such as:
  a) Displaced Commercial Risk;
  b) Withdrawal Risk;
  c) Rate of Return Risk;
  d) Fiduciary Risk and Reputational Risk.
- To provide risk oversight and guidance to ensure prior to the launching of product, that risks unique to Islamic finance are identified and risk mitigation measures are in place.

Group Shariah Committee

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

The salient terms of reference of the Group SC are as follows:

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

Other Management Committees

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

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

DIRECTORS' REMUNERATION

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

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

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

(i) Annual Fees

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

(ii) Allowances

NEDs are also entitled to meeting attendance allowances when they attend any Board/Board Committee meetings. In addition, NEDs who sit on Board Committees are entitled to receive Board Committee allowances which shall be paid on an annual basis at the end of each financial year.

(iii) Benefits-In-Kind

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

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

In order to remain competitive and consistent with the culture, objective and strategy of the Group, the remuneration framework of the NEDs are reviewed periodically to ensure that they remain competitive with the market.

The details on the aggregate remuneration of the Directors of the Islamic Bank (comprising remuneration received and/or receivable from the Islamic Bank during the financial year 2012) are disclosed under Note 25 of the Notes to the Financial Statements in this Annual Report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Stakeholder Communications

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

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

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

Investor Relations

The RHB Banking Group recognises the importance of developing a healthy relationship with the investment community. With the view of creating shareholder value and keeping communication channels open between the Group and the investment community, the Investor Relations team planned and implemented a comprehensive engagement programme in 2012. The Group engages proactively and regularly with the investment community to share the Group's strategy and vision and to discuss on the overall operations, business and financial performance, whilst ensuring timely and fair dissemination of information.

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

Meetings and Tele-conferences

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

Conferences and Roadshows

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

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

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

INTERNAL CONTROL

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

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

An overview of the Islamic Bank and the Group's systems of internal control is contained in the Statement on Risk Management & Internal Control set out on pages 40 to 43 of this Annual Report.

Relationship With External Auditors

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group Audit Committee. The role of the Group Audit Committee in relation to the External Auditors is disclosed in the Group Audit Committee Report set out on pages 44 to 48 of this Annual Report.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors

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

Internal Audit Function

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

Risk Management

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

An overview of the Islamic Bank and the Group's systems of risk management is contained in the Statement on Risk Management & Internal Control set out on pages 40 to 43 of this Annual Report.

Related Party Transactions

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

Details of these transactions are set out under Notes 29 to the Financial Statements on pages 117 to 120 of this Annual Report.

Group Whistle Blower Policy

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

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

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

COMPLIANCE WITH THE CODE

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

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

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

INTRODUCTION

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

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

RESPONSIBILITY

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

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

The risk management and control framework established in the Islamic Bank to manage risk includes an ongoing process for identifying, evaluating, managing and reporting of significant risks that may affect the achievement of the Islamic Bank's business objectives and strategies. This covers the period throughout the financial year under review and up to the date of this report.

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

RISK MANAGEMENT AND CONTROL FRAMEWORK

A sound framework of risk management and internal control is fundamental to good corporate governance. The key elements implemented by the Board and Management for maintaining a sound system of risk management and internal controls encompass the following:-

- **Risk Management Framework**

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

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

  The Board has since inception of the Islamic Bank established its own Risk Management Committee, which meets regularly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Islamic Bank's range of inter-related risks in an integrated manner.

  In discharging its overall duties and responsibilities, the Risk Management Committee is supported by the Islamic Bank's risk management function set up within the RHB Banking Group Risk Management Division, which monitors and evaluates the effectiveness of the Islamic Bank's risk management system on an ongoing basis.

  In promoting synergies within the Group, the Islamic Bank's risk management function also reports to the Group Risk Management Committee.

  In terms of Shariah risk governance, a Group Shariah Committee, which resides at the Islamic Bank, has been set-up and established to handle matters relating to Shariah principles and rulings.

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Assets & Liabilities Management Committee, Central Credit Committee, Group Credit Committee (GCC), Group IT and Transformation Strategy Committee, and Group Capital and Strategic Risk Management Committee.

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

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

The Group has also embarked on implementing the Internal Capital Adequacy Assessment Process (ICAAP) with the objective to forge a strong alignment between risk and capital. Capital adequacy shall be assessed in relation to the Group's risk profiles, and strategies will be put in place to maintain appropriate capital levels. An ICAAP Framework has been formulated for implementation across the Group to ensure that all material risks are identified, measured and reported and adequate capital levels consistent with the risk profiles including capital buffers are maintained to support the Group's current and projected demand for capital under existing and stressed conditions.

Internal Audit Function

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

The results of the audits conducted by Group Internal Audit are reported to the Group AC. Follow-up and review of status of action taken as per the auditors' recommendations are carried out by the Management via the Management Audit Committee (chaired by the Managing Director) whose members comprise senior management. The minutes of meetings of the Management Audit Committee are tabled to the Group AC for notation.

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

With regard to Shariah audit, Group Internal Audit has established its own Shariah Audit Programme, which was endorsed by the Group Shariah Committee, for guidance to the Group Internal Auditors in terms of auditing Shariah matters. Findings and recommendations arising from Shariah audits are communicated to the Group AC and Group Shariah Committee for notification and deliberation.

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

Compliance Framework

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

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

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

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

In addition, the Islamic compliance function has been established in the RHB Banking Group in order to assist the RHB Banking Group compliance function in monitoring the Islamic banking activities of the Islamic Bank.

To mitigate compliance risk, briefings as well as various awareness and learning initiatives were conducted throughout the year to heighten awareness to compliance to embed a compliance culture within the Islamic Bank.

Shariah Compliance

In line with the Guidelines on the Shariah Governance Framework for the Islamic Financial Institutions issued by Bank Negara Malaysia, Group Shariah Committee will ensure that the Group's Islamic-based business and operations comply with the Shariah principles at all times.

The Shariah Framework for the Group has also been put in place which encompasses the concept of Shariah, Islamic banking business, governance and reporting structure, roles and responsibilities, Shariah compliance strategy, and Shariah approval procedures.

To mitigate Shariah compliance risk, various researches and briefings as well as awareness and learning programmes were conducted throughout the year to ensure compliance with the Shariah principles.

Board Committees

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

The following are the Group Board Committees that reside at RHB Bank Berhad:

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

The following are the Group Board Committees that resides at RHB Capital Berhad:

- Group Nominating and Human Resource Committee;
- Group Risk Management Committee; and
- Audit Committee of RHB Capital Berhad.

Management Committee

The Management Committee (MC), comprising key management personnel of the Islamic Bank and chaired by the Managing Director of the Islamic Bank. The MC provides a forum for the Islamic Bank's Senior Management to discuss and deliberate on strategic matters that impact the Islamic Bank's vision and strategic direction as well as operational matters, business synergies and brand value. The MC meets regularly and special meetings are convened to discuss urgent issues.

Authority Limits

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

Internal Policies and Procedures

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

Budgeting Process

A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets and business plans annually for approval by the respective Boards. The Group's budget and business plans as well as strategic initiatives are discussed by the Group's senior management and the Board at an annual business planning and budgetary session.

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

Performance Review

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

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

- **Human Capital Management**

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

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

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

- **Group Code of Ethics and Conduct**

The Group Code of Ethics and Conduct (the Code) sets out the standards of good and ethical banking practices, and aims to maintain confidence in the security and integrity of the Group's business practices.

It is a requirement that all employees of the Group understand and observe the Code and sign the Employee Declaration of Compliance Form upon joining the Group.

- **Group Whistle Blower Policy**

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

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

The AML/CFT Programme is continuously reviewed and updated to meet the regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards, in accordance with the AML/CFT Programme and to be continuously vigilant against the Islamic Bank being exposed or used to launder money or finance illegal activities including terrorist financing.

- **Incident Management Framework**

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

ASSESSMENT OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

Activities Of Group Audit Committee

The Group Audit Committee (Group AC) presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2012 (year), a total of twenty (20) Group AC meetings were held and details of attendance of each member at the Group AC meetings held during the year are as follows:-

Composition of the Group AC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	20/20 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	20/20 (100%)
3. Tuan Haji Md Ja'far Abdul Carrim (Member/Independent Non-Executive Director)	20/20 (100%)
4. Dato' Saw Choo Boon (Member/Independent Non-Executive Director)	19/20 (95%)
5. Dato' Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director)	19/20 (95%)

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

- Reviewed the unaudited quarterly and half-year financial results and the annual audited financial statements of RHB Islamic Bank Berhad prior to their approval by the Board. It also considered the accounting standards applicable in the preparation of the financial statements;
- Reviewed the audit plan of the external auditors, the audit strategy and scope of work for the year, as well as the results of their annual audit;
- Reviewed with the external auditors, the results of their annual audit and audit committee report together with the management's response to their findings and recommendations;
- Met twice with the external auditors for discussion without the presence of the management;
- Reviewed the non-audit services rendered by the external auditors and the related fees;
- Evaluated the performance of the external auditors and made recommendations to the Board for their appointment and audit fees;
- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;
- Reviewed the status of completion of the internal audit plan, the internal audit reports, audit recommendations made and management's response to these recommendations as well as actions taken to improve the system of internal controls and procedures;
- Reviewed the related party transactions entered into by RHB Islamic Bank Berhad and its related parties;
- Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings to satisfy itself that all matters highlighted in these reports have been adequately and promptly addressed by management; and
- Tabled the minutes of each Group AC meeting to the Board for notation, and for further direction by the Board, where necessary.

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

(a) Banking and Finance

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

(b) Board and Corporate Governance

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

Internal Audit Function

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Objectives

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

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

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

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

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

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

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

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

Duties and Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25. To review the following pertaining to RHB Insurance Berhad:-
    (i) The Chairman's statement, interim financial reports and preliminary announcements;
    (ii) Corporate governance disclosures made in the Directors' Report pursuant to the requirement in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers; and
    (iii) All representation letters signed by management, and be satisfied that the information provided is complete and appropriate.

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

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

Authority

1. The Chairman of the Committee should engage on a continuous basis with senior management, such as the Managing Director/ Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Head of Internal Audit and the External Auditors in order to be kept informed of matters affecting the Group.

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

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

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

Meetings

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

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

3. The Head of Internal Audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the Managing Director/Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.

4. At least twice a year, the Committee shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider

any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.

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

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

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

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

Membership

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

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

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

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

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

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

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

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

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

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

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

Financial Statements

The directors submit herewith their report together with the audited financial statements of the Bank for the financial year ended 31 December 2012.

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 Articles of Association and Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	155,896

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 RM773,424,000 to RM973,424,000 via issuance of 200,000,000 new ordinary shares of RM1.00 each to RHB Bank Berhad, its immediate holding company.

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

NON-PERFORMING 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 non-performing financing and advances, and satisfied themselves that all known bad financing and advances have been written off and adequate allowance had been made for non-performing 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 or the amount of allowance for non-performing financing 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 so to realise.

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

ITEMS OF AN 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 since the date of last report and at the date of this report are:

Haji Khairuddin Ahmad
Datuk Haji Faisal Siraj
Charles Lew Foon Keong
Haji Md Ja'far Abdul Carrim
Choong Tuck Oon
Dato' Mohd Ali Mohd Tahir
Haji Abd Rani Lebai Jaafar (Resigned on 15 February 2013)

Pursuant to Article 68 of the Bank's Articles of Association, Datuk Haji Faisal Siraj and Mr. Charles Lew Foon Keong retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129 of the Companies Act, 1965, Haji Khairuddin Ahmad who was appointed during the financial year, retires at the forthcoming Annual General Meeting and does not wish to offer himself for re-election.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 25 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' INTERESTS IN SECURITIES

According to the register of Directors' shareholding, the Directors in office at the end of the financial year holding securities of the Bank and its related corporations were as follows:

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2012/ date of appointment	Bought	Sold	As at 31.12.2012
Ultimate Holding Company				
RHB Capital Berhad				
Choong Tuck Oon				
– Direct	1,030	31	–	**1,061**
Haji Khairuddin Ahmad				
– Indirect*	18,552	1,695	–	**20,247**

* *Deemed interest by virtue of the shareholding held by spouse pursuant to Section 134 (12) (c) of the Companies Act, 1965.*

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

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2012 and of the financial results and cash flows of the Bank for the financial year ended 31 December 2012.

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

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 172 of the financial statements.

CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

(A) BOARD OF DIRECTORS

The Board currently has seven (7) members, comprising an Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors and a Chief Executive Officer/Managing Director, details of which are as follows:

Name of Directors	Designation
Haji Khairuddin Ahmad	Independent Non-Executive Chairman
Datuk Haji Faisal Siraj	Independent Non-Executive Director
Haji Md Ja'far Abdul Carrim	Senior Independent Non-Executive Director
Charles Lew Foon Keong	Independent Non-Executive Director
Choong Tuck Oon	Independent Non-Executive Director
Dato' Mohd Ali Mohd Tahir	Independent Non-Executive Director
Haji Abd Rani Lebai Jaafar	Chief Executive Officer/Managing Director

Haji Abd Rani Lebai Jaafar resigned as Chief Executive Officer and Managing Director on 15 February 2013.

Duties And Responsibilities Of The Board

The Board is responsible for governing the administration of the Bank and for exercising all such powers pursuant to the Articles of Association of the Bank. In general, the Board is also responsible for:

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

The CEO/MD is responsible for managing the business and operations of the Bank and ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the CEO/MD and the Chairman ensure a balance of power and authority in relation to the establishment of a fully effective Board.

The CEO/MD is also the Director of Islamic Banking, one of the Strategic Business Groups (SBGs) within the RHB Banking Group and a member of the Group Management Committee (GMC).

(A) BOARD OF DIRECTORS (CONTINUED)

Board Meetings

The Board meets on a monthly basis. Special meetings are held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

The Board is provided with meeting papers in advance of the meeting dates to allow the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and formulate opinions on matters to be deliberated at the meetings. In line with best practices, Board materials/papers are circulated to Members of the Board at least seven days prior to the scheduled Board Meeting. At each Meeting, the Board receives updates from the respective Chairman/representatives of the Group Audit Committee and Group Risk Management Committee/Islamic Risk Management Committee on matters that have been deliberated at these committees, as well as on matters that require attention. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives.

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

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

The Group has in place a 'Standard Procedures for Directors to Have Access to Independent Advice' which lays down the procedures for Directors seeking internal and/or external professional independent advice.

The Board convened fourteen (14) meetings for financial year ended 31 December 2012. The attendances of each director in office at the end of the financial year at the aforesaid Board Meetings are set out below:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad	14/14	100
Datuk Haji Faisal Siraj	14/14	100
Charles Lew Foon Keong	12/14	86
Haji Md Ja'far Abdul Carrim	14/14	100
Choong Tuck Oon	13/14	93
Dato' Mohd Ali Mohd Tahir	13/14	93
Previous Member		
Haji Abd Rani Lebai Jaafar [(1)*]	14/14	100

Notes:

(1) *Resigned on 14 February 2013*

* *Based on the number of meetings attended during his tenure of appointment in 2012*

Pursuant to the Revised BNM/GP1-i, individual directors must attend at least 75% of the Board meetings held in each financial year. For the financial year under review, all Directors complied with the attendance requirement as stipulated by BNM.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Audit Committee

The Group Audit Committee (Group AC) comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2012, a total of twenty (20) meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2012 are as follows:

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

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

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

Group Remuneration and Human Resource Committee

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

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

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

(A) BOARD OF DIRECTORS (CONTINUED)

Group Nominating Committee and Human Resource Committee

Prior to the consolidation of Group NC and Group RHRC, separate meetings were held for both Committees. The details of attendance of each member at each of the Committee Meetings held during the financial year ended 31 December 2012 are as follows:

Group Nominating Committee

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

Group Remuneration and Human Resource Committee

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Risk Management Committee

The Risk Management Committee comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2012, a total of seventeen (17) meetings were held and details of attendance of each member at the Risk Management Committee Meetings held during the financial year as at 31 December 2012 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Md Ja'far Abdul Carrim (Chairman)	17/17	100
Datuk Haji Faisal Siraj	17/17	100
Dato' Mohd Ali Mohd Tahir	17/17	100

The Risk Management Committee is responsible to provide oversight over the management of risks unique to Islamic finance.

BNM has approved the consolidation of the existing Risk Management Committees within RHB Capital Group, which includes RHB Islamic Bank Berhad. However, BNM still requires a dedicated Risk Management Committee at the Bank to deal specifically with the risks and intricacies associated with Islamic finance.

Group Risk Management Committee

The Group Risk Management Committee (Group RMC) presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2012, a total of eighteen (18) meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2012 are as follows:

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

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

(A) BOARD OF DIRECTORS (CONTINUED)

Group Credit Committee

The Group Credit Committee (GCC) comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2012, a total of thirty nine (39) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2012 are as follows:

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

The GCC's main functions are affirming, imposing additional covenants or vetoing credits of RHB Banking Group which were duly approved by the Central Credit Committee.

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee (GI & TSC) comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, the Managing Director of RHB Bank Berhad and the Managing Director of RHB Capital Berhad. During the financial year ended 31 December 2012, a total of eleven (11) meetings were held and the details of attendance of each member at the GI & TSC Meetings held during the financial year ended 31 December 2012 are as follows:

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(B) RISK MANAGEMENT FRAMEWORK

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

The Framework enshrines five fundamental principles that drive the philosophy of risk management. They are:

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

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

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

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

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

The financial risk management objectives and policies of the Bank are set out in Note 33 to the financial statements.

(C) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

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

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

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

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

(D) MANAGEMENT REPORTS

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH COMMITTEE

The RHB Capital Group Shariah Committee (GSC) comprises of five (5) qualified local Shariah scholars; an amalgamation of knowledge and experience approach from these Shariah scholars is blended to position the Bank's operations and products to be globally accepted and competitive.

During the financial year ended 31 December 2012 a total of seven (7) meetings were held and details of attendance of each member at the Group Shariah Committee Meetings held during the financial year as at 31 December 2012 are as follows:

Composition of the Group Shariah Committee Current Members:	Attendance at the Committee meetings
1. Dr. Ghazali Jaapar (Chairman)	7/7
2. Professor Dr. Joni Tamkin Borhan	6/7
3. Dr. Akhtarzaite Abdul Aziz	7/7
4. Dr. Amir Shaharuddin	6/7
5. Dr. Marjan Muhammad	5/7

The main duties and responsibilities of the Group Shariah Committee as supplemented by the Bank's Shariah Unit staff are:

(i) Advise the Group on Shariah matters in order to ensure that the Islamic business and operations of the Group comply with Shariah principles;

(ii) Endorse the Group's Shariah Compliance Manuals which must specify the manner in which a submission or request for advice be made to GSC, the conduct of GSC's meeting and the manner of compliance with any decision thereof;

(iii) Endorse and validate the following documentation:

  (a) Terms and conditions contained in the proposal forms, contract, agreement or other legal documentation used in executing the transactions; and

  (b) Product manuals including marketing and advertisement, sales illustration and brochures used to describe the products.

(iv) Provide Shariah advice to the Group's legal counsel, auditor or consultant on Shariah matters as and when required to ensure compliance with Shariah principles;

(v) Advise on matters to be referred to the Shariah Audit Committee (SAC) of BNM, particularly matters which have not been resolved or endorsed by SAC;

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

(vi) Prepare written Shariah opinions particularly for the following circumstances:

(a) Where the Group makes reference to the SAC of BNM for advice; or

(b) Where the Group submits applications to BNM or SC for new product approval in accordance with guidelines on product approval issued by BNM and SC;

(vii) To articulate the Shariah issues involved and to ensure that all advice and/or opinion be supported by relevant Shariah jurisprudential literature from established sources. GSC is also expected to assist the SAC of BNM on any matters referred by the Group and to ensure that decisions/opinion/advice of SAC of BNM are properly implemented/adhered to by the Group;

(viii) Where the issues involved relate directly to or falls under the purview of the SC, the Group Shariah Committee's responsibilities include the following:

(a) To ensure that the formulation on policies of the Group relating to matters concerning the securities industry comply with the Shariah principles at all times.

(ix) In respect of matters concerning Islamic unit trust funds (Fund), the GSC is responsible to:

(a) Ensure that the Fund is managed and administered in accordance with Shariah principles;

(b) Provide expertise and guidance in all matters relating to Shariah principles, including on the Fund's deed and prospectus, its structure and investment process and other operational and administrative matters;

(c) Consult the SC where there is ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process;

(d) Act with due care, skill and diligence in carrying out its duties and responsibilities;

(e) Scrutinise the Fund'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 Fund's investment are in line with Shariah principles; and

(f) Prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered with Shariah principles for the period concerned.

(x) Advice on payment of Zakat to the appropriate authority.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PERFORMANCE REVIEW FOR 2012

The global banking sector has made some modest progress over the past 12 months moving towards a more stabilised position after the financial crisis. Banks have launched numerous initiatives to improve capital efficiency, optimise revenues, and manage costs diligently. From an earnings perspective, however, it has yet to show the desired results due to the combined impact of low profit rates coupled with the implementation of a tightened capital requirement by the respective central banks.

Despite the challenging environment, the Malaysian economy posted a stable and commendable growth due to its strong domestic demand. Essentially the demand was driven by an expansion in the household and business spending as well as higher public sector expenditure arising from the Government's proactive measures under the Economic Transformation Programme.

In line with the rapid growth of Islamic finance in the domestic market, RHB Islamic Bank continued to build on demand by focusing on efforts to improve its leadership position in selected markets and product segments and further enhancing relationships with existing customers while developing new ones. The Islamic Bank also leveraged on the Group's infrastructure and distribution network and during the financial year under review, an additional RM200 million was injected, strengthening the Bank's capital position to cater for further business expansion.

Notwithstanding the challenging external environment in 2012, the Bank continued to perform satisfactorily with the balance sheet expanding by 13% to RM25.6 billion and achieving a healthy pre-tax profit and zakat of RM208.6 million.

2013 BUSINESS PLAN AND OUTLOOK

The Malaysia's economy is expected to continue to perform well in 2013 with Gross Domestic Product (GDP) projected to grow at 5.6%. This expectation is premised on an improving exports and strong domestic demand on the back of improving global growth together with the impact of the various projects under the Economic Transformation Programme (ETP). The Malaysian banking sector is expected to remain resilient, in line with the country's economic growth trajectory.

The Bank continues to strengthen its leadership positions in targeted markets and product segments, building strong customer relationships as well as leveraging on the Bank's infrastructure and multiple distribution networks for business growth.

Although the Bank foresees a continued competitive operating environment in 2013, we are still well-positioned to drive our targeted business segments and geographies to becoming a leading multinational financial services group. Barring any unforeseen circumstances, the Bank expects satisfactory results for the financial year 2013.

RATINGS BY RATING AGENCY

During the financial year, the Bank was rated by the following external rating agency:

Agency	Date accorded	Ratings
RAM Rating Services Berhad (RAM)	November 2012	Long Term Financial Institution Rating – AA2 Short Term Financial Institution Rating – P1

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RATINGS BY RATING AGENCY (CONTINUED)

Description of the ratings accorded

(a) RAM

(i) Long term financial institution rating

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

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

(ii) Short term financial institution rating

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

IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY/BODY

The Directors regard RHB Bank Berhad (RHB Bank) and RHB Capital Berhad (RHB Capital), both companies incorporated in Malaysia, as the immediate holding company and ultimate holding company respectively.

AUDITORS

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

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

HAJI KHAIRUDDIN AHMAD	**HAJI MD JA'FAR ABDUL CARRIM**
CHAIRMAN	DIRECTOR

Kuala Lumpur
28 February 2013

Report of the RHB Group Shariah Committee

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

We, Dr. Ghazali Jaapar, Professor Dr. Joni Tamkin Borhan, Dr. Amir Shaharuddin, Dr. Akhtarzaite Abd. Aziz and Dr. Marjan Muhammad being five of members of Group Shariah Committee of RHB Islamic Bank Berhad, do hereby confirm on behalf of the members of the Committee, that 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 2012.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rules and the principles and also with the specific rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic 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 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 Islamic Shariah rules and principles.

In our opinion:

(a) the main sources of income of the Bank during the financial year ended 31 December 2012 that we have reviewed are in compliance with the Shariah (Islamic Law) 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 principles.

We beg 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

Prof. Dr. Joni Tamkin Borhan
Member of the Committee

Dr. Amir Shaharuddin
Member of the Committee

Dr. Akhtarzaite Abd. Aziz
Member of the Committee

Dr. Marjan Muhammad
Member of the Committee

Kuala Lumpur

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Cash and short-term funds	2	**2,881,135**	5,614,932	1,076,905
Deposits and placements with banks and other financial institutions	3	**1,988,635**	70,077	40,062
Financial assets held-for-trading	4	**439,382**	433,531	218,928
Financial investments available-for-sale	5	**1,499,013**	1,673,683	1,787,265
Financial investments held-to-maturity	6	**2,034,698**	1,398,138	1,073,159
Financing and advances	7	**16,002,714**	12,732,595	8,652,397
Other assets	8	**67,001**	87,194	42,830
Derivative assets	9	**2,278**	–	1,369
Statutory deposits with Bank Negara Malaysia	10	**672,755**	606,455	105,140
Deferred tax assets	11	**927**	3,769	46,195
Tax recoverable		**–**	8,702	–
Property, plant and equipment	12	**13,201**	13,780	15,938
Intangible assets	13	**7,923**	7,461	5,609
TOTAL ASSETS		**25,609,662**	22,650,317	13,065,797
LIABILITIES AND EQUITY				
Deposits from customers	14	**17,326,681**	17,050,096	9,946,582
Deposits and placements of banks and other financial institutions	15	**4,562,492**	3,761,867	2,066,993
Bills and acceptances payable		**21,613**	13,773	12,124
Derivative liabilities	9	**20,112**	36,659	–
Recourse obligations on financing sold to Cagamas Berhad (Cagamas)		**1,462,521**	–	–
Other liabilities	16	**498,970**	446,781	101,286
Provision for tax and zakat		**23,600**	–	170
TOTAL LIABILITIES		**23,915,989**	21,309,176	12,127,155
Ordinary share capital	17	**973,424**	773,424	523,424
Reserves	18	**720,249**	567,717	415,218
TOTAL EQUITY		**1,693,673**	1,341,141	938,642
TOTAL LIABILITIES AND EQUITY		**25,609,662**	22,650,317	13,065,797
COMMITMENTS AND CONTINGENCIES	30	**7,253,024**	7,283,588	3,519,220
CAPITAL ADEQUACY	35			
Core capital ratio		**14.06%**	12.88%	11.51%
Risk-weighted capital ratio		**14.74%**	13.93%	13.43%

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

Income Statement

For The Financial Year Ended 31 December 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Income derived from investment of Depositors' funds	19	**1,046,357**	780,687
Income derived from investment of Shareholders' funds	20	**90,633**	12,004
Allowance for impairment on financing and advances	21	**(70,479)**	12,879
Profit equalisation reserve	16	**7,252**	(2,725)
Total distributable income		**1,073,763**	802,845
Income attributable to depositors	22	**(674,808)**	(436,037)
		398,955	366,808
Personnel expenses	23	**(72,265)**	(62,687)
Other overheads and expenditures	24	**(118,079)**	(93,095)
Profit before zakat and taxation		**208,611**	211,026
Zakat		**(320)**	–
Profit after zakat before taxation		**208,291**	211,026
Taxation	26	**(52,395)**	(58,244)
Net profit for the financial year		**155,896**	152,782
Basic earnings per share (sen)	27	**18.89**	27.33

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

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Net profit for the financial year		**155,896**	152,782
Other comprehensive income/(loss):			
Financial investments available-for-sale			
– Unrealised net gain on revaluation		**17,024**	19,137
– Net transfer to income statement on disposal or impairment		**(21,509)**	(19,467)
Income tax relating to components of other comprehensive income	28	**1,121**	47
Other comprehensive loss for the financial year		**(3,364)**	(283)
Total comprehensive income for the financial year		**152,532**	152,499

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 2012

	Note		Non distributable		Distributable	
		Share capital RM'000	Statutory reserve RM'000	AFS reserves RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2012						
– As previously stated		**773,424**	**280,411**	**7,103**	**271,298**	**1,332,236**
– Effect of adoption of MFRS 139	38	**–**	**–**	**–**	**8,905**	**8,905**
– As restated		**773,424**	**280,411**	**7,103**	**280,203**	**1,341,141**
Issuance of share	17	**200,000**	**–**	**–**	**–**	**200,000**
Net profit for the financial year		**–**	**–**	**–**	**155,896**	**155,896**
Other comprehensive income/(loss):						
Financial investments available-for-sale						
– Unrealised net profit on revaluation		**–**	**–**	**17,024**	**–**	**17,024**
– Net transfer to income statement on disposal or impairment		**–**	**–**	**(21,509)**	**–**	**(21,509)**
Income tax relating to components of other comprehensive loss		**–**	**–**	**1,121**	**–**	**1,121**
Total comprehensive income		**–**	**–**	**(3,364)**	**155,896**	**152,532**
Transfer to statutory reserves		**–**	**77,948**	**–**	**(77,948)**	**–**
Balance as at 31 December 2012		**973,424**	**358,359**	**3,739**	**358,151**	**1,693,673**

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

	Note		Non distributable		Distributable	
		Share capital RM'000	Statutory reserve RM'000	AFS reserves RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2011						
– As previously stated		523,424	231,484	7,386	222,371	984,665
– Effect of adoption of MFRS 139	38	–	–	–	(46,023)	(46,023)
– As restated		523,424	231,484	7,386	176,348	938,642
Issuance of share	17	250,000	–	–	–	250,000
Net profit for the financial year		–	–	–	152,782	152,782
Other comprehensive income/(loss):						
Financial investments available-for-sale						
– Unrealised net profit on revaluation		–	–	19,137	–	19,137
– Net transfer to income statement on disposal or impairment		–	–	(19,467)	–	(19,467)
Income tax relating to components of other comprehensive loss		–	–	47	–	47
Total comprehensive income		–	–	(283)	152,782	152,499
Transfer to statutory reserves		–	48,927	–	(48,927)	–
Balance as at 31 December 2011		773,424	280,411	7,103	280,203	1,341,141

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 2012

	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	**208,611**	211,026
Adjustments for:		
Depreciation of property, plant and equipment	**5,855**	4,233
Amortisation of computer software licenses	**230**	–
Income from:		
– Investment on financial assets held-for-trading	**(7,235)**	(4,977)
– Investment on financial investments available-for-sale	**(65,433)**	(71,155)
– Investment on financial investments held-to-maturity	**(70,990)**	(51,362)
Net gain on sale of financial investment available-for-sale	**(21,509)**	(19,467)
Net gain on sale of financial assets held-for-trading	**(12,070)**	(8,487)
Net gain on redemption of financial assets held-to-maturity	**(1,484)**	–
Unrealised (gain)/loss from revaluation of derivative	**(1,363)**	46,334
Unrealised loss from financial assets held-for trading	**174**	179
Allowance/(writeback) for impairment on financing and advances	**79,540**	(4,967)
(Writeback)/Charge for profit equalisation reserve	**(7,275)**	2,725
Operating profit before working capital changes	**107,051**	104,082
(Decrease)/increase in operating assets:		
Deposits and placements with banks and other financial institutions	**(1,918,558)**	(30,015)
Financing and advances	**(3,349,661)**	(4,075,225)
Financial assets held-for-trading	**13,281**	(201,323)
Other assets	**20,193**	(44,364)
Statutory deposits with Bank Negara Malaysia	**(66,300)**	(501,315)
	(5,193,994)	(4,748,160)
Increase/(decrease) in operating liabilities:		
Deposits from customers	**276,585**	7,103,514
Deposits and placements of banks and other financial institutions	**800,625**	1,694,874
Bills and acceptances payable	**7,839**	1,649
Amount due to holding company	**(1,107)**	374,872
Other liabilities	**43,112**	(40,408)
Recourse obligation on financing sold to Cagamas	**1,462,521**	–
Cash (used in)/generated from operations	**(2,604,419)**	4,386,341
Taxation and zakat paid	**(16,451)**	(24,644)
Net cash (used in)/generated from operating activities	**(2,620,870)**	4,361,697

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

	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Financial instruments available-for-sale and held-to-maturity:		
– Purchase	**(3,493,295)**	(2,507,050)
– Proceeds from disposal	**3,056,455**	2,318,993
Purchase of property, plant and equipment	**(5,284)**	(2,075)
Purchase of intangible assets	**(692)**	(1,852)
Proceeds from disposal of property, plant and equipment	**8**	–
Financial assets held-for trading, financial investments available-for-sale and held-to-maturity:		
– profit income received	**69,132**	73,895
– investment income received	**60,749**	44,419
Net cash used in investing activities	**(312,927)**	(73,670)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	**200,000**	250,000
Net cash generated from financing activities	**200,000**	250,000
Net (decrease)/increase in cash and cash equivalents	**(2,733,797)**	4,538,027
Cash and cash equivalents at beginning of the financial year	**5,614,932**	1,076,905
Cash and cash equivalents at end of the financial year	**2,881,135**	5,614,932

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

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

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

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia, together with directives and guidelines issued by Bank Negara Malaysia (BNM).

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

Subject to certain transition elections disclosed in note 37 to the financial statements, the Bank has consistently applied the same accounting policies in its opening MFRS statement of financial position at 1 January 2011 (transition date) and throughout all years presented, as if these policies had always been in effect. Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. Note 37 discloses the impact of the transition to MFRS on the Bank's reported financial position, financial performance and cash flows.

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

The financial statements of the Bank incorporate those activities which have been undertaken by the Bank in compliance with Shariah principles. Islamic Banking generally refers to the acceptance of deposits and granting of financing under the Shariah principles.

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 from those estimates.

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The relevant new accounting standards, the amendments and improvements to published standards and interpretations to the existing standards that are effective for the Bank's financial year beginning on or after 1 January 2012 are as follows:

- MFRS1 'First-Time Adoption of Malaysian Financial Reporting Standards'
- MFRS 139 'Financial Instruments: Recognition and Measurement'
- Revised MFRS 124 'Related Party Disclosures'
- Amendments to MFRS 112 'Income Taxes'
- IC Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'
- Amendments to MFRS 1 'First Time Adoption on Fixed Dates and Hyperinflation'
- Amendments to MFRS 7 'Financial Instruments: Disclosures on Transfers of Financial Assets'
- Amendments to MFRS 101 'Presentation of Items of Other Comprehensive Income'

The adoption of the above standards, amendments to published standards and interpretations to existing standards does not give rise to any material financial impact to the Bank, except for the adoption of MFRS 139 as set out in Note 38.

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

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

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

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

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(ii) Financial year beginning on/after 1 January 2014

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

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

MFRS 9 "Financial instruments – classification and measurement of financial assets and financial liabilities" (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply. MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Financial assets

(a) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing, advances and receivables, financial investments available-for-sale and financial investments held-to-maturity. The classification depends on the purpose for which the financial assets were required. Management determines the classification at initial recognition.

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

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

(ii) Financial investments held-to-maturity

Financial investments held-to-maturity is 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 held-to-maturity, the whole category would be tainted and reclassified as available-for-sale.

(iii) 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.

(iv) Financial investments available-for-sale

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

(b) Recognition and initial measurement

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Financial assets (continued)

(c) Subsequent measurement – gain and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing, advances and receivables and financial investments held-to-maturity 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 non-profit income in profit or loss in the period in which the changes arise.

Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 17) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

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

(d) De-recognition

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

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 the financing, advances and receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

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

(e) Offsetting financial instruments

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

(f) Determination on fair value

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statement of financial position.

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

(4) Derivative financial instruments and hedge accounting

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instruments (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 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 transaction, 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-going basis, of whether the derivatives that are used in hedging transactions are effectively in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Derivative financial instruments and hedge accounting (continued)

(b) Cash flow hedge

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

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

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

(c) Derivatives that do not qualify for hedge accounting

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

(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 subsequent 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 19 on impairment of non-financial assets. Gain and losses arising from derecognition 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 profit or loss when the asset is derecognised.

(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 profit or loss during the financial year in which they are incurred.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Property, plant and equipment and depreciation (continued)

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	7.5% to 20%
Office equipment, furniture and fixtures	7.5% to 20%
Computer equipment	20% to 33 1/3%
Motor vehicles	20% to 25%

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

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

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 19 on impairment of non-financial assets.

(7) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss and are subsequently re-measured at their fair values. Changes in fair values of financial liabilities at fair value through profit or loss are recognised in profit and loss in the period in which the changes arise.

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

(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 re-measured 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, bills and acceptances payable, recourse obligation on financing sold to Cagamas and other financial liabilities.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Recourse obligation on financing sold to Cagamas

In the normal course of banking operations, the Bank sell financing and advances to Cagamas but undertake to administer the financing and advances on behalf of Cagamas and to buy back any financing and advances which are regarded as defective based on prudence. Such financing transactions and obligation to buy back the financing and advances are reflected as a liability on the statement of financial position.

(9) Operating lease

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

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

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

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

(11) Borrowings

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(12) Financial guarantee contract

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 signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

The fair value of financial guarantees 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.

(13) Contingent liabilities and contingent assets

The Bank does not recognise a 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 'Provision. Contingent Liabilities and Contingent Assets' and the amount initially recognised as profit or loss, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 'Revenue'.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Share capital

(a) Classification

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

(b) Share issue cost

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

(c) Dividend distribution

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

(15) Cash and cash equivalents

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

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

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

(16) Income 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.

When a financing, advances and receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired financing and receivables is recognised using the original effective profit rate.

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Income recognition (continued)

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

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

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

(f) Dividends from all investments are recognised when the shareholders' right to receive payment is established.

(17) Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

The Bank addresses impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

(i) Individually impairment allowance

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

(ii) Collective impairment allowance

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

(ii) Collective impairment allowance (continued)

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

Change in accounting policy

Previously, the Bank applied the Amendment to FRS 139 'Financial Instruments: Recognition and Measurement', which included an additional transitional arrangement for financial sectors, whereby Bank Negara Malaysia (BNM) prescribed the use of an alternative basis for collective assessment of impairments on financing and advances. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Financing issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010, whereby banking institutions are required to maintain collective allowances of at least 1.5% of total outstanding financing, net of individual impairment allowances under the transitional provisions in the guidelines.

With effect from 1 January 2012, BNM removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and financing loss provisioning to comply with MFRS 139 requirements. Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred but not identified yet. The required loan loss allowance is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

Previously, when collectively assessed financing and advances are deemed impaired, the Bank reversed out the profit income recognised in profit or loss and set off against the finance expense receivable in the statement of financial position.

Upon the adoption of MFRS 139, with effect from 1 January 2012, once collectively assessed financing and advances have been written down as a result of impairment loss, profit income is thereafter recognised using the original effective profit rate in the profit or loss.

The financial impact arising on the adoption of MFRS 139 is set out in Note 38 to the financial statements.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a bank of financial assets is impaired.

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

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

(18) Employee benefits

(i) 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.

(ii) Defined contribution plans

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

(iii) Termination benefits

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) Impairment of non-financial assets

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

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

The impairment loss is charged to the profit or loss. Any subsequent increase in recoverable amount is recognised in the profit or loss.

(20) Current and deferred income taxes

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

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 nor 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 statements of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) Currency conversion and translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

For translation differences on financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets, refer to accounting policy Note 2(c).

(22) Segment reporting

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

(23) 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 Group 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.

(24) Restricted profit sharing investment accounts (RPSIA)

These deposits are used to fund specific financing and follow principle of Mudharabah which state that profits will be shared with the Bank as mudarib and losses borne by depositors.

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

Allowance for impairment of financial assets

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

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

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Banking Act, 1983, a limited liability company domiciled in Malaysia, and is principally engaged in Islamic banking business and is committed to offer customers a comprehensive range of product and services in accordance with its Articles of Association and Shariah principals.

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, 50400 Kuala Lumpur.

2 CASH AND SHORT TERM FUNDS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and balances with banks and other financial institutions	**144,095**	69,365	55,216
Money at call and deposit placements maturing within one month	**2,737,040**	5,545,567	1,021,689
	2,881,135	5,614,932	1,076,905

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Licensed Islamic banks	**50,216**	70,077	40,062
Bank Negara Malaysia	**1,203,564**	–	–
Other financial institutions	**734,855**	–	–
	1,988,635	70,077	40,062

4 FINANCIAL ASSETS HELD-FOR-TRADING

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value			
Money market instruments:			
Malaysian government investment issues	**151,583**	51,312	10,066
BNM monetary notes	**–**	306,912	173,816
Wakala Global Sukuk	**7,144**	16,495	–
Khazanah bonds	**–**	53,768	–
Cagamas bonds	**250,324**	–	–
Unquoted securities:			
Private debt securities	**30,331**	5,044	35,046
	439,382	433,531	218,928

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value			
Money market instruments:			
Malaysian government investment issues	**486,371**	869,507	1,239,535
Islamic accepted bills	**–**	–	93,868
Wakala Global Sukuk	**16,870**	23,510	–
Khazanah bonds	**36,017**	–	–
Cagamas bonds	**50,332**	–	–
Unquoted securities:			
In Malaysia			
Private debt securities	**908,848**	780,091	453,287
	1,498,438	1,673,108	1,786,690
At cost			
Unquoted securities:			
In Malaysia			
Shares in Islamic Bank and Financial Institutions of Malaysia (IBFIM)	**575**	575	575
	1,499,013	1,673,683	1,787,265

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At amortised cost			
Money market instruments:			
Malaysian government investment issues	**743,403**	795,980	589,168
Cagamas bonds	**275,084**	193,776	183,895
Khazanah bonds	**8,658**	8,346	–
Negotiable Islamic Debts Certificates	**422,086**	–	–
Unquoted securities:			
In Malaysia			
Private debt securities	**585,467**	400,036	300,096
	2,034,698	1,398,138	1,073,159

7 FINANCING AND ADVANCES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At amortised cost			
Cashline	**151,526**	120,228	116,819
Term financing			
– housing financing	**3,471,369**	2,752,867	2,387,006
– syndicated term financing	**384,584**	337,578	350,218
– hire purchase receivables	**4,416,398**	3,548,299	1,625,598
– other term financing	**5,833,269**	5,347,288	3,462,395
Bills receivable	**852,323**	524,048	546,820
Trust receipts	**21,299**	19,708	17,994
Staff financing	**8,125**	10,067	11,403
Credit/charge cards receivables	**120,899**	47,904	530
Revolving financing	**1,006,569**	351,768	547,746
Gross financing and advances	**16,266,361**	13,059,755	9,066,529
Fair value changes arising from fair value hedge	**3,140**	–	–
Allowance for bad and doubtful financing:			
– individual impairment allowance	**(89,013)**	(130,724)	(163,440)
– collective impairment allowance	**(177,774)**	(196,436)	(250,692)
Net financing and advances	**16,002,714**	12,732,595	8,652,397

7 FINANCING AND ADVANCES (CONTINUED)

(a) Included in financing and advances are exposures to Restricted Profit Sharing Investment Accounts (RPSIA) as part of arrangement between RHB Islamic and RHB Bank. RHB Bank is exposed to risks and rewards on RPSIA financing and will account for all the allowances for impairment losses for bad and doubtful debts arising thereon.

As at 31 December 2012, the gross exposures to RPSIA financing are RM1,800 million (2011: RM Nil) and the portfolio impairment allowance relating to this RPSIA amounting to RM7.7 million (2011: RM Nil) is recognised in the financial statements of RHB Bank. There was no individual impairment provided in this RPSIA financing.

(b) Included in term financing are hire purchase receivable and other term financing sold to Cagamas amounting to RM1,435 million (2011: RM Nil).

The remaining maturities of financing and advances are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Maturing within one year	**2,377,613**	1,452,637	1,704,802
One to three years	**934,479**	439,081	334,901
Three to five years	**2,315,176**	1,625,194	1,009,377
Over five years	**10,639,093**	9,542,843	6,017,449
Gross financing and advances	**16,266,361**	13,059,755	9,066,529

Financing and advances analysed by type of customers are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Domestic non-bank financial institutions			
– Others	**570,347**	57,783	36,875
Domestic business enterprises			
– Small medium enterprises	**639,086**	828,759	715,462
– Others	**3,291,401**	2,298,860	2,681,529
Government and statutory bodies	**3,314,272**	3,463,352	1,521,689
Individuals	**8,255,302**	6,142,984	3,821,506
Other domestic entities	**292**	273	427
Foreign entities	**195,661**	267,744	289,041
Gross financing and advances	**16,266,361**	13,059,755	9,066,529

7 FINANCING AND ADVANCES (CONTINUED)

Financing and advances analysed by contract are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Bai' Bithaman Ajil (BBA)	**1,079,691**	1,409,405	1,703,605
Ijarah	**5,027,745**	4,352,460	2,487,218
Murabahah	**3,919,949**	1,657,958	1,539,963
Musyarakah	**2,526,493**	1,658,224	1,176,691
Istisna'	**133,283**	340,447	532,065
Bai'Inah	**3,469,626**	3,550,837	1,529,577
Others	**109,574**	90,424	97,410
Gross financing and advances	**16,266,361**	13,059,755	9,066,529

Financing and advances analysed by profit rate sensitivity are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fixed rate			
– Housing financing	**933,103**	1,083,846	1,244,310
– Hire-purchase receivables	**4,416,398**	3,548,299	1,625,598
– Other fixed rate financing	**5,830,328**	4,142,517	3,015,990
Variable rate			
– BFR-plus	**4,212,910**	3,741,336	2,615,818
– Cost-plus	**873,622**	543,757	564,813
Gross financing and advances	**16,266,361**	13,059,755	9,066,529

7 FINANCING AND ADVANCES (CONTINUED)

Financing and advances analysed by purpose are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Purchase of securities	**–**	8,610	12,270
Purchase of transport vehicles	**4,383,378**	3,481,840	1,567,374
Purchase of landed property:			
– Residential	**3,342,435**	2,788,300	2,452,994
– Non-residential	**241,249**	199,920	204,850
Purchase of property, plant and equipment other than land and building	**318,654**	469,090	528,330
Personal use	**647,841**	234,650	14,210
Credit card	**120,899**	47,904	530
Purchase of consumer durables	**17**	50	80
Construction	**791,046**	478,800	483,780
Working capital	**2,195,832**	1,517,800	1,517,620
Other purposes	**4,225,010**	3,832,791	2,284,491
Gross financing and advances	**16,266,361**	13,059,755	9,066,529

Included in other purposes are financing to the Government of Malaysia (GoM) and its related agency for the purpose of education and government's staff housing financing.

Movement in impaired financing and advances are as follows:

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Balance as at the beginning of the financial year			
– As previously stated		**543,076**	628,251
– Classified as impaired due to adoption of MFRS 139	38	**17,541**	30,500
– As restated		**560,617**	658,751
Classified as impaired during the financial year		**377,761**	280,102
Amount recovered		**(114,629)**	(81,975)
Amount written off		**(137,476)**	(57,649)
Reclassified as non-impaired		**(277,209)**	(238,612)
Balance as at the end of the financial year		**409,064**	560,617
Gross impaired financing and advances ratio		**2.51%**	4.29%

7 FINANCING AND ADVANCES (CONTINUED)

Impaired financing and advances analysed by purpose are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Purchase of transport vehicles	**48,580**	21,890	17,513
Purchase of landed property:			
– Residential	**129,841**	171,805	227,103
– Non-residential	**15,058**	13,879	27,304
Purchase of property, plant and equipment other than land and building	**12,741**	68,610	74,442
Personal use	**3,697**	5,389	5,198
Credit card	**3,452**	157	–
Construction	**1,289**	1,409	1,830
Working capital	**165,106**	275,676	301,924
Other purposes	**29,300**	1,802	3,437
Gross financing and advances	**409,064**	560,617	658,751

Movement in allowance for impaired financing and advances are as follows:

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Individual impairment allowance			
Balance as at the beginning of the financial year		**130,724**	163,440
Allowance made during the financial year		**67,920**	10,226
Amount written off		**(108,708)**	(42,942)
Transfer to collective impairment allowance		**(923)**	–
Balance as at end of the financial year		**89,013**	130,724
Collective impairment allowance			
Balance as at the beginning of the financial year		**190,768**	158,828
– Effect of adoption of MFRS 139	38	**5,668**	91,864
– As restated		**196,436**	250,692
Allowance writeback during the financial year		**(487)**	(26,472)
Amount written off		**(19,098)**	(27,784)
Transfer from individual impairment allowance		**923**	–
Balance as at end of the financial year		**177,774**	196,436
Collective impairment allowance as % of gross financing and advances (excluding RPSIA financing) less individual impairment allowance		**1.24%**	1.52%

8 OTHER ASSETS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deposits and prepayments	**249**	945	682
Sundry deposits debtors	**1,243**	1,240	1,251
Other debtors	**65,509**	85,009	40,897
	67,001	87,194	42,830

9 DERIVATIVES ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments are used by the Bank for economic hedges and also transacted in these instruments for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the 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 asset) and gross negative (derivative liability) fair values at the date of statement of financial position are analysed below.

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Derivative assets	**2,278**	–	1,369
Derivative liabilities	**(20,112)**	(36,659)	–
	(17,834)	(36,659)	1,369

Fair value hedges are used by the Bank to protect it against the changes in fair value of financial assets and financial liabilities due to movements in market profit rates. The Bank use profit rate swaps to hedge against profit rate risk of specific identified fixed rate long term financing and advances. Included in the non-profit income (Note 20) is the net gains and losses arising from fair value hedges during the financial year as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Gain on hedging instruments	**4,365**	–
Loss on hedged items	**(3,157)**	–
	1,208	–

9 DERIVATIVES ASSETS/(LIABILITIES) (CONTINUED)

	Contract for underlying principal amount RM'000	Year end positive value RM'000	Year end negative value RM'000
31.12.2012			
Foreign exchange related contracts:			
– forwards	**438,362**	**–**	**–**
Profit rate related contracts:			
– swaps	**3,300,000**	**2,278**	**20,112**
31.12.2011			
Foreign exchange related contracts:			
– forwards	371,106	–	–
Profit rate related contracts:			
– swaps	2,600,000	–	36,659
1.1.2011			
Profit rate related contracts:			
– swaps	650,000	1,369	–

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Balance as at end of the financial year	**672,755**	606,455	105,140

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

11 DEFERRED TAXATION

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:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deferred tax assets	**927**	3,769	46,195
Deferred tax assets			
– Settled more than 12 months	**–**	4,845	43,116
– Settled within 12 months	**6,250**	5,471	6,530
	6,250	10,316	49,646
Deferred tax liabilities			
– Settled more than 12 months	**(4,258)**	(5,238)	(2,761)
– Settled within 12 months	**(1,065)**	(1,309)	(690)
	(5,323)	(6,547)	(3,451)

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

	Note	Intangible assets RM'000	Property, plant and equipment RM'000	Financial investments available-for-sale RM'000	Financing and advances RM'000	Other liabilities RM'000	Total RM'000
31.12.2012							
Balance as at the beginning of the financial year		**–**	**(4,179)**	**(2,368)**	**7,813**	**5,471**	**6,737**
Effect of adoption of MFRS 139	38	**–**	**–**	**–**	**(2,968)**	**–**	**(2,968)**
As restated		**–**	**(4,179)**	**(2,368)**	**4,845**	**5,471**	**3,769**
Transfer from/(to) income statement		**–**	**104**	**–**	**(4,845)**	**779**	**(3,962)**
Transfer to equity		**–**	**–**	**1,120**	**–**	**–**	**1,120**
Balance as at the end of the financial year		**–**	**(4,075)**	**(1,248)**	**–**	**6,250**	**927**
31.12.2011							
Balance as at the beginning of the financial year		3,338	(239)	(2,415)	26,644	3,526	30,854
Effect of adoption of MFRS 139	38	–	–	–	15,341	–	15,341
As restated		3,338	(239)	(2,415)	41,985	3,526	46,195
Transfer (to)/from income statement		(3,338)	(3,940)	–	(37,140)	1,945	(42,473)
Transfer to equity		–	–	47	–	–	47
Balance as at the end of the financial year		–	(4,179)	(2,368)	4,845	5,471	3,769

12 PROPERTY, PLANT AND EQUIPMENT

	Note	Renovation RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2012						
Cost						
Balance as at the beginning of the financial year		14,903	5,321	16,294	1,871	38,389
Effect of reclassification of software to other intangible assets	38	–	–	(13,978)	–	(13,978)
As restated		14,903	5,321	2,316	1,871	24,411
Additions		3,395	259	1,430	200	5,284
Disposal		–	(2)	(39)	(4)	(45)
Written off		–	–	(41)	–	(41)
Balance as at the end of the financial year		18,298	5,578	3,666	2,067	29,609
Accumulated depreciation						
Balance as at the beginning of the financial year		3,545	3,467	8,748	1,388	17,148
Effect of reclassification of software to other intangible assets	38	–	–	(6,517)	–	(6,517)
As restated		3,545	3,467	2,231	1,388	10,631
Charge for the financial year		2,285	1,914	1,438	218	5,855
Disposal		–	(2)	(32)	(3)	(37)
Written off		–	–	(41)	–	(41)
Balance as at the end of the financial year		5,830	5,379	3,596	1,603	16,408
Net book value as at the end of the financial year		12,468	199	70	464	13,201

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Renovation RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2011						
Cost						
Balance as at the beginning of the financial year		13,847	5,174	13,721	1,871	34,613
Effect of reclassification of software to other intangible assets	38	–	–	(12,126)	–	(12,126)
As restated		13,847	5,174	1,595	1,871	22,487
Additions		1,056	147	872	–	2,075
Written off		–	–	(151)	–	(151)
Balance as at the end of the financial year		14,903	5,321	2,316	1,871	24,411
Accumulated depreciation						
Balance as at the beginning of the financial year		2,351	2,808	6,775	1,132	13,066
Effect of reclassification of software to other intangible assets	38	–	–	(6,517)	–	(6,517)
As restated		2,351	2,808	258	1,132	6,549
Charge for the financial year		1,194	659	2,124	256	4,233
Written off		–	–	(151)	–	(151)
Balance as at the end of the financial year		3,545	3,467	2,231	1,388	10,631
Net book value as at the end of the financial year		11,358	1,854	85	483	13,780

The above property, plant and equipment include the following assets under construction/progress:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cost			
Renovations	**1,706**	376	5,322

13 INTANGIBLE ASSETS

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Computer Software license			
At cost			
Balance as at the beginning of the financial year/as previously reported		**–**	–
Reclassify from property, plant and equipment	38	**13,978**	12,126
As restated		**13,978**	12,126
Additions		**692**	1,852
Balance as at the end of the financial year		**14,670**	13,978
Accumulated amortisation			
Balance as at the beginning of the financial year/as previously reported		**–**	–
Reclassify from property, plant and equipment	38	**6,517**	6,517
As restated		**6,517**	6,517
Amortisation		**230**	–
Balance as at the end of the financial year		**6,747**	6,517
Net book value as at the end of the financial year		**7,923**	7,461

14 DEPOSITS FROM CUSTOMERS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-Mudharabah funds:			
Demand deposits	**1,830,203**	1,635,227	1,376,008
Savings deposits	**716,821**	638,101	569,786
Negotiable Islamic Debt Certificates	**–**	–	4,976
Commodity Murabahah	**2,631,890**	3,117,224	754,650
Wakalah Money Market Deposit	**28,264**	–	–
	5,207,178	5,390,552	2,705,420
Mudharabah funds:			
Demand deposits	**480,301**	405,040	378,321
Savings deposits	**54,425**	12,712	3,123
General investment accounts	**802,880**	682,066	1,280,190
Special investment accounts	**10,781,897**	10,559,726	5,579,528
	17,326,681	17,050,096	9,946,582

14 DEPOSITS FROM CUSTOMERS (CONTINUED)

(a) The maturity structure of investment accounts, commodity Murabahah, negotiable Islamic debt certificates and Wakalah money market deposit are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due within six months	**12,583,414**	13,446,439	6,876,995
Six months to one year	**1,517,286**	874,109	591,854
One year to three years	**131,734**	34,707	149,746
Three years to five years	**12,497**	3,761	749
Over five years	**–**	–	–
	14,244,931	14,359,016	7,619,344

(b) The deposits are sourced from the following classes of customers:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Government and statutory bodies	**5,875,912**	5,332,891	2,391,923
Business enterprises	**8,374,096**	7,094,590	4,807,632
Individuals	**1,490,441**	1,171,292	1,095,704
Others	**1,586,232**	3,451,323	1,651,323
	17,326,681	17,050,096	9,946,582

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-Mudharabah funds:			
Licensed Islamic banks	**691,262**	1,076,703	730,726
Licensed banks	**928,320**	721,154	324,013
Licensed investment bank	**–**	100,035	–
Bank Negara Malaysia	**625**	35,263	–
	1,620,207	1,933,155	1,054,739
Mudharabah funds:			
Licensed Islamic banks	**392,273**	1,003,049	807,836
Licensed banks	**1,815,187**	725,572	204,418
Other financial institutions	**734,825**	100,091	–
	4,562,492	3,761,867	2,066,993

16 OTHER LIABILITIES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Sundry creditors	**9,821**	11,511	49,990
Profit equalisation reserve (i)	**–**	7,252	4,527
Amount due to ultimate holding company (ii)	**99**	99	–
Amount due to immediate holding company (ii)	**382,495**	386,227	11,355
Short term employee benefits	**11,259**	10,040	9,578
Other accruals and payables	**95,296**	31,652	25,836
	498,970	446,781	101,286

(i) Profit equalisation reserve

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Balance as at the beginning of the financial year	**7,252**	4,527	4,326
(Writeback)/made during the year	**(7,252)**	2,725	201
Balance as at the end of the financial year	**–**	7,252	4,527

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM Nil (2011: RM224,817; 2010: RM184,720).

During the financial year, the Bank had discontinued the application of profit equalisation reserve.

(ii) The amounts due to ultimate and immediate holding companies is unsecured, non-profit bearing and repayable within the normal credit period.

17 ORDINARY SHARE CAPITAL

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Ordinary shares of RM1.00 each:			
Authorised:			
Balances as at the beginning	**1,000,000**	1,000,000	1,000,000
Issued and fully paid:			
Balances as at the beginning of financial year	**773,424**	523,424	523,424
Issued during the financial year	**200,000**	250,000	–
Balances as at the end of financial year	**973,424**	773,424	523,424

During the financial year ended 31 December 2012, the Bank issued 200,000,000 new ordinary shares of RM1.00 each to the holding company for working capital purposes.

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

18 RESERVES

		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Retained profits	(a)	**358,151**	280,203	176,348
Statutory reserve	(b)	**358,359**	280,411	231,484
AFS reserve	(c)	**3,739**	7,103	7,386
		720,249	567,717	415,218

(a) A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profits is a final tax, and dividends distributed to shareholder are exempted from tax. Companies with S108 tax credit balance are given an option to elect to move to a single tier system immediately or allowed to use the Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013.

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2012.

18 RESERVES (CONTINUED)

(b) The statutory reserves represent non-distributable profits held by the Bank in compliance with Section 15 of the Islamic Banking Act, 1983. This fund is not distributable as cash dividends.

(c) The AFS revaluation reserve arises from a change in the fair value of securities classified as available-for-sale securities. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities. The depositors' portion of unrealised gains on available-for-sale securities at the end of the financial year is RM3,586,264 (2011: RM6,889,114; 2010: RM7,070,618).

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	31.12.2012 RM'000	31.12.2011 RM'000
Income derived from investment of:		
(i) General investment deposits	**35,785**	42,897
(ii) Other deposits	**1,010,572**	737,790
	1,046,357	780,687

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

	31.12.2012 RM'000	31.12.2011 RM'000
Finance income and hibah:		
Financing and advances	**24,201**	31,094
Financial assets held-for-trading	**242**	238
Financial investments available-for-sale	**2,149**	4,065
Financial investments held-to-maturity	**2,345**	2,854
Money at call and deposit with financial institutions	**5,484**	3,204
Total finance income and hibah	**34,421**	41,455
Other operating income (note a)	**1,364**	1,442
	35,785	42,897
Of which:		
Financing income earned on impaired financing	**775**	1,146
(a) Other operating income comprise of:		
Commission	**161**	135
Guarantee fees	**52**	59
Net gain on revaluation and disposal of financial assets held-for-trading	**392**	430
Net gain on disposal of financial investments available-for-sale	**708**	818
Net gain on early redemption on held-to-maturity	**51**	–
	1,364	1,442

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

(ii) Income derived from investment of other deposits:

	31.12.2012 RM'000	31.12.2011 RM'000
Finance income and hibah:		
Financing and advances	**683,104**	527,315
Financial assets held-for-trading	**6,730**	4,561
Financial investments available-for-sale	**60,976**	64,056
Financial investments held-to-maturity	**66,109**	46,361
Money at call and deposit with financial institutions	**155,117**	67,965
Total finance income and hibah	**972,036**	710,258
Other operating income (note a)	**38,536**	27,532
	1,010,572	737,790
Of which:		
Financing income earned on impaired financing	**20,232**	15,886
(a) Other operating income comprise of:		
Commission	**4,574**	1,144
Guarantee fees	**1,479**	836
Net gain on revaluation and disposal of financial assets held-for-trading	**11,078**	7,559
Net gain on disposal of financial investments available-for-sale	**20,033**	17,993
Net gain on early redemption on held-to-maturity	**1,372**	–
	38,536	27,532

20 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	31.12.2012 RM'000	31.12.2011 RM'000
Finance income and hibah:		
Financing and advances	**26,143**	23,486
Financial assets held-for-trading	**263**	178
Financial investments available-for-sale	**2,308**	3,034
Financial investments held-to-maturity	**2,536**	2,147
Money at call and deposit with financial institutions	**5,914**	2,527
Total finance income and hibah	**37,164**	31,372
Other operating income/(loss) (note a)	**53,469**	(19,368)
	90,633	12,004
Of which:		
Financing income earned on impaired financing	**708**	953
(a) Other operating income/(loss) comprise of:		
Commission	**6,186**	6,635
Service charges and fees	**31,272**	17,175
Guarantee and underwriting fees	**1,808**	1,089
Other fee income	**4,080**	1,090
Net gain on revaluation and disposal of financial assets held-for-trading	**426**	321
Net gain on disposal of financial investments available-for-sale	**768**	656
Net gain on early redemption of held-to-maturity	**61**	–
Net gain on fair value hedges	**1,208**	–
Net gain/(loss) revaluation of derivative	**1,363**	(46,334)
Other income	**6,297**	–
	53,469	(19,368)

21 ALLOWANCES FOR IMPAIRMENT ON FINANCING AND ADVANCES

	31.12.2012 RM'000	31.12.2011 RM'000
Allowance for impairment on financing and advances:		
– Individual assessment allowance	**(67,920)**	(10,226)
– Collective assessment allowance	**487**	26,472
– Impaired financing recovered	**9,061**	7,911
– Impaired financing written off	**(12,107)**	(11,278)
	(70,479)	12,879

22 INCOME ATTRIBUTABLE TO DEPOSITORS

	31.12.2012 RM'000	31.12.2011 RM'000
Deposits from customers:		
– Mudharabah funds	**384,931**	327,242
– Non-Mudharabah funds	**149,189**	9,495
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	**65,465**	62,415
– Non-Mudharabah funds	**44,816**	36,885
Recourse obligations on financing sold to Cagamas	**30,407**	–
	674,808	436,037

23 PERSONNEL EXPENSES

	31.12.2012 RM'000	31.12.2011 RM'000
Salaries, allowance and bonuses	**55,428**	48,398
Contribution to Employees' Provident Fund	**9,108**	7,912
Other staff related cost	**7,729**	6,377
	72,265	62,687

24 OTHER OVERHEADS AND EXPENDITURES

	31.12.2012 RM'000	31.12.2011 RM'000
Establishment costs		
Property, plant and equipment		
– Depreciation	**5,855**	4,233
Amortisation of computer software licenses	**230**	–
Information technology expenses	**2,476**	1,962
Repair and maintenance	**643**	660
Rental of premises	**5,002**	4,528
Water and electricity	**710**	716
Rental of equipment	**195**	254
Printing and stationeries	**2,575**	2,110
Insurance	**686**	(583)
Others	**5,531**	3,133
	23,903	17,013
Marketing expenses		
Advertisement and publicity	**6,361**	6,385
Sales commission	**4,598**	1,079
Travelling expenses	**1,339**	1,536
Motor vehicle expenses	**414**	321
Others	**2,544**	450
	15,256	9,771
Administration and general expenses		
Auditors' remuneration		
– Statutory audit	**217**	108
– Non-audit	**118**	77
Communication expenses	**3,189**	2,692
Legal and professional fee	**1,711**	929
Management fee	**67,687**	52,008
Others	**5,998**	10,497
	78,920	66,311
	118,079	93,095

Included in the administration and general expenses of the Bank are other director's remuneration (excluding benefits in kind) totalling RM918,000 (2011: RM963,000) as disclosed in Note 25.

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

31.12.2012

	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Haji Abd Rani Lebai Jaafar (resigned on 14 February 2013)	**961**	**23**	**400**	**1,384**

	Fees RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Others RM'000	Total RM'000
Non-Executive Directors				
Datuk Haji Faisal Siraj	**80**	**–**	**65**	**145**
Charles Lew Foon Keong	**80**	**–**	**18**	**98**
Haji Md Ja'far Abdul Carrim	**80**	**–**	**114**	**194**
Choong Tuck Oon	**80**	**–**	**72**	**152**
Dato' Mohd Ali Mohd Tahir	**80**	**–**	**79**	**159**
Tuan Haji Khairuddin Ahmad	**100**	**–**	**70**	**170**
	500	**–**	**418**	**918**

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	**61**
Professor Dr. Joni Tamkin Borhan	**48**
Dr. Akhtarzaite Abd. Aziz	**48**
Dr. Amir Shaharuddin	**49**
Dr. Marjan Muhammad	**47**
Total	**253**

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

31.12.2011

	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Haji Abd Rani Lebai Jaafar	849	78	400	1,327

	Fees RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Others RM'000	Total RM'000
Non-Executive Directors				
Datuk Haji Faisal Siraj	100	31	70	201
Johari Abdul Muid	69	–	86	155
Charles Lew Foon Keong	80	–	20	100
Haji Md Ja'far Abdul Carrim	80	–	91	171
Choong Tuck Oon	80	–	60	140
Dato' Mohd Ali Mohd Tahir	80	31	71	182
Tuan Haji Khairuddin Ahmad	7	18	10	35
Arul Kanda a/l Kandasamy	28	–	6	34
Dato Abdullah Mat Noh	13	–	12	25
	537	80	426	1,043

Notes:
(1) Appointed on 1 January 2011
(2) Appointed on 1 December 2011

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	45
Professor Dr. Joni Tamkin Borhan	50
Dr. Amir Shaharuddin	38
Dr. Akhtarzaite Abd. Aziz	38
Dr. Marjan Muhammad	38
Total	209

26 TAXATION

	31.12.2012 RM'000	31.12.2011 RM'000
Malaysian income tax:		
– Current tax	**55,668**	44,482
– Over provision in prior years	**(7,235)**	(28,711)
Deferred taxation (Note 11)	**3,962**	42,473
	52,395	58,244
Current tax		
Current year	**55,668**	44,482
Over provision in prior years	**(7,235)**	(28,711)
	48,433	15,771
Deferred tax		
Origination and reversal of temporary differences	**(2,173)**	(6,615)
Reversal of previously recognised deferred tax assets	**6,135**	49,088
	52,395	58,244

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

	31.12.2012 %	31.12.2011 %
Malaysian tax rate of 25% (2011: 25%)	**25.0**	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.7**	1.2
Over provision in respect of prior years	**(3.5)**	(13.6)
Reversal of temporary differences recognised in prior years	**2.9**	15.0
Effective tax rate	**25.1**	27.6

27 EARNINGS PER SHARE

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

	31.12.2012 RM'000	31.12.2011 RM'000
Net profit for the financial year	**155,896**	152,777
Weighted average number of ordinary shares in issue	**825,337**	559,040
Basic earnings per share (sen)	**18.89**	27.33

28 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

	31.12.2012			31.12.2011		
	Before tax amount RM'000	Tax benefit/ (expense) RM'000	Net of tax amount RM'000	Before tax amount RM'000	Tax (expense)/ benefit RM'000	Net of tax amount RM'000
Financial investments available-for-sale: Fair value (loss)/gain on revaluation, net off transfer to income statement	**(4,485)**	**1,121**	**(3,364)**	(330)	47	(283)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationships

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

Related parties	Relationship
RHB Capital Berhad	Ultimate holding company
RHB Bank Berhad	Immediate holding company
Employee Provident Fund (EPF)	Ultimate holding company's major shareholder, a fund body that is significantly influenced by government
Subsidiaries of RHB Capital Berhad disclosed in its financial statements	Subsidiaries of the ultimate holding company
Subsidiaries of RHB Bank Berhad disclosed in its financial statements	Subsidiaries of the immediate holding company
Subsidiaries and associates 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
Related parties of key management (deemed as related to the Bank)	(i) Close family members and dependents of key personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

(b) Significant related party balances and transactions

In addition to 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 of transactions or balances with the companies in RHB Capital Berhad Group.

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Ultimate holding company RM'000	Immediate holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
31.12.2012					
Income					
Commission	–	–	–	–	192
Income derived from investment of depositor's funds	–	–	14,475	–	–
Other income	–	8,869	–	–	–
	–	8,869	14,475	–	192
Expenditure					
Profit expense on deposits and placement	–	38,377	369	6	1,183
Other expenses	–	–	–	–	640
Reimbursement of operating expenses to holding company	–	67,687	–	–	–
	–	106,064	369	6	1,823
Amounts due from					
Cash and short-term funds	–	316	–	–	–
Financing and advances	–	–	648,039	–	–
Derivative assets	–	2,278	–	–	–
	–	2,594	648,039	–	–
Amounts due to					
Derivative liabilities	–	20,112	–	–	–
Savings deposits	–	–	–	–	3,511
Current account and investment deposits	–	–	105,377	2,434	2,964
Deposits and placements of banks and other financial institutions	–	2,121,391	–	–	–
Other liabilities	99	382,495	–	–	335
	99	2,523,998	105,377	2,434	6,810

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Ultimate holding company RM'000	Immediate holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
31.12.2011					
Income					
Commission	–	–	–	–	191
Income derived from investment of depositor's funds	–	–	3,773	–	–
	–	–	3,773	–	191
Expenditure					
Profit expense on deposits and placement	–	26,725	24,277	3	2,898
Other expenses	–	46,334	–	–	508
Reimbursement of operating expenses to holding company	–	51,325	–	–	–
	–	124,384	24,277	3	3,406
Amounts due from					
Cash and short-term funds	–	1,088	–	1	–
Financing and advances	–	–	75,711	–	–
	–	1,088	75,711	1	–
Amounts due to					
Derivative liabilities	–	36,659	–	–	–
Savings deposits	–	–	–	221	–
Current account and investment deposits	–	–	101,824	–	2,139
Deposits and placements of banks and other financial institutions	–	1,436,636	–	–	100,035
Other liabilities	99	386,227	–	–	251
	99	1,859,522	101,824	221	102,425

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Short-term employee benefits		
– Salary and other remuneration	**5,892**	2,648
– Benefits-in-kind (based on an estimated monetary value)	**31**	98
	5,923	2,746

The above remuneration includes Directors' remuneration as disclosed in Note 25.

(d) Credit exposure arising from transactions with connected parties

Credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties (Revised BNM/GP6) are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Outstanding credit exposures with connected parties	**86,432**	68,060
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**0.33%**	0.47%

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

30 COMMITMENTS AND CONTINGENCIES

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

	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
31.12.2012			
Transaction-related contingent items	**106,104**	**53,052**	**37,170**
Short-term self-liquidating trade-related contingencies	**55,603**	**11,121**	**1,298**
Obligations under underwriting agreements	**90,000**	**45,000**	**45,000**
Irrevocable commitments to extend credit:			
– maturity more than one year	**1,701,762**	**755,707**	**628,050**
– maturity less than one year	**1,561,193**	**312,239**	**293,408**
Foreign exchange related contracts*:			
– less than one year	**438,362**	**4,809**	**3,539**
Profit rate related contracts*:			
– one year to less than five years	**3,300,000**	**48,833**	**24,417**
Total	**7,253,024**	**1,230,761**	**1,032,882**
31.12.2011			
Direct credit substitutes	35	35	35
Transaction-related contingent items	94,558	47,279	35,465
Short-term self-liquidating trade-related contingencies	42,424	8,485	967
Obligations under underwriting agreements	208,500	104,250	104,250
Irrevocable commitments to extend credit:			
– maturity more than one year	2,280,366	456,073	394,697
– maturity less than one year	1,686,599	337,320	337,320
Foreign exchange related contracts*:			
– less than one year	371,106	4,948	1,762
Profit rate related contracts*:			
– one year to less than five years	2,600,000	49,500	24,750
Total	7,283,588	1,007,890	899,246

30 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
1.1.2011			
Transaction-related contingent items	146,995	73,498	34,201
Short-term self-liquidating trade-related contingencies	40,948	8,190	8,190
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
– maturity more than one year	552,580	224,546	191,524
– maturity less than one year	2,099,697	220,905	220,905
Profit rate related contracts*:			
– one year to less than five years	650,000	130,000	130,000
Total	3,519,220	671,639	599,320

Included in transaction-related contingent items and short-term self-liquidating trade-related contingencies are financial guarantee contracts of RM161,707,000 (31.12.2011: RM136,982,000, 1.1.2011: RM69,948,000), of which fair value at the time of issuance is zero.

The credit equivalent (CE) and Risk Weighted Assets (RWA) for the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (CAFIB): Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II) respectively.

* These derivatives are revalued on gross position basis and the unrealised gains or losses are reflected in Note 9 Derivative assets/(liabilities).

31 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:

	31.12.2012 RM'000	31.12.2011 RM'000
Within one year	**4,873**	3,562
Between one to five years	**3,108**	785
	7,981	4,347

32 CAPITAL COMMITMENTS

	31.12.2012 RM'000	31.12.2011 RM'000
Capital expenditure for property, plant and equipment:		
Authorised but not contracted for	**50,763**	23,858

33 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objective and policies

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

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

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

The IRMC and Group RMC comprise only non-executive directors with at least three (3) and five (5) members respectively. Members of the IRMC and Group RMC are directors who are exclusively non-executive in all of their directorships in the RHB Banking Group.

Overriding Objectives of the IRMC and Group RMC:

(i) To provide oversight and governance of risks at RHB Islamic Bank Berhad and the Banking Group (Group);

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

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

The primary responsibility for managing risks, however, rests with business managers. They are best equipped to ensure that risk management and controls are focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits. Additionally, the management of risks associated with financial instruments is carried out in the organisation. The Board has set up policies and procedures to manage the risks that may arise in connection with the use of financial instruments.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate and investment banking and 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 potential loss resulting from adverse movements in the level of market prices, profit rate and foreign currency exchange.

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

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

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

To counter the following business risks the Bank, IRMC and Group RMC has put in place the following:

Market risk

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

The GRM function plays an independent role in the monitoring and assessing of risk exposures and reports independently to the IRMC and GRMC.

Risk measurement techniques and stress testing are applied to Bank’s portfolio on a regular basis.

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Liquidity Risk

- The ALCO plays a fundamental role in the asset/liability management of the Bank, and establishes strategies that assist in controlling and reducing any potential exposures to liquidity risk.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals at unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored on an active basis.
- The Bank's liquidity framework is subject to periodic stress tests and the results are reviewed to ensure constant compliance with BNM's Liquidity Framework.
- The Bank has established a Group Liquidity Policy Statement. In addition, detailed plans to manage any potential adverse liquidity incidences have also been put in place; and can be implemented on a timely basis so that appropriate actions can be taken to remedy any unexpected market developments.

Credit risk

- The Bank abides by the Board's approved credit policy which supports the development of a strong credit culture with the objectives of maintaining a diversified portfolio, that addresses credit risk, and mitigates concern for unexpected losses, and which ensures a reliable and satisfactory risk weighted return. Market best practices are incorporated into this policy.
- The Bank ensures that processes are in place before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated by an independent credit evaluation and management function. The Central Credit Committee and the Group Credit Committee sanction credits beyond established prudential thresholds. The adherence to the discretionary powers sanctioned by the Board is monitored by the Central Compliance function.
- A risk rating system is used to categorise the risk of individual credits. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan/Finance Recovery for more effective management.
- Counter-party, industry and product exposure limits/directions are set and risk reward relationships are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.
- The Bank is moving towards the advanced Basel II approach by implementing key programme components which includes (i) enhancing the economic returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit grading models for business financings, and (iii) designing and implementing modelling of expected and unexpected losses.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Operational risk

The GRM function is responsible for the development of bank-wide operational risk policies, frameworks and methodologies, and providing inputs to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management, loss event analysis, assessment and monitoring of the quality of the internal control system, risk scenario analysis and measurement, comprehensive reporting of operational risks and internal control quality and tracking of risk mitigation and control improvement actions. This system facilitates the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

The Bank has a Business Continuity Management (BCM) programme for its critical business operations and activities at the Head Office, data centre and branch locations. The BCM programme is subject to regular testing to ensure efficacy, reliability and functionality.

The Bank continually refines and strengthens existing policies, procedures and internal control measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent and minimize unexpected losses.

Capital Management Policy

Capital

The overall capital management objectives is to ensure that the Bank has adequate capital to maintain stability, while meeting its business objectives and in line with its risk appetite. Capital management involves capital strategy, capital planning, capital structuring, capital optimisation and dividend payout.

Capital strategy

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

Capital Planning

Based on strategic directions and regulatory requirements, the Bank formulate a capital plan to support its overall risk profile and forecasts the capital demand for material risks for which capital held is deemed appropriate. The capital plan describes the actions required to raise capital in a timely manner in both normal and stress conditions as assumed in the 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 maintain adequate capital on a forward-looking basis. The Bank also has a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Chief Financial Officer and deliberated at the Group Capital and Strategic Risk Management Committee for endorsement, and submitted to IRMC and GRMC and the Board for approval.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Capital Management Policy (continued)

Capital Structuring

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

Dividend Payout

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

Basel II Implementation

In 2004, BNM announced a two-phased approach for implementing the standards recommended by the Bank of International Settlements set out in “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” (Basel II) in Malaysia. In the first phase, banking institutions are required to adopt the Standardised Approach for credit risk by the end of 2008. In the second phase, qualified banking institutions are allowed to migrate directly to the Internal Ratings-Based approach (IRB) beginning from 2010.

The RHB Banking Group places great importance to Basel II and views it as a group-wide initiative in meeting international best practices for credit, market and operational risk management practices. A dedicated Basel II Steering Committee (B2SC) was set up since October 2004 to oversee the implementation of Basel II initiatives throughout the Group and to ensure that it is on track in meeting regulatory requirements as outlined in the Risk-Weighted Capital Adequacy Framework (RWCAF) for banking institutions and the Capital Adequacy Framework for Islamic Banks (CAFIB) issued by BNM. The B2SC has since been dissolved in November 2011, and the discretionary powers and responsibilities of the B2SC are now vested to the Group Capital and Strategic Risk Management Committee.

For purpose of complying with regulatory requirements, the approaches adopted by the Bank is as follows:

	Credit Risk	Market Risk	Operational Risk
Approaches	Standardised Approach	Standardised Approach	Basic Indicator Approach

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

	Financing and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2012					
Assets					
Cash and short-term funds	2,881,135	–	–	–	2,881,135
Deposits and placement with banks and other financial institutions	1,988,635	–	–	–	1,988,635
Financial assets held-for-trading	–	439,382	–	–	439,382
Financial investments available-for-sale	–	–	1,499,013	–	1,499,013
Financial investments held-to-maturity	–	–	–	2,034,698	2,034,698
Financing and advances	16,002,714	–	–	–	16,002,714
Derivative assets	–	2,278	–	–	2,278
Other financial assets	59,574	–	–	–	59,574
Total	20,932,058	441,660	1,499,013	2,034,698	24,907,429

	Other financial liabilities RM'000	Total RM'000
Liabilities		
Deposits from customers	17,326,681	17,326,681
Deposits and placements of banks and other financial institutions	4,562,492	4,562,492
Bills and acceptances payable	21,613	21,613
Derivative liabilities	20,112	20,112
Recources obligations on financing sold to Cagamas	1,462,521	1,462,521
Other financial liabilities	472,268	472,268
Total	23,865,687	23,865,687

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	Financing and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2011					
Assets					
Cash and short-term funds	5,614,932	–	–	–	5,614,932
Deposits and placement with banks and other financial institutions	70,077	–	–	–	70,077
Financial assets held-for-trading	–	433,531	–	–	433,531
Financial investments available-for-sale	–	–	1,673,683	–	1,673,683
Financial investments held-to-maturity	–	–	–	1,398,138	1,398,138
Financing and advances	12,732,595	–	–	–	12,732,595
Other financial assets	46,244	–	–	–	46,244
Total	18,463,848	433,531	1,673,683	1,398,138	21,969,200

	Other financial liabilities RM'000	Total RM'000
Liabilities		
Deposits from customers	17,050,096	17,050,096
Deposits and placements of banks and other financial institutions	3,761,867	3,761,867
Bills and acceptances payable	13,773	13,773
Derivative liabilities	36,659	36,659
Other financial liabilities	429,713	429,713
Total	21,292,108	21,292,108

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	Financing and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
1.1.2011					
Assets					
Cash and short-term funds	1,076,905	–	–	–	1,076,905
Deposits and placement with banks and other financial institutions	40,062	–	–	–	40,062
Financial assets held-for-trading	–	218,928	–	–	218,928
Financial investments available-for-sale	–	–	1,787,265	–	1,787,265
Financial investments held-to-maturity	–	–	–	1,073,159	1,073,159
Financing and advances	8,652,397	–	–	–	8,652,397
Derivative assets	–	1,369	–	–	1,369
Other financial assets	15,334	–	–	–	15,334
Total	9,784,698	220,297	1,787,265	1,073,159	12,865,419

	Other financial liabilities RM'000	Total RM'000
Liabilities		
Deposits from customers	9,946,582	9,946,582
Deposits and placements of banks and other financial institutions	2,066,993	2,066,993
Bills and acceptances payable	12,124	12,124
Other financial liabilities	96,390	96,390
Total	12,122,089	12,122,089

33 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 as at 31 December 2012.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. In reality, the Bank proactively seeks to ensure that the profit rate risk profile is managed to minimise losses and optimise net revenues.

(i) Profit rate sensitivity analysis

The following table shows the sensitivity of the Bank's profit after tax and its equity to an immediate up and down +/-100 basis point (bps) (+– 50 bps for FY 2010) parallel shift in the profit rate.

	Impact on profit after tax RM'000	Impact on equity RM'000
31.12.2012		
+100 bps	**(31,913)**	**(46,244)**
–100 bps	**32,895**	**49,139**
31.12.2011		
+100 bps	(52,963)	(54,974)
–100 bps	53,612	58,732
1.1.2011		
+50 bps	(14,411)	(27,938)
–50 bps	14,422	28,877

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

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term 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 profit rate (100 bps for FY 2011) 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.

Impact on equity represents the impact on the changes in fair values of fixed income instruments held in the available-for-sale portfolio arising from the shift in the profit rate.

33 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
31.12.2012	
+5%	**2,642**
–5%	**(2,642)**
31.12.2011	
+5%	1,147
–5%	(1,147)
1.1.2011	
+5%	1,298
–5%	(1,298)

33 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 repricing or maturity dates.

	<---- 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
31.12.2012									
Assets									
Cash and short-term funds	2,732,290	–	–	–	–	–	148,845	–	2,881,135
Deposits and placement with banks and other financial institutions	–	1,278,793	–	81,906	196,492	417,494	13,950	–	1,988,635
Financial assets held-for-trading	–	–	–	–	–	–	–	439,382	439,382
Financial investments available-for-sale	–	–	–	–	446,194	1,036,783	16,036	–	1,499,013
Financial investments held-to-maturity	149,680	109,696	222,732	110,431	514,538	909,591	18,030	–	2,034,698
Financing and advances									
– performing	4,317,649	1,045,973	314,204	141,165	472,464	9,545,858	23,124	–	15,860,437
– impaired	–	–	–	–	–	–	142,277	–	142,277
Other assets	–	–	–	–	–	–	67,001	–	67,001
Derivative assets	–	–	–	–	–	–	–	2,278	2,278
Statutory deposits with BNM	–	–	–	–	–	–	672,755	–	672,755
Deferred tax assets	–	–	–	–	–	–	927	–	927
Property, plant and equipment	–	–	–	–	–	–	13,201	–	13,201
Intangible assets	–	–	–	–	–	–	7,923	–	7,923
Total assets	7,199,619	2,434,462	536,936	333,502	1,629,688	11,909,726	1,124,069	441,660	25,609,662

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

	<— 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
31.12.2012									
Liabilities									
Deposits from customers	10,687,160	2,482,114	1,389,170	1,516,197	131,732	12,498	1,107,810	–	17,326,681
Deposits and placements of banks	965,036	549,965	200,000	181,906	196,492	2,446,844	22,249	–	4,562,492
Bills and acceptances payable	–	–	–	–	–	–	21,613	–	21,613
Derivative liabilities	–	–	–	–	–	–	–	20,112	20,112
Recourse obligation on financing sold to Cagamas	–	–	–	–	–	1,454,512	8,009	–	1,462,521
Other liabilities	–	–	–	–	–	–	498,970	–	498,970
Taxation and zakat	–	–	–	–	–	–	23,600	–	23,600
Total liabilities	11,652,196	3,032,079	1,589,170	1,698,103	328,224	3,913,854	1,682,251	20,112	23,915,989
Total equity	–	–	–	–	–	–	1,693,673	–	1,693,673
Total liabilities and equity	11,652,196	3,032,079	1,589,170	1,698,103	328,224	3,913,854	3,375,924	20,112	25,609,662
On-balance sheet profit sensitivity gap	(4,452,577)	(597,617)	(1,052,234)	(1,346,601)	1,301,464	7,995,872			
Off-balance sheet profit sensitivity gap	1,500,000	1,800,000	–	–	(1,800,000)	(1,500,000)			
Total profit sensitivity gap	(2,952,577)	1,202,383	(1,052,234)	(1,346,601)	(498,536)	6,495,872			

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

	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
31.12.2011									
Assets									
Cash and short-term funds	5,539,140	–	–	–	–	–	75,792	–	5,614,932
Deposits and placement with banks and other financial institutions	–	70,000	–	–	–	–	77	–	70,077
Financial assets held-for-trading	–	–	–	–	–	–	–	433,531	433,531
Financial investments available-for-sale	13,003	48,103	5,000	13,473	330,336	1,249,612	14,156	–	1,673,683
Financial investments held-to-maturity	–	10,000	9,778	24,485	498,127	840,719	15,029	–	1,398,138
Financing and advances									
– performing	2,110,972	324,333	334,975	300,503	603,053	8,793,529	31,773	–	12,499,138
– impaired	–	–	–	–	–	–	233,457	–	233,457
Other assets	–	–	–	–	–	–	87,194	–	87,194
Statutory deposits with BNM	–	–	–	–	–	–	606,455	–	606,455
Deferred tax assets	–	–	–	–	–	–	3,769	–	3,769
Tax recoverable	–	–	–	–	–	–	8,702	–	8,702
Property, plant and equipment	–	–	–	–	–	–	13,780	–	13,780
Intangible assets	–	–	–	–	–	–	7,461	–	7,461
Total assets	7,663,115	452,436	349,753	338,461	1,431,516	10,883,860	1,097,645	433,531	22,650,317

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

	<— 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
31.12.2011									
Liabilities									
Deposits from customers	9,116,770	4,526,133	1,554,074	874,110	34,566	3,903	940,540	–	17,050,096
Deposits and placements of banks and other financial institutions	845,256	1,769,000	850,000	–	–	269,450	28,161	–	3,761,867
Bills and acceptances payable	–	–	–	–	–	–	13,773	–	13,773
Derivative liabilities	–	–	–	–	–	–	–	36,659	36,659
Other liabilities	–	–	–	–	–	–	446,781	–	446,781
Total liabilities	9,962,026	6,295,133	2,404,074	874,110	34,566	273,353	1,429,255	36,659	21,309,176
Total equity	–	–	–	–	–	–	1,341,141	–	1,341,141
Total liabilities and equity	9,962,026	6,295,133	2,404,074	874,110	34,566	273,353	2,770,396	36,659	22,650,317
On-balance sheet profit sensitivity gap	(2,298,912)	(5,842,697)	(2,054,321)	(535,649)	1,396,950	10,610,507			
Off-balance sheet profit sensitivity gap	1,300,000	1,300,000	–	–	(1,200,000)	(1,400,000)			
Total profit sensitivity gap	(998,912)	(4,542,697)	(2,054,321)	(535,649)	196,950	9,210,507			

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

	<— 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
1.1.2011									
Assets									
Cash and short-term funds	1,019,584	–	–	–	–	–	57,321	–	1,076,905
Deposits and placement with banks and other financial institutions	–	40,000	–	–	–	–	62	–	40,062
Financial assets held-for-trading	–	–	–	–	–	–	218,928	218,928	
Financial investments available-for-sale	7,810	90,050	167,559	25,280	262,092	1,221,348	13,126	–	1,787,265
Financial investments held-to-maturity	–	–	60,237	67,918	195,795	737,962	11,247	–	1,073,159
Financing and advances									
– performing	1,853,506	321,639	386,900	209,569	771,440	4,844,594	20,130	–	8,407,778
– impaired	–	–	–	–	–	–	244,619	–	244,619
Other assets	–	–	–	–	–	–	42,830	–	42,830
Derivative assets	–	–	–	–	–	–	–	1,369	1,369
Statutory deposits with BNM	–	–	–	–	–	–	105,140	–	105,140
Deferred tax assets	–	–	–	–	–	–	46,195	–	46,195
Property, plant and equipment	–	–	–	–	–	–	15,938	–	15,938
Intangible assets	–	–	–	–	–	–	5,609	–	5,609
Total assets	2,880,900	451,689	614,696	302,767	1,229,327	6,803,904	562,217	220,297	13,065,797

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

	<— 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
1.1.2011									
Liabilities									
Deposits from customers	4,825,251	2,553,060	877,940	590,906	149,746	749	948,930	–	9,946,582
Deposits and placements of banks and other financial institutions	952,204	150,000	950,933	–	–	–	13,856	–	2,066,993
Bills and acceptances payable	–	–	–	–	–	–	12,124	–	12,124
Derivative liabilities	–	–	–	–	–	–	101,286	–	101,286
Other liabilities	–	–	–	–	–	–	170	–	170
Total liabilities	5,777,455	2,703,060	1,828,873	590,906	149,746	749	1,076,366	–	12,127,155
Total equity	–	–	–	–	–	–	938,642	–	938,642
Total liabilities and equity	5,777,455	2,703,060	1,828,873	590,906	149,746	749	2,015,008	–	13,065,797
On-balance sheet profit sensitivity gap	(2,889,557)	(2,251,371)	(1,214,177)	(288,139)	1,079,581	6,803,155			
Off-balance sheet profit sensitivity gap	50,000	600,000	–	–	–	(650,000)			
Total profit sensitivity gap	(2,839,557)	(1,651,371)	(1,214,177)	(288,139)	1,079,581	6,153,155			

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Bank to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The 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 and is disclosed in accordance with the requirements of BNM GP8i:

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
31.12.2012								
Assets								
Cash and short-term funds	2,443,770	437,365	–	–	–	–	–	2,881,135
Deposits and placement with banks and other financial institutions	–	–	1,283,258	–	82,612	622,765	–	1,988,635
Financial assets held-for-trading	139	–	101,012	711	20,004	317,516	–	439,382
Financial investments available-for-sale	270	3,712	4,930	5,897	–	1,483,629	575	1,499,013
Financial investments held-to-maturity	514	151,335	120,549	227,740	110,431	1,424,129	–	2,034,698
Financing and advances	–	4,332,582	1,045,973	314,204	150,052	10,159,903	–	16,002,714
Other assets	57,318	708	–	–	–	–	8,975	67,001
Derivative assets	–	–	2,278	–	–	–	–	2,278
Statutory deposits with BNM	–	–	–	–	–	–	672,755	672,755
Deferred tax assets	–	–	–	–	–	–	927	927
Property, plant and equipment	–	–	–	–	–	–	13,201	13,201
Intangible assets	–	–	–	–	–	–	7,923	7,923
Total assets	2,502,011	4,925,702	2,558,000	548,552	363,099	14,007,942	704,356	25,609,662
Liabilities								
Deposits from customers	5,496,935	6,283,399	2,491,155	1,393,380	1,519,361	142,451	–	17,326,681
Deposits and placements of banks and other financial institutions	194,593	771,646	549,127	198,148	181,013	2,667,965	–	4,562,492
Bills and acceptances payable	21,613	–	–	–	–	–	–	21,613
Derivative liabilities	–	–	20,112	–	–	–	–	20,112
Recourse obligation on financing sold to Cagamas	–	–	–	–	–	1,462,521	–	1,462,521
Other liabilities	384,305	11,259	3,142	185	73,377	–	26,702	498,970
Taxation and zakat	–	–	–	–	–	–	23,600	23,600
Total liabilities	6,097,446	7,066,304	3,063,536	1,591,713	1,773,751	4,272,937	50,302	23,915,989
Total equity	–	–	–	–	–	–	1,693,673	1,693,673
Total liabilities and equity	6,097,446	7,066,304	3,063,536	1,591,713	1,773,751	4,272,937	1,743,975	25,609,662

33 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 and is disclosed in accordance with the requirements of BNM GP8i (continued):

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
31.12.2011								
Assets								
Cash and short-term funds	3,767,481	1,847,451	–	–	–	–	–	5,614,932
Deposits and placement with banks and other financial institutions	–	–	70,077	–	–	–	–	70,077
Financial assets held-for-trading	256	–	4,964	302,388	–	125,923	–	433,531
Financial investments available-for-sale	13,620	1,398	55,152	10,092	13,473	1,579,948	–	1,673,683
Financial investments held-to-maturity	514	1,654	19,187	12,994	24,485	1,339,304	–	1,398,138
Financing and advances	–	2,161,165	324,333	334,975	311,496	9,600,626	–	12,732,595
Other assets	47,166	16,098	–	–	–	–	23,930	87,194
Statutory deposits with BNM	–	–	–	–	–	–	606,455	606,455
Deferred tax assets	–	–	–	–	–	–	3,769	3,769
Tax recoverable	–	–	–	–	–	–	8,702	8,702
Property, plant and equipment	–	–	–	–	–	–	13,780	13,780
Intangible assets	–	–	–	–	–	–	7,461	7,461
Total assets	3,829,037	4,027,766	473,713	660,449	349,454	12,645,801	664,097	22,650,317
Liabilities								
Deposits from customers	6,490,304	3,535,981	4,546,940	1,563,393	876,040	37,438	–	17,050,096
Deposits and placements of banks and other financial institutions	471,902	378,339	1,782,782	858,692	–	270,152	–	3,761,867
Bills and acceptances payable	13,773	–	–	–	–	–	–	13,773
Derivative liabilities	–	–	–	–	–	36,659	–	36,659
Other liabilities	364,018	10,040	12,025	262	43,241	128	17,067	446,781
Total liabilities	7,339,997	3,924,360	6,341,747	2,422,347	919,281	344,377	17,067	21,309,176
Total equity	–	–	–	–	–	–	1,341,141	1,341,141
Total liabilities and equity	7,339,997	3,924,360	6,341,747	2,422,347	919,281	344,377	1,358,208	22,650,317

33 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 and is disclosed in accordance with the requirements of BNM GP8i (continued):

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
1.1.2011								
Assets								
Cash and short-term funds	1,030,646	46,259	–	–	–	–	–	1,076,905
Deposits and placement with banks and other financial institutions	–	–	40,062	–	–	–	–	40,062
Financial assets held-for-trading	–	80	99,448	99,194	–	20,206	–	218,928
Financial investments available-for-sale	–	7,810	83,618	174,146	25,302	1,496,389	–	1,787,265
Financial investments held-to-maturity	–	–	–	60,295	67,919	944,945	–	1,073,159
Financing and advances	173,592	1,679,915	321,639	386,900	222,704	5,867,647	–	8,652,397
Other assets	25,422	14,114	–	–	–	–	3,294	42,830
Derivative assets	–	–	–	–	–	1,369	–	1,369
Statutory deposits with BNM	–	–	–	–	–	–	105,140	105,140
Deferred tax assets	–	–	–	–	–	–	46,195	46,195
Property, plant and equipment	–	–	–	–	–	–	15,938	15,938
Intangible assets	–	–	–	–	–	–	5,609	5,609
Total assets	1,229,660	1,748,178	544,767	720,535	315,925	8,330,556	176,176	13,065,797
Liabilities								
Deposits from customers	3,819,303	1,935,981	2,464,714	986,403	595,393	144,788	–	9,946,582
Deposits and placements of banks and other financial institutions	507,038	216,401	840,222	209,648	–	293,684	–	2,066,993
Bills and acceptances payable	12,124	–	–	–	–	–	–	12,124
Other liabilities	11,804	9,622	2,381	381	61,357	10,845	4,896	101,286
Taxation	–	–	–	–	–	–	170	170
Total liabilities	4,350,269	2,162,004	3,307,317	1,196,432	656,750	449,317	5,066	12,127,155
Total equity	–	–	–	–	–	–	938,642	938,642
Total liabilities and equity	4,350,269	2,162,004	3,307,317	1,196,432	656,750	449,317	943,708	13,065,797

33 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 payments.

	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2012							
Liabilities							
Deposits from customers	11,792,609	3,938,350	1,568,837	140,131	15,082	–	17,455,009
Deposits and placements of banks and other financial institutions	966,592	747,928	183,031	214,547	1,097,424	2,095,778	5,305,300
Bills and acceptances payable	21,613	–	–	–	–	–	21,613
Derivative liabilities	1,512	4,743	4,098	12,070	262	–	22,685
Recourse obligation on financing sold to Cagamas	22,626	80,666	104,720	428,578	1,014,727	–	1,651,317
Other liabilities	395,564	3,327	73,377	–	–	–	472,268
Total financial liabilities	13,200,516	4,775,014	1,934,063	795,326	2,127,495	2,095,778	24,928,192

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
31.12.2012			
Transaction-related contingent items	106,104	–	106,104
Short-term self-liquidating trade-related contingencies	55,603	–	55,603
Obligations under underwriting agreements	90,000	–	90,000
Irrevocable commitments to extend credit	1,561,193	1,701,762	3,262,955
Total commitments and contingencies	1,812,900	1,701,762	3,514,662

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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2011							
Liabilities							
Deposits from customers	10,032,473	5,789,988	1,270,921	38,365	4,050	–	17,135,797
Deposits and placements of banks and other financial institutions	850,777	2,665,468	–	–	–	276,537	3,792,782
Bills and acceptances payable	13,773	–	–	–	–	–	13,773
Derivative liabilities	560	3,221	6,343	17,503	5,127	–	32,754
Other liabilities	374,057	12,287	43,241	–	–	128	429,713
Total financial liabilities	11,271,640	8,470,964	1,320,505	55,868	9,177	276,665	21,404,819

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
31.12.2011			
Direct credit substitutes	35	–	35
Transaction-related contingent items	94,558	–	94,558
Short-term self-liquidating trade-related contingencies	42,424	–	42,424
Obligations under underwriting agreements	208,500	–	208,500
Irrevocable commitments to extend credit	1,686,599	2,280,366	3,966,965
Total commitments and contingencies	2,032,116	2,280,366	4,312,482

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

	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
1.1.2011							
Liabilities							
Deposits from customers	5,753,606	3,479,647	611,481	156,620	874	–	10,002,228
Deposits and placements of banks and other financial institutions	754,637	1,025,481	–	–	–	314,784	2,094,902
Bills and acceptances payable	12,124	–	–	–	–	–	12,124
Other liabilities	21,426	2,762	61,357	1,970	2,975	5,900	96,390
Total financial liabilities	6,541,793	4,507,890	672,838	158,590	3,849	320,684	12,205,644

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
1.1.2011			
Transaction-related contingent items	146,995	–	146,995
Short-term self-liquidating trade-related contingencies	40,948	–	40,948
Obligations under underwriting agreements	29,000	–	29,000
Irrevocable commitments to extend credit	2,099,697	552,580	2,652,277
Total commitments and contingencies	2,316,640	552,580	2,869,220

33 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 commitments and contingencies, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Bank:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Credit risk exposure relating to:			
Short-term funds (exclude cash in hand)	**2,869,942**	5,609,616	1,072,620
Deposits and placements with banks and other financial institutions	**1,988,635**	70,077	40,062
Financial assets and investments portfolios (exclude shares)			
– Held-for-trading	**439,382**	433,531	218,928
– Available-for-sale	**1,498,438**	1,673,108	1,786,690
– Held-to-maturity	**2,034,698**	1,398,138	1,073,159
Financing and advances	**16,002,714**	12,732,595	8,652,397
Other financial assets	**59,574**	46,244	15,334
Derivative assets	**2,278**	–	1,369
	24,895,661	21,963,309	12,860,559
Commitment and contingencies	**3,514,662**	4,312,482	2,869,220
Total maximum credit risk exposure	**28,410,323**	26,275,791	15,729,779

33 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, Mudharabah General Investment Account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins

(b) Land and buildings

(c) Vessels and automobiles

(d) Quoted shares, unit trusts, Malaysian Government Bonds and securities and private debt securities

(e) Endowment life policies with cash surrender value

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

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

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancement mitigate credit risk) held for financing and advances as at 31 December 2012 is 54.1% (2011: 55.3%). The financial effect of collateral held for the other financial asset is insignificant.

(iii) 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.

Internal ratings	Description
– Investment grade	Strong(est) credit quality which associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
– Lower investment grade	Lower credit quality which associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
– Non-investment grade	Weaker credit quality which associated with general standards of non-investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

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:

– AAA to AA3
– A1 to A3
– Baa1 to Baa3
– P1 to P3
– Non-rated

(a) Financing and advances

Financing and advances are summarised as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Neither past due nor impaired	**15,341,688**	12,119,780	8,391,298
Past due but not impaired	**518,749**	379,358	16,480
Individually impaired	**409,064**	560,617	658,751
Gross financing and advances	**16,269,501**	13,059,755	9,066,529
Less: Individual impairment allowance	**(89,013)**	(130,724)	(163,440)
Collective impairment allowance	**(177,774)**	(196,436)	(250,692)
Net financing and advances	**16,002,714**	12,732,595	8,652,397

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(a) Financing and advances (continued)

Financing and advances are summarised as follows (continued):

(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:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Investment grade	**6,948,029**	5,354,899	3,236,755
Lower investment grade	**267,860**	682,188	697,755
Non-investment grade	**116,464**	671,478	37,288
Non-rated	**8,009,335**	5,411,215	4,419,500
	15,314,688	12,119,780	8,391,298

Financing and advances classified as non-rated mainly comprise of financing under the standardised approach for credit risk including housing financing and hire purchase receivables.

(ii) Financing and advances past due nor impaired

Analysis of aging of financing and advances that are past due but not impaired is as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Past due up to 30 days	**70,298**	26,071	11,430
Past due 31 to 60 days	**337,910**	261,461	4,064
Past due 61 to 90 days	**110,541**	91,826	986
Past due but not impaired	**518,749**	379,358	16,480

(iii) Financing and advances that are determined to be individually impaired as at 31 December 2012:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Individually impaired financing	**409,064**	560,617	658,751

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets.

(i) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets are summarised as follows:

	Short-term funds RM'000	Deposits and placement with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Derivative assets RM'000
31.12.2012							
Neither past due nor impaired	**2,869,942**	**1,988,635**	**439,382**	**1,498,438**	**2,034,698**	**59,574**	**2,278**
31.12.2011							
Neither past due nor impaired	5,609,616	70,077	433,531	1,673,108	1,398,138	46,244	–
1.1.2011							
Neither past due nor impaired	1,072,620	40,062	218,928	1,786,690	1,073,159	15,334	1,369

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets. (continued)

(ii) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets that are neither past due nor impaired by rating agency designation as at are as follows:

	Short-term funds RM'000	Deposits and placement with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Derivative assets RM'000
31.12.2012							
AAA to AA3	200,600	764,962	280,655	796,268	348,297	–	–
A1 to A3	80,446	20,109	7,144	16,870	20,323	–	–
Non-rated of which:	2,588,896	1,203,564	151,583	685,300	1,666,078	59,574	2,278
– Malaysian Government Investment Issues	–	–	151,583	486,371	743,403	–	–
– Bank Negara Malaysia	2,229,999	1,203,564	–	–	–	–	–
– Private Debt Securities	–	–	–	162,912	258,919	–	–
– Khazanah Bonds	–	–	–	36,017	8,658	–	–
– Others	358,897	–	–	–	655,098	59,574	2,278
	2,869,942	1,988,635	439,382	1,498,438	2,034,698	59,574	2,278

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets. (continued)

(ii) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets that are neither past due nor impaired by rating agency designation as at are as follows (continued):

	Short-term funds RM'000	Deposits and placement with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000
31.12.2011						
AAA to AA3	–	–	5,044	493,869	460,168	–
A1 to A3	–	–	16,495	23,510	20,322	–
P1 to P3	416,000	–	–	15,979	–	–
Non-rated of which:	5,193,616	70,077	411,992	1,139,750	917,648	46,244
– Malaysian Government Investment Issues	–	–	51,312	869,507	795,980	–
– Bank Negara Malaysia	5,129,474	–	306,912	–	–	–
– Private Debt Securities	–	–	–	270,243	61,363	–
– Khazanah Bonds	–	–	53,768	–	8,346	–
– Others	64,142	70,077	–	–	51,959	46,244
	5,609,616	70,077	433,531	1,673,108	1,398,138	46,244

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(b) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets. (continued)

(ii) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets that are neither past due nor impaired by rating agency designation as at are as follows (continued):

	Short-term funds RM'000	Deposits and placement with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Derivative assets RM'000
1.1.2011							
AAA to AA3	–	–	10,140	301,195	418,287	–	–
A1 to A3	–	40,062	–	–	20,312	–	–
P1 to P3	30,070	–	24,906	9,951	–	–	–
Non-rated of which:	1,042,550	–	183,882	1,475,544	634,560	15,334	1,369
– Malaysian Government Investment Issues	–	–	10,066	1,239,535	589,168	–	–
– Bank Negara Malaysia	1,002,153	–	173,816	–	–	–	–
– Private Debt Securities	–	–	–	132,154	45,392	–	–
– Others	40,397	–	–	103,855	–	15,334	1,369
	1,072,620	40,062	218,928	1,786,690	1,073,159	15,334	1,369

(iii) Collateral and other credit enhancements

There are no assets held by the Bank as a result of taking possession of collaterals held as securities.

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Bank generally does not occupy the repossessed premises for its business use.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
31.12.2012								
Agriculture	–	–	30,453	–	196,570	–	24,729	251,752
Mining and quarrying	–	–	–	–	26,597	–	–	26,597
Manufacturing	–	–	–	–	1,010,177	–	276,628	1,286,805
Electricity, gas and water	–	–	114,512	47,474	220,942	–	6,286	389,214
Construction	–	–	20,918	–	821,042	–	244,920	1,086,880
Real estate	–	5,094	192,032	177,345	144,009	–	10,000	528,480
Purchase of landed property	–	–	–	–	3,473,848	–	1,004,056	4,477,904
General commerce	–	–	–	–	417,340	–	343,501	760,841
Transport, storage and communication	–	25,236	152,284	15,232	314,329	–	61,093	568,174
Finance, insurance and business services	1,425,014	–	136,832	25,203	1,210,584	–	270,331	3,067,964
Government and government agencies	3,433,563	409,052	851,407	1,769,444	4,249,996	–	–	10,713,462
Purchase of transport vehicle	–	–	–	–	–	–	312,359	312,359
Consumption credit	–	–	–	–	–	–	320,488	320,488
Others	–	–	–	–	4,095,054	61,852	640,271	4,797,177
	4,858,577	439,382	1,498,438	2,034,698	16,180,488	61,852	3,514,662	28,588,097

Excludes collective impairment allowance amounting to RM177,774,000.

* Other financial assets include other financial assets amounting to RM59,574,000 and derivative assets amounting.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
31.12.2011								
Agriculture	–	–	–	–	191,563	–	55,875	247,438
Mining and quarrying	–	–	–	–	25,165	–	–	25,165
Manufacturing	–	–	–	–	883,588	–	560,813	1,444,401
Electricity, gas and water	–	5,044	143,124	48,283	209,465	–	6,613	412,529
Construction	–	–	–	–	439,682	–	390,720	830,402
Real estate	–	–	137,145	189,830	135,981	–	–	462,956
Purchase of landed property	–	–	–	–	2,994,413	–	721,305	3,715,718
General commerce	–	–	–	–	493,698	–	472,402	966,100
Transport, storage and communication	–	–	47,702	70,161	3,482,200	–	965,522	4,565,585
Finance, insurance and business services	550,219	306,913	31,750	–	184,589	–	76,924	1,150,395
Government and government agencies	5,129,474	121,574	1,313,387	1,089,864	1,794,513	–	–	9,448,812
Purchase of securities	–	–	–	–	8,607	–	–	8,607
Consumption credit	–	–	–	–	–	–	848,851	848,851
Others	–	–	–	–	2,085,567	46,244	213,457	2,345,268
	5,679,693	433,531	1,673,108	1,398,138	12,929,031	46,244	4,312,482	26,472,227

Excludes collective impairment allowance amounting to RM196,436,000.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
1.1.2011								
Agriculture	–	–	–	–	332,120	–	50,387	382,507
Mining and quarrying	–	–	–	–	26,854	–	–	26,854
Manufacturing	–	–	–	–	879,468	–	302,253	1,181,721
Electricity, gas and water	–	24,906	67,334	48,563	224,263	–	19,859	384,925
Construction	–	–	–	–	482,792	–	608,824	1,091,616
Real estate	–	–	16,255	35,723	134,259	–	4,196	190,433
Purchase of landed property	–	–	–	–	2,628,564	–	396,240	3,024,804
General commerce	–	–	5,048	–	603,202	–	628,604	1,236,854
Transport, storage and communication	–	–	40,432	87,320	1,566,957	–	82,149	1,776,858
Finance, insurance and business services	110,529	183,956	275,714	295,797	14,235	–	227,781	1,108,012
Government and government agencies	1,002,153	10,066	1,381,907	605,756	–	–	–	2,999,882
Purchase of securities	–	–	–	–	12,269	–	–	12,269
Purchase of transport vehicles	–	–	–	–	87	–	–	87
Consumption credit	–	–	–	–	27,714	–	8,263	35,977
Others	–	–	–	–	1,970,305	16,703	540,664	2,527,672
	1,112,682	218,928	1,786,690	1,073,159	8,903,089	16,703	2,869,220	15,980,471

Excludes collective impairment allowance amounting to RM250,692,000.

* Other financial assets include other financial assets amounting to RM15,334,000 and derivative assets amounting to RM1,369,000.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices for identical instruments in active markets

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2012				
Financial assets				
Financial assets held-for-trading				
– money market instruments	**–**	**409,051**	**–**	**409,051**
– unquoted securities	**–**	**30,331**	**–**	**30,331**
Financial investments available-for-sale				
– money market instruments	**–**	**589,590**	**–**	**589,590**
– unquoted securities	**–**	**908,848**	**575**	**909,423**
Derivative assets	**–**	**2,278**	**–**	**2,278**
	–	**1,940,098**	**575**	**1,940,673**
Financial liabilities				
Derivative liabilities	**–**	**20,112**	**–**	**20,112**
31.12.2011				
Financial assets				
Financial assets held-for-trading				
– money market instruments	–	428,487	–	428,487
– unquoted securities	–	5,044	–	5,044
Financial investments available-for-sale				
– money market instruments	–	893,017	–	893,017
– unquoted securities	–	780,091	575	780,666
	–	2,106,639	575	2,107,214
Financial liabilities				
Derivative liabilities	–	36,659	–	36,659

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy (continued)

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements (continued):

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
1.1.2011				
Financial assets				
Financial assets held-for-trading				
– money market instruments	–	183,882	–	183,882
– unquoted securities	–	35,046	–	35,046
Financial investments available-for-sale				
– money market instruments	–	1,333,403	–	1,333,403
– unquoted securities	–	453,287	575	453,862
Derivative assets	–	1,369	–	1,369
	–	2,006,987	575	2,007,562

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Carrying value RM'000	Fair value RM'000
31.12.2012		
Financial assets		
Financial investments held-to-maturity	**2,034,698**	**2,039,462**
Financing and advances	**16,002,714**	**16,427,970**
Financial liabilities		
Deposits from customers	**17,326,681**	**17,335,868**
Deposits and placements of banks and other financial institutions	**4,562,492**	**4,743,482**
Recources obligations on financing sold to Cagamas	**1,462,521**	**1,410,286**
31.12.2011		
Financial assets		
Financial investments held-to-maturity	1,398,138	1,406,370
Financing and advances	12,732,595	13,048,165
Financial liabilities		
Deposits from customers	17,038,324	17,032,142
Deposits and placements of banks and other financial institutions	3,761,867	3,730,973

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair value of each financial assets and liabilities presented on the statement of financial position approximates the carrying amount as at the reporting date, except for the following (continued):

	Carrying value RM'000	Fair value RM'000
1.1.2011		
Financial assets		
Financial investments held-to-maturity	1,073,159	1,092,905
Financing and advances	8,652,397	8,807,121
Financial liabilities		
Deposits from customers	9,948,152	9,946,582
Deposits and placements of banks and other financial institutions	2,066,993	2,066,993

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

(i) Cash and short-term funds and deposits and placements with financial institutions

For cash and short-term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Financial investments held-to-maturity

The fair value for financial investments held-to-maturity is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative profit yields or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the statement of financial position date.

(iii) 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 floating and fixed rates financing are represented by their carrying value, net of impairment allowance.

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(iv) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in "other assets and liabilities" are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

(v) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(vi) Deposits and placements of banks and other financial institutions, bills and acceptances payables

The estimated fair values of deposits and placements of banks and other financial institutions, bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturities.

(vii) Recourse obligations on financing sold to Cagamas

For amount 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 interest rates with similar remaining period to maturity.

(viii) 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.

35 CAPITAL ADEQUACY

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks (CAFIB): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Tier I Capital			
Paid-up ordinary share capital	**973,424**	773,424	523,424
Retained profits	**358,151**	280,203	176,348
Statutory reserve	**358,359**	280,411	231,484
	1,689,934	1,334,038	931,256
Less:			
Deferred tax assets	**(2,175)**	(6,137)	(48,610)
Total Tier I capital	**1,687,759**	1,327,901	882,646
Tier II Capital			
Collective impairment/allowance for bad and doubtful financing^	**87,435**	108,500	146,929
Total Tier II capital	**87,435**	108,500	146,929
Less:			
Other deduction*	**(5,091)**	(24)	(102)
Total capital base	**1,770,103**	1,436,377	1,029,473
Capital Ratios before the effects of PSIA			
Core capital ratio (inclusive of market risk)	**12.43%**	12.88%	11.51%
Risk-weighted capital ratio (inclusive of market risk)	**13.04%**	13.93%	13.43%
Capital Ratios after the effects of PSIA			
Core capital ratio (inclusive of market risk)	**14.06%**	12.88%	11.51%
Risk-weighted capital ratio (inclusive of market risk)	**14.74%**	13.93%	13.43%

35 CAPITAL ADEQUACY (CONTINUED)

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Credit risk-weighted assets	**12,622,768**	9,136,385	7,068,476
Credit risk-weighted assets absorbed by PSIA	**(1,569,046)**	–	–
Market risk-weighted assets	**265,386**	565,103	30,513
Operational risk-weighted assets	**689,105**	608,028	566,538
Total risk-weighted assets	**12,008,213**	10,309,516	7,665,527

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 Accounts (RPSIA) which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2012, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM1,569 million (2011: RM Nil).

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

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

Pursuant to BNM circular, "Recognition of Deferred Tax Assets (DTA) for RWCR Purposes" dated 8 August 2003, deferred tax income/(expense) is excluded from the computation of Tier I capital and deferred tax assets are excluded from the calculation of risk weighted assets.

35 CAPITAL ADEQUACY (CONTINUED)

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

31.12.2012	**Principal RM'000**	**Risk weighted RM'000**
(i) Credit Risk		
0%	**9,459,349**	**–**
20%	**2,925,385**	**585,077**
50%	**97,320**	**48,660**
75%	**8,312,952**	**6,234,714**
100%	**5,568,994**	**5,568,994**
150%	**123,549**	**185,323**
	26,487,549	**12,622,768**
Less: Credit risk weighted assets absorbed by PSIA	**–**	**(1,569,046)**
(ii) Market Risk Capital Adequacy Framework	**1,616,426**	**265,386**
(iii) Basic Indicator Operational Risk Capital Charge	**–**	**689,105**
	28,103,975	**12,008,213**

31.12.2011	**Principal RM'000**	**Risk weighted RM'000**
(i) Credit Risk		
0%	11,399,756	–
20%	1,497,524	299,505
50%	128,597	64,299
75%	6,483,044	4,862,283
100%	3,640,847	3,640,847
150%	179,634	269,451
	23,329,402	9,136,385
(ii) Market Risk Capital Adequacy Framework	5,643,938	565,103
(iii) Basic Indicator Operational Risk Capital Charge	–	608,028
	28,973,340	10,309,516

35 CAPITAL ADEQUACY (CONTINUED)

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

1.1.2011	Principal RM'000	Risk weighted RM'000
(i) Credit Risk		
0%	4,615,087	–
20%	1,126,249	225,250
50%	137,106	68,553
75%	4,334,294	3,250,721
100%	3,067,379	3,067,379
150%	304,382	456,573
	13,584,497	7,068,476
(ii) Market Risk Capital Adequacy Framework	230,515	30,513
(iii) Basic Indicator Operational Risk Capital Charge	–	566,538
	13,815,012	7,665,527

36 SEGMENT REPORTING

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

All inter-segment transactions are conducted on an arm's length basis and on normal commercial terms not more favourable than those generally available to the public.

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:

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), financings restructuring and syndication as well as general and project advisory services.

Business banking

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

36 SEGMENT REPORTING (CONTINUED)

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

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), remittance services and investment products (term deposit/investment accounts).

Treasury

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

Transaction banking

Transaction banking establishes, retains and grows relationship with Federal and State Governments including their respective agencies and business corporations in order to retain sources of deposits and earn fee-based income. The division also provides cash management, collection and payment services to customers.

International Currency Business Unit (ICBU)

ICBU conducts Islamic banking business activities, which includes deposits, financing and related activities, in international currency.

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Total RM'000
31.12.2012							
External revenue	292,593	46,319	448,427	344,692	6,153	(1,192)	1,136,992
Inter-segment (expense)/revenue	(102,961)	9,051	(187,908)	177,895	102,407	1,516	–
Total revenue	189,632	55,370	260,519	522,587	108,560	324	1,136,992
Depositors' payout	(105,708)	(14,912)	(51,228)	(445,393)	(55,128)	(2,439)	(674,808)
Net income	83,924	40,458	209,291	77,194	53,432	(2,115)	462,184
Operating overheads	(19,885)	(22,585)	(88,108)	(23,662)	(29,977)	(44)	(184,261)
Depreciation of property and equipment	(1,048)	(553)	(2,750)	(1,314)	(190)	–	(5,855)
Amortisation of computer software	(41)	(22)	(108)	(52)	(7)	–	(230)
Allowance for impairment on financing	(41,371)	(17,882)	(8,805)	–	–	(2,421)	(70,479)
Segmental results	21,579	(584)	109,520	52,166	23,258	(4,580)	201,359
Segmental results							201,359
Unallocated expenses							7,252
Profit before taxation and zakat							208,611
Zakat							(320)
Profit after zakat before taxation							208,291
Taxation							(52,395)
Profit for the financial year							155,896

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

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Elimination RM'000	Total RM'000
31.12.2012								
Segment assets	**6,878,467**	**1,061,707**	**8,591,434**	**14,266,374**	**2,630,386**	**239,329**	**(8,143,717)**	**25,523,980**
Unallocated assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**84,755**
Deferred tax assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**927**
Total assets								**25,609,622**
Segmental liabilities	**6,573,689**	**1,020,334**	**8,143,162**	**13,374,159**	**2,630,386**	**230,124**	**(8,143,717)**	**23,828,137**
Profit equalisation reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,252**
Unallocated liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**80,600**
Total liabilities								**23,915,989**
Other segment items:								
Capital expenditure	**1,012**	**535**	**2,658**	**1,271**	**184**	**–**	**–**	**5,660**

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Total RM'000
31.12.2011							
External revenue	191,918	50,182	312,895	231,267	5,418	1,011	792,691
Inter-segment (expense)/revenue	(128,078)	1,814	(126,151)	169,017	79,172	4,226	–
Total revenue	63,840	51,996	186,744	400,284	84,590	5,237	792,691
Depositors' payout	(33,061)	(13,799)	(23,631)	(321,861)	(40,794)	(2,891)	(436,037)
Net income	30,779	38,197	163,113	78,423	43,796	2,346	356,654
Operating overheads	(16,338)	(19,378)	(73,922)	(17,776)	(24,129)	(6)	(151,549)
Depreciation of property and equipment	(423)	(635)	(2,032)	(593)	(550)	–	(4,233)
Allowance for impairment on financing and advances	14,161	(13,283)	11,934	–	–	67	12,879
Segmental results	28,179	4,901	99,093	60,054	19,117	2,407	213,751
Profit before taxation							213,751
Unallocated expenses							(2,725)
Profit before taxation							211,026
Taxation							(58,244)
Profit for the financial year							152,782

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

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Elimination RM'000	Total RM'000
31.12.2011								
Segment assets	5,530,784	748,729	6,488,182	14,319,462	2,747,862	279,837	(7,945,409)	22,169,447
Tax recoverable								8,702
Deferred tax assets								3,769
Unallocated assets								468,399
Total assets								22,650,317
Segment liabilities	5,307,156	709,550	6,162,369	13,578,936	2,747,862	270,199	(7,945,409)	20,830,663
Profit equalisation reserve								7,252
Unallocated liabilities								471,261
								21,309,176
Other segment items:								
Capital expenditure	393	589	1,884	550	511	–	–	3,927

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

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

(a) MFRS 1 mandatory exceptions

(i) Estimates

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

(ii) Hedge accounting

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

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

38 EFFECT OF CHANGES IN ACCOUNTING POLICIES

MFRS 139 'Financial Instruments: Recognition and Measurement'

Previously, the Bank applied the Amendment to FRS 139 'Financial Instruments: Recognition and Measurement', which included an additional transitional arrangement for financial sectors, whereby Bank Negara Malaysia (BNM) may prescribed the use of an alternative basis for collective assessment of impairments on financing and advances. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/ Financing issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 Dcember 2010, whereby banking institutions are required to maintain collective allowances of at least 1.5% of total outstanding financing and advances, net of individual impairment allowances under the transitional provisions in the guidelines.

With effect from 1 January 2012, BNM has removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and financing loss provisioning to comply with MFRS 139 requirements. Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred but not identified yet. The required loan loss allowance is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

Previously, when collectively assessed financing and advances are deemed impaired, the Bank reversed out the profit income recognised in profit or loss and set off against the finance expense receivable in the statement of financial position. Upon the adoption of MFRS 139, with effect from 1 January 2012, once collectively assessed financing and advances has been written down as a result of impairment loss, profit income is thereafter recognised using the original effective profit rate in the profit or loss.

Reclassification of software to other intangibles

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

38 EFFECT OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the Bank's Statements of Financial Position

	As previously reported RM'000	Effect on full adoption of MFRS 139 RM'000	Effect of Reclassification of software to Intangible Assets RM'000	As restated RM'000
As at 1 January 2011				
Assets				
Financing and advances				
– Gross financing and advances	9,036,029	30,500	–	9,066,529
– Collective impairment allowances	(158,828)	(91,864)	–	(250,692)
Deferred tax assets	30,854	15,341	–	46,195
Property, plant and equipment	21,547	–	(5,609)	15,938
Intangible assets	–	–	5,609	5,609
Liabilities				
Equity	984,665	(46,023)	–	938,642
Retained profits	222,371	(46,023)	–	176,348
Financing and advances of which:				
– Impaired financing and advances	628,251	30,500	–	658,751

38 EFFECT OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the Bank's Statements of Financial Position (continued)

	As previously reported RM'000	Effect on full adoption of MFRS 139 RM'000	Effect of Reclassification of software to Intangible Assets RM'000	As restated RM'000
As at 31 December 2011				
Assets				
Financing and advances				
– Gross financing and advances	13,042,214	17,541	–	13,059,755
– Collective impairment allowances	(190,768)	(5,668)	–	(196,436)
Deferred tax assets	6,737	(2,968)	–	3,769
Property, plant and equipment	21,241	–	(7,461)	13,780
Intangible assets	–	–	7,461	7,461
Liabilities				
Equity	1,332,236	8,905	–	1,341,141
Retained profits	271,298	8,905	–	280,203
Financing and advances of which:				
– Impaired financing and advances	543,076	17,541	–	560,617

38 EFFECT OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Impact on the Bank's Income Statements/Statements of Comprehensive Income

	As previously reported RM'000	Effect on full adoption of MFRS 139 RM'000	As restated RM'000
As at 31 December 2011			
Income derived from investment of depositors' funds	772,437	8,250	780,687
Income derived from investment of shareholder's funds	17,705	(5,701)	12,004
Allowance for impairment on financing and advances and other losses	(57,808)	70,687	12,879
Transfer to profit equalisation reserves	(2,725)	–	(2,725)
Total distributable income	729,609	73,236	802,845
Income attributable to depositors	(436,037)	–	(436,037)
Total net income	293,572	73,236	366,808
Personnel expenses	(62,687)	–	(62,687)
Other operating expenses	(93,095)	–	(93,095)
Profit before taxation	137,790	73,236	211,026
Taxation	(39,936)	(18,308)	(58,244)
Net profit for the financial year	97,854	54,928	152,782
Earnings per share (sen) – basic	17.50	9.83	27.33

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2013.

FULL VERSION OF FINANCIAL STATEMENTS

The full version of the fianncial statements is available in the accompanying CD and at the Bank's website at http://www.rhb.com.my.

Statement By Directors
Pursuant to Section 169(15) of the Companies Act, 1965

We, Haji Khairuddin Ahmad and Haji Ja'far Abdul Carrim, 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 67 to 171 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2012 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of Directors.

HAJI KHAIRUDDIN AHMAD
CHAIRMAN

HAJI MD JA'FAR ABDUL CARRIM
DIRECTOR

Kuala Lumpur
28 February 2013

Statutory Declaration
Pursuant to Section 169(16) of the Companies Act, 1965

I, Muffriezal Bin Ahmad Sufian, 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 67 to 171 are, in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

MUFFRIEZAL BIN AHMAD SUFIAN

Subscribed and solemnly declared by the above named Muffriezal Bin Ahmad Sufian at Kuala Lumpur in Wilayah Persekutuan on 28 February 2013.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur
28 February 2013

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Islamic Bank Berhad, which comprise the statement of financial position as at 31 December 2012, and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 67 to 171.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2012 and of its financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTER

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/14 (J))
Chartered Accountant

Kuala Lumpur
28 February 2013

Basel II Pillar 3 Disclosures

31st December 2012

Statement by Managing Director

In accordance with the requirements of BNM'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 the Bank for the year ended 31st December 2012 are accurate and complete.

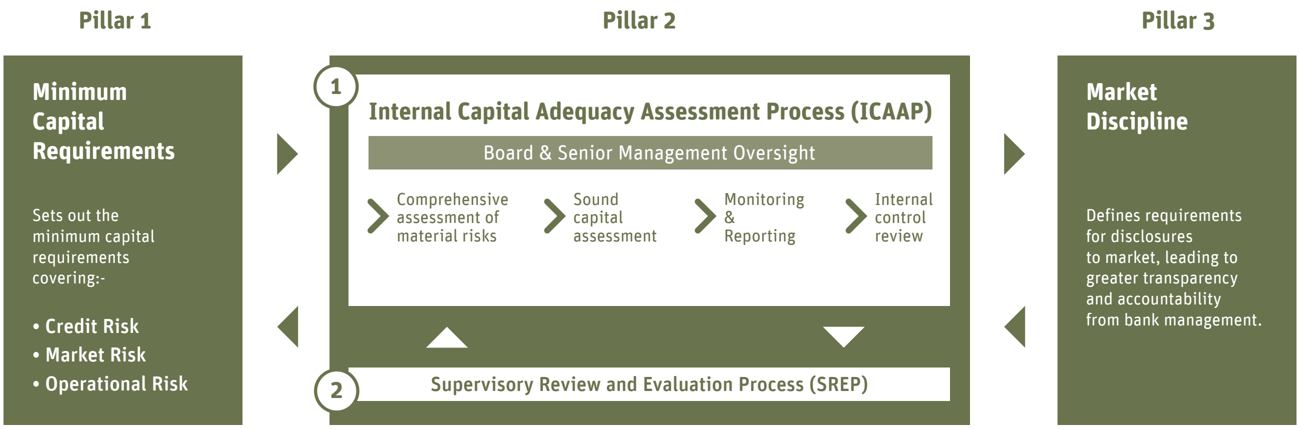
Haji Abd Rani bin Lebai Jaafar
Managing Director

1.0 INTRODUCTION

This document discloses RHB Islamic Bank'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).

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

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



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

Pillar 2 comprises two components as follows:-

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

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

1.0 INTRODUCTION (CONTINUED)

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

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

For purpose of credit risk measurement, the Bank has adopted the Standardised Approach (SA) for credit risk. For market risk, the Bank applies the Standardised Approach while for operational risk; the Bank applies the Basic Indicator Approach (BIA). These requirements are set out in the Capital Adequacy Framework for Islamic Banks guidelines issued by BNM (revised and updated in November 2012).

This document covers qualitative and quantitative disclosures for financial year ended 31st December 2012 with comparative quantitative information of the preceding financial year 2011. The comparative figures for the financial year 2011 in this report have been restated to give effect to changes in the accounting policies, as reflected in Note 38 to the financial statements for the effect on changes in accounting policies.

This is RHB Islamic Bank Berhad's third annual Pillar 3 disclosure report published in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3) Guideline issued by BNM. This disclosure report has been verified and approved internally in line with the RHB Banking Group Pillar 3 Disclosure Policy.

The Bank's Pillar 3 report will be made available under the Investor Relations section of the Bank's website at www.rhb.com.my as a separate report in the Bank's annual report 2012, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this report, the Bank's information is presented at entity level. The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31st December 2012.

In this Pillar 3 document, RHB Islamic Bank Berhad is referred to as 'the Bank'.

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to ensure that the Bank has adequate capital to maintain stability, while meeting its business objectives and in line with its risk appetite. Capital adequacy is the degree to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide credit across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting the regulatory requirements.

With comprehensive capital management, the Bank aims to assist the Board of Directors (Board) and the management in overseeing and ensuring that the Bank has a sound capital management practice that is aligned to BNM's requirements on ICAAP. The management of capital involves capital strategy, capital planning, capital structuring and dividend payout.

- **Capital Strategy**

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

- **Capital Planning**

  Based on strategic directions and regulatory requirements, the Bank formulates a capital plan to support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate. The capital plan describes the actions required to raise capital in a timely manner in both normal and stress conditions as assumed in the 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 Strategic Risk Management Committee (GCSRMC) for endorsement, and submitted to Islamic Risk Management Committee (IRMC), the Group Risk Management Committee (GRMC) and the Board for approval.

- **Capital Structuring**

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

- **Dividend Pay-Out**

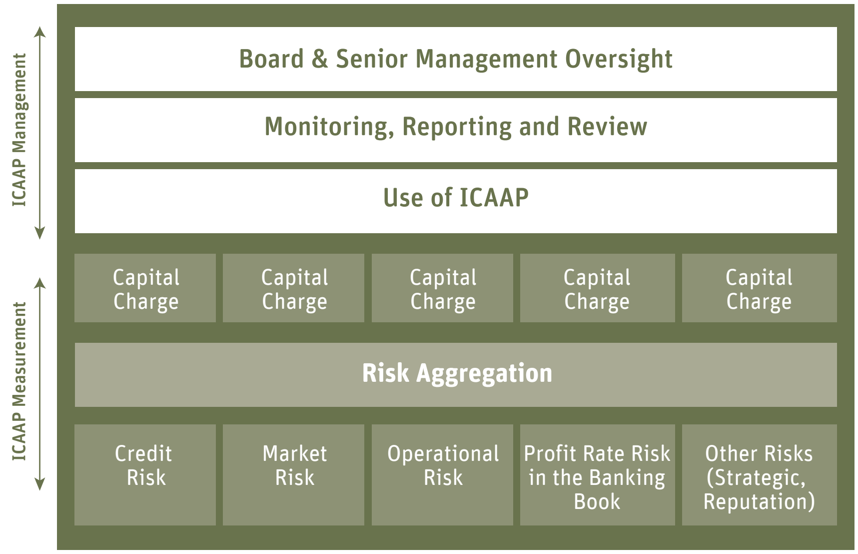
  The Bank aims to achieve a balance between dividend payout and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

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 (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2) issued in December 2011, the Bank has embarked on implementing ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy shall be assessed in relation to the Bank's risk profiles, and strategies will be put in place to maintain appropriate capital levels. An implementation plan and roadmap has been established in order to meet BNM's requirement on ICAAP by end of March 2013.

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



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.
- Assess 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 Capital Adequacy Ratios

The capital ratios of the Bank are computed based on BNM's Guideline on 'Capital Adequacy Framework for Islamic Banks (CAFIB): Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II)'.

The Bank's core capital ratio and risk-weighted capital ratio are as follows:-

Table 1: Capital Adequacy Ratios

	2012	2011
Core capital ratio	14.06%	12.88%
Risk-weighted capital ratio	14.74%	13.93%

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

3.0 CAPITAL MANAGEMENT (CONTINUED)

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

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

	2012 RM'000	2011 RM'000
Credit RWA	12,622,768	9,136,385
Credit RWA Absorbed by PSIA	(1,569,046)	–
Market RWA	265,386	565,103
Operational RWA	689,105	608,028
Total RWA	**12,008,213**	**10,309,516**

Overall RWA as at 31st December 2012 increased by RM1.70 billion, mainly attributed by the increase in financing and advances during the year. There has been a reduction in Market RWA as at 31st December 2012. This is because in the financial year 2012, Islamic Profit Rate Swap (IPRS) transactions amounting to RM2.75 billion had qualified for hedging in the banking book, and hence were carved out from market risk capital charge computation.

During the financial year 2012, the Bank had entered into an arrangement with its parent bank for placement of Profit Sharing Investment Accounts (PSIA) qualified as risk absorbent, to finance its corporate and regulatory retail exposures. As at 31st December 2012, the total placement was for credit exposures amounting to RM1.9 billion and the corresponding Credit RWA was RM1.57 billion.

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

Table 3: Minimum Capital Requirements and Risk-Weighted Assets by Risk Types

	RWA RM'000		Capital Requirement RM'000	
Risk Types	**2012**	**2011**	**2012**	**2011**
Credit Risk	11,053,722	9,136,385	884,298	730,911
Under Standardised Approach	12,622,768	9,136,385	1,009,821	730,911
Absorbed by PSIA under SA	(1,569,046)	–	(125,523)	
Market Risk				
Under Standardised Approach	265,386	565,103	21,231	45,208
Operational Risk				
Under Basic Indicator Approach	689,105	608,028	55,128	48,642
Total	**12,008,213**	**10,309,516**	**960,657**	**824,761**

Note: The Bank did not have any capital requirement for Large Exposure Risk as there was no exposure arising from equity holdings.

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

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on 'Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components)' Parts C and D. These include shareholders' fund, after regulatory-related adjustments, and eligible capital instruments issued by the Bank.

The following table represents the Bank's capital position as at 31st December 2012 and 31st December 2011. Details on capital instruments, including share capital and reserves are found in Notes 17 and 18 of the Financial Statements.

Table 4: Capital Structure

	2012 RM'000	2011 RM'000
Tier I Capital		
Paid-up ordinary share capital	973,424	773,424
Retained profits	358,151	280,203
Statutory reserves	358,359	280,411
Total Tier I Capital	**1,689,934**	**1,334,038**
Less:		
Deferred tax assets	(2,175)	(6,137)
Eligible Tier I Capital	**1,687,759**	**1,327,901**
Tier II Capital		
Collective impairment allowance	87,435	108,500
Total Tier II Capital	**87,435**	**108,500**
Less:		
Other deductions	(5,091)	(24)
Eligible Tier II Capital	**82,344**	**108,476**
Capital Base	**1,770,103**	**1,436,377**

During the financial year 2012, the Bank issued 200,000,000 new ordinary shares of RM1.00 each to the holding company for working capital purposes.

5.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, and strategic and cross border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to generate profits consistently while sustaining competitive advantage, and is thus a central part of the financial and operational management of the Bank.

To this extent, the RHB Group Risk Management Framework governs the management of risks in the RHB Banking Group. The framework operates on two interlocking layers:-

- It provides a holistic overview of the risk and control environment of the Group, with the risk management going towards loss minimisation and mitigation against losses which may occur through, principally, the failure of effective checks and balances in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is affected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

The following sections describe some of these risk management content areas.

OVERARCHING RISK MANAGEMENT PRINCIPLES

The framework contains five fundamental principles that drive the philosophy of risk management in the RHB Banking Group. They are:

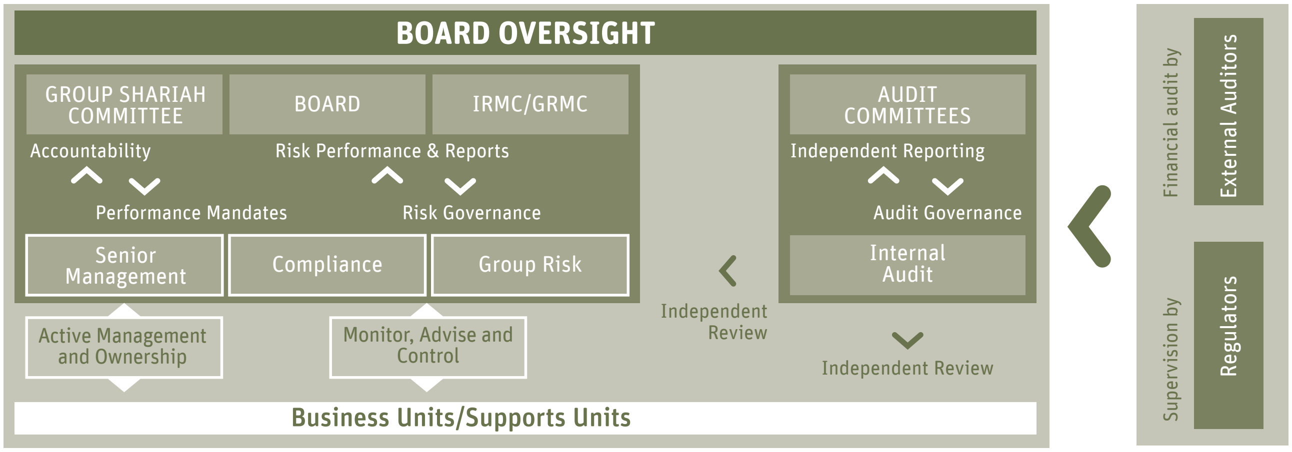
- Risk governance from the Boards of Directors of companies in the Group,
- Clear understanding of risk management ownership,
- Institutionalisation of a risk focused organisation,
- Alignment of risk management to business strategies, and
- Optimisation of risk-adjusted economic and financial returns.

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

The ultimate responsibility of the Boards of Directors in the RHB Banking Group is in ensuring that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board oversight responsibilities which is depicted in the accompanying diagram:

5.0 RISK MANAGEMENT (CONTINUED)

Structured Framework to Support Board Oversight Role in Risk Management

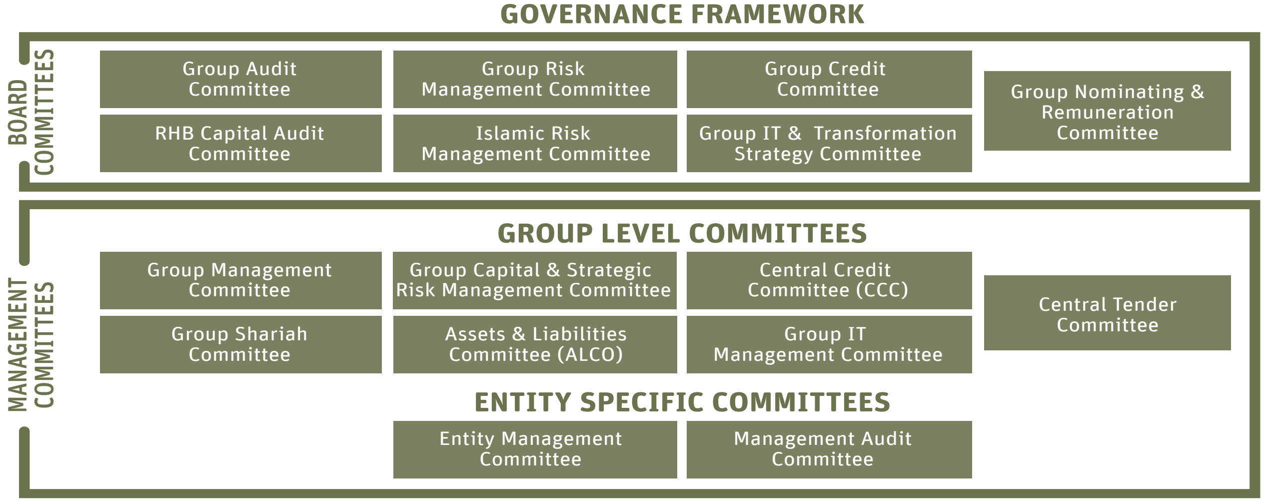


RISK GOVERNANCE AND ORGANISATION

The Board through the Group Risk Management Committee (GRMC)/Islamic Risk Management Committee (IRMC) and the Group Risk Management function (GRM function) establishes the Group's risk appetite and risk principles. The GRMC is the principal Board Committee that provides oversight on risk management for the Group to ensure that the risk management process of the Group is in place and functional. GRMC assists the Board to review the Group's overall risk management philosophy; risk management framework, risk management policies and risk management models.

A Risk Management Committee (IRMC) is also established at the Bank to focus on the risk management issues of the Bank, particularly in relation to risk issues unique to Islamic finance. This is to achieve the intended objectives of enhancing the risk management of the Bank's activities.

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



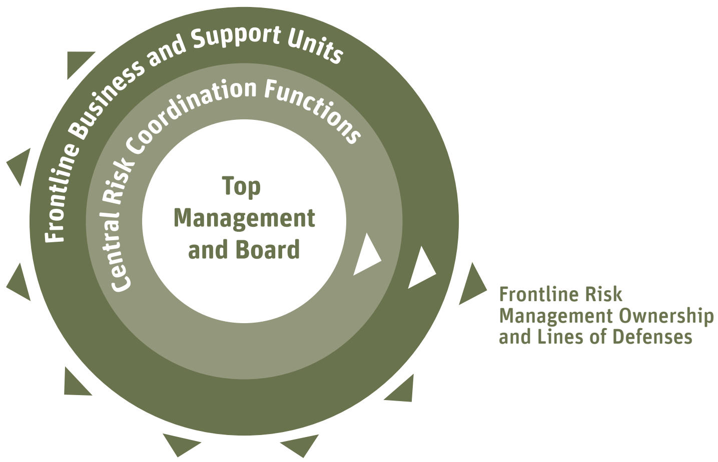
5.0 RISK MANAGEMENT (CONTINUED)

Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the RHB Banking Group. The business and functional units of the Group are collectively responsible for identifying, managing and reporting their risks. The business units manage certain defined risks through the use of facilities and services provided by the functional units.

Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board. This leads to risk management ownership with differing levels of focus established across the Group as follows:

Risk Management Ownership and Lines of Defence



Principle 3 : Institutionalisation of a Risk-Focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the organisation through a number of measures. Two of which are:-

- Strengthening of the central risk coordination functions, and
- Continuous reinforcing of a risk and control environment within the Group.

They are described in further detail in the succeeding sections:-

Central Risk Coordination Functions

The following summarises the key differences in perspectives (which are also strategically complementary) between the Risk Management, Compliance and Internal Audit functions.

The **Risk Management** function is independent of the origination and business functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This risk management function is responsible for formulating risk related policies and presents risk performance and reports to IRMC/GRMC for recommendation to the Board.

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Coordination Functions (continued)

The risk management function is headed by the Director of Group Risk Management, who reports to the Group Managing Director. Among the roles and responsibilities of the Director of Group Risk Management are:-

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group,
- Ensuring industry best practices in risk management are adopted across the Group; including the setting of risk management parameters and risk underwriting models,
- Developing a pro-active, balanced and risk attuned culture within the Group,
- Advising senior management, the IRMC/GRMC and the Board on risk issues and impact on the Group, and
- Administering the delegation of discretionary powers to management personnel within the Group.

The **Compliance** function is centrally managed and provides assurance to management that the Group's activities are in compliance with external requirements and internal policies and procedures.

The **Audit** function independently reviews and reports on the adequacy and integrity of the Group's internal control systems and information management systems, including compliance with applicable laws, regulations, rules, directives and guidelines.

Risk and Control Environment

Business and functional heads are accountable for risk management in their businesses and functions, and for countries where they have governance responsibilities. The business and functional units have a clear segregation of duties with sufficient check and balance to ensure that business processes are functioning effectively. There is appropriate accountability and responsibility delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

The primary responsibility for managing risks, therefore, rests with the business managers, who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Principle 4: Alignment of Risk Management to Business Strategies

A statement of intent of the Group Risk Management Framework is to align the Group's business strategy to risk strategy, and vice versa. This is articulated through the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in economic capital management. It is also implemented through the Group's construction of a sustaining risk-focused organisation as described in preceding sections where business and functional units are required to be responsible and accountable for risk management.

Principle 5: Optimisation of Risk-Adjusted Economic and Financial Returns

An objective of economic capital management is to reflect a risk-adjusted return assumed by businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses whose value creation exceeds the internal targeted threshold. The medium to long term strategy and principle of risk management of the Group is to deepen the integration of economic capital management within the Group. The Group has implemented a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk arises as a result of customers' or counterparties' inability to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending obligations, trade finance and its funding, investment and trading activities.

6.1 Credit Risk Management Oversight and Organisation

The Central Credit Committee (CCC) is the senior management committee that reviews the Group's credit risk philosophy, framework, and policies, aligns credit risk management with business strategy and planning, recommends credit approval authority limits, reviews the credit profile of material portfolios, and recommends actions where necessary to ensure that credit risk remains within established risk tolerances. CCC also approves and renews financing/facilities and submits to the Group Credit Committee (GCC) for affirmation or veto if the financing/facilities exceed a pre-defined threshold.

The GCC's main functions are affirming, imposing additional covenants or vetoing credits which are duly approved by the CCC, as well as to oversee the management of non-performing accounts (NPA) and high risk accounts, as well as affirming, imposing additional covenants or vetoing credits under NPA from Credit Recovery for amounts above the defined thresholds of the CCC.

Within Group Risk Management, the Credit Risk Management Department has the functional responsibility for credit risk management, including portfolio risk monitoring and risk reporting. Group Risk Management units also conduct regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the Board and IRMC/GRMC. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

The RHB Banking Group's credit risk management framework which is founded upon BNM's guidelines on 'Best Practices for the Management of Credit Risk' is documented under the Group Credit Policy. The Bank abides by this Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Industry best practices are instilled in the continual updating of credit risk policies.

The Bank ensures that processes are in place before credit proposals are approved. All corporate credit proposals are first evaluated by the originating business units before being independently evaluated by an independent credit evaluation and management function. All credit exposure limits are approved within a defined credit approval authority framework. Large financing exposures are subject to post approval credit review by Group Internal Audit.

The Bank's credit risk management process is documented in the Group Credit Procedures Manual (GCPM) which sets out the operational procedures and guidelines governing the credit processes of the Group's Retail, Business Banking, Treasury, Corporate and Investment Banking and Finance Business operations.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (continued)

The GCPM has 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 laid down by the respective Board of the Bank.

Financing to Corporate and Institutional Customers

Financing to corporates and institutional customers are individually evaluated and risk-rated. Credit Officers identify and assess the credit risks 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 extensions have to meet pre-defined target market and risk acceptance criteria.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment banking activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities. The credit risk exposure from these products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

Financing to Consumers and Small Businesses

For the consumer and small business sectors, credit risks are managed on a portfolio basis. Such products include mortgages, credit cards, auto financing, commercial property financing, personal financing and business financing. Financing are underwritten under product programmes that clearly define the target market, underwriting criteria, terms of financing, maximum exposure, credit origination guidelines, and verification process. Scoring models are used in the credit decision process 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 plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by credit type, the Bank applies different credit risk measuring tools so that the credit risk of each credit type is appropriately reflected.

Credit risk is calculated from 3 key factors as follows:

1 Probability of Default (PD)
For corporate/non-retail credit, the probability of default is measured from obligor rating obtained from the risk rating system to determine customer's level of risk. The risk rating of each customer is regularly reviewed to ensure that it actually reflects the customer's risk. For retail credit, active accounts of each portfolio are classified into a specific segment (or pool), which can be classified by various factors e.g. age, application score, behaviour score, utilisation, and payment history, etc.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (continued)

Credit risk is calculated from 3 key factors as follows: (continued)

2. Loss Given Default (LGD)
   For corporate credit, LGD value will be determined via the credit risk mitigant adjustment, in which collateral and security will determine the level of LGD for a specific transaction. For retail credit, 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 credit line. In this regard, the key factor is the Bank's obligations related to the available credit line. For corporate credit, credit risk is measured at an individual exposure. For retail credit, principles of credit risk measurement are similar, but measured on a pooled basis.

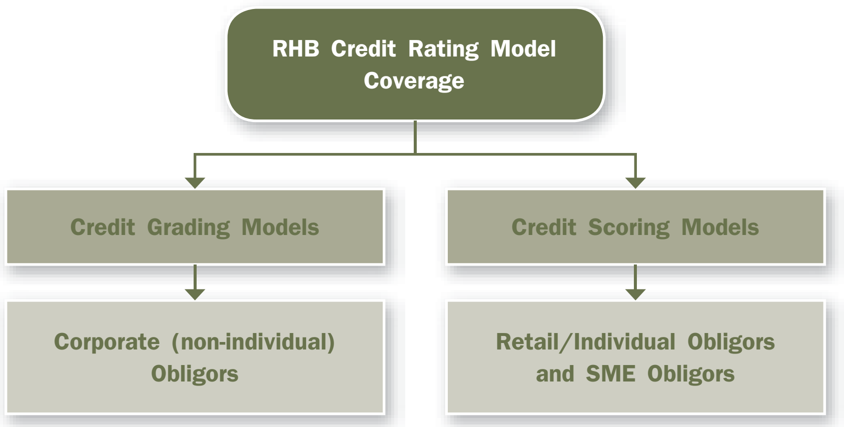
6.3 Internal Credit Rating Models

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 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 ratings models and the application of these models. Specifically, all newly developed models prior to implementation, its material changes (of the rating systems) and validation results must be approved by GRMC and Board. All models are also subject to independent validation by the Quantitative Model Validation Unit (QMVU) 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 QMVU to ensure that they are performing as expected.

Credit risk/rating models can be classified into types:-
- Credit Grading Models
- Credit Scoring Models

The diagram below shows a broad perspective of the current credit rating model coverage of the Bank for the different customers/obligors:-



6.0 CREDIT RISK (CONTINUED)

6.3 Internal Credit Rating Models (continued)

The credit grading models for corporate (or non-individual) obligors are used to risk rate the credit worthiness of the corporate customers/guarantors based on their financial standing (including gearing, expenses and profit) and qualitative aspects (including management effectiveness and industry environment). Different rating model will be applied subject to the obligor's asset and sales volume, in order 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 lending type of lending for small and medium size enterprises (SMEs). These models are developed through data intensive 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.

Application of Internal Ratings

The three components; the PD, LGD and EAD are used in a variety of applications that measure credit risk across the entire portfolio.

- Credit Approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are used as one of the risk management tools.
- Credit Grading: Implemented since 2007 to provide a common measure of risk across the Group. This credit grading is summarised as below:

PD Grade Range	Interpretation
PD1	Highest Credit Quality
PD2 to PD7	Strong Credit Quality
PD8 to PD12	Good Credit Quality
PD13 to PD16	Average Credit Quality
PD17 to PD18	Below Average Credit Quality
PD19 to PD20	On Selected Basis
UG0	Un-graded
PN20	Impaired but Performing
N20 to N23	Impaired/Non-Performing Financing

- Risk Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk Management Information: Group Risk Management and the business units generate risk reports to inform senior management on issues such as business performance and consumption of regulatory capital.

6.0 CREDIT RISK (CONTINUED)

6.4 Standardised Approach

Under Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

A summary of these exposures with the corresponding risk weights is as per tables below:-

Table 5a: Portfolios under the Standardised Approach by Risk Weights as at 31st December 2012

Exposures after Credit Risk Mitigation

Risk Weights	Sovereigns and Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposure RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk -Weighted Assets RM'000
0%	8,799,505	50,420	544,525	53,700	–	–	11,199	–	9,459,349	–
20%	–	1,757,792	1,162,719	4,874	–	–	–	–	2,925,385	585,077
35%	–	–	–	–	–	–	–	–	–	–
50%	–	51,443	33,684	12,193	–	–	–	–	97,320	48,660
75%	–	–	–	8,312,952	–	–	–	–	8,312,952	6,234,714
100%	–	–	4,791,158	663,613	–	–	114,223	–	5,568,994	5,568,994
150%	–	–	44,706	69,436	–	9,407	–	–	123,549	185,323
Total	**8,799,505**	**1,859,655**	**6,576,792**	**9,116,768**	**–**	**9,407**	**125,422**	**–**	**26,487,549**	**12,622,768**

Table 5b: Portfolios under the Standardised Approach by Risk Weights as at 31st December 2011

Exposures after Credit Risk Mitigation

Risk Weights	Sovereigns and Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposure RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk -Weighted Assets RM'000
0%	11,334,091	–	35,305	25,041	–	–	5,319	–	11,399,756	–
20%	–	508,423	984,174	4,927	–	–	–	–	1,497,524	299,505
35%	–	–	–	–	–	–	–	–	–	–
50%	–	52,071	69,205	7,321	–	–	–	–	128,597	64,299
75%	–	–	–	6,483,044	–	–	–	–	6,483,044	4,862,283
100%	–	–	3,209,410	282,527	–	–	148,910	–	3,640,847	3,640,847
150%	–	–	70,367	80,107	–	29,160	–	–	179,634	269,451
Total	**11,334,091**	**560,494**	**4,368,461**	**6,882,967**	**–**	**29,160**	**154,229**	**–**	**23,329,402**	**9,136,385**

6.0 CREDIT RISK (CONTINUED)

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

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

- 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 credit, which includes the unutilised or undrawn portions of credit facilities,
- Unutilised credit card lines, and
- Principal or notional amount of derivative financial instruments.

CCR on derivative financial instruments is the risk that the Bank's counterparty in a benchmark rate defaults prior to the maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. Derivative financial instruments are 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.

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

All credit exposures of the Bank are booked in Malaysia. The subsequent tables reflect the Bank's credit exposures (EAD) as at 31st December 2012 and 31st December 2011, segregated by:-

- the various types of asset classes, showing details of the exposures before and after CRM, the corresponding RWA and capital requirement,
- disclosure on off-balance sheet and counterparty credit risk,
- industry sector, and
- residual maturity; segregated by one year or less, one to five years, and over five years.

6.0 CREDIT RISK (CONTINUED)

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

Table 6a: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On- and Off-Balance Sheet Exposures) as at 31st December 2012

Exposure Class	Gross Exposure/ EAD before CRM RM'000	Net Exposure/ EAD after CRM RM'000	RWA RM'000	RWA Absorbed by PSIA RM'000	Total RWA After Effect of PSIA RM'000	Minimum Capital Requirement at 8% RM'000
Exposures under the Standardised Approach						
On-Balance Sheet Exposures						
Sovereigns/Central Banks	8,799,505	8,799,505	–	–	–	–
Public Sector Entities	–	–	–	–	–	–
Banks, Development Financial Institutions and MDBs	1,808,374	1,808,374	351,686	–	351,686	28,135
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–	–	–
Corporates	5,812,123	5,812,123	4,374,791	(512,149)	3,862,642	309,011
Regulatory Retail	7,556,249	7,556,249	5,778,254	(1,056,897)	4,721,357	377,709
Residential Mortgage	–	–	–	–	–	–
Higher Risk Assets	–	–	–	–	–	–
Other Assets	125,422	125,422	114,223	–	114,223	9,138
Specialised Financing/ Investment	–	–	–	–	–	–
Securitisation Exposures	–	–	–	–	–	–
Equity Exposures	–	–	–	–	–	–
Defaulted Exposures	222,530	222,530	265,303	–	265,303	21,224
Total On-Balance Sheet Exposures	**24,324,203**	**24,324,203**	**10,884,257**	**(1,569,046)**	**9,315,211**	**745,217**
Off-Balance Sheet Exposures						
OTC Derivatives	–	–	–	–	–	–
Credit Derivatives	–	–	–	–	–	–
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,163,346	2,163,346	1,738,511	–	1,738,511	139,081
Defaulted Exposures	–	–	–	–	–	–
Total Off-Balance Sheet Exposures	**2,163,346**	**2,163,346**	**1,738,511**	**–**	**1,738,511**	**139,081**
Total On- and Off-Balance Sheet Exposures	**26,487,549**	**26,487,549**	**12,622,768**	**(1,569,046)**	**11,053,722**	**884,298**

Note: As at 31st December 2012, the Bank did not have exposure under securitisation.

6.0 CREDIT RISK (CONTINUED)

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

Table 6b: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On- and Off-Balance Sheet Exposures) as at 31st December 2011

Exposure Class	Gross Exposure/ EAD before CRM RM'000	Net Exposure/ EAD after CRM RM'000	RWA RM'000	RWA Absorbed by PSIA RM'000	Total RWA After Effect of PSIA RM'000	Minimum Capital Requirement at 8% RM'000
Exposures under the Standardised Approach						
On-Balance Sheet Exposures						
Sovereigns/Central Banks	11,334,091	11,334,091	–		–	–
Public Sector Entities	–	–	–		–	–
Banks, Development Financial Institutions and MDBs	508,423	508,423	101,684		101,684	8,135
Insurance Cos, Securities Firms and Fund Managers	–	–	–		–	–
Corporates	3,504,314	3,504,314	2,692,742		2,692,742	215,419
Regulatory Retail	6,468,754	6,468,754	4,880,387		4,880,387	390,431
Residential Mortgage	–	–	–		–	–
Higher Risk Assets	–	–	–		–	–
Other Assets	154,229	154,229	148,910		148,910	11,913
Specialised Financing/ Investment	–	–	–		–	–
Securitisation Exposures	–	–	–		–	–
Equity Exposures	–	–	–		–	–
Defaulted Exposures	351,701	351,701	413,416		413,416	33,073
Total On-Balance Sheet Exposures	**22,321,512**	**22,321,512**	**8,237,139**		**8,237,139**	**658,971**
Off-Balance Sheet Exposures						
OTC Derivatives	–	–	–		–	–
Credit Derivatives	–	–	–		–	–
Off–balance sheet exposures other than OTC derivatives or credit derivatives	1,007,890	1,007,890	899,246		899,246	71,940
Defaulted Exposures	–	–	–		–	–
Total Off-Balance Sheet Exposures	**1,007,890**	**1,007,890**	**899,246**		**899,246**	**71,940**
Total On- and Off-Balance Sheet Exposures	**23,329,402**	**23,329,402**	**9,136,385**		**9,136,385**	**730,911**

Note: As at 31st December 2011, the Bank did not have any credit risk-weighted assets absorbed by Profit Sharing Investment Account (PSIA) and exposure under securitisation.

6.0 CREDIT RISK (CONTINUED)

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

Table 7a: Exposures for Off-Balance Sheet and Counterparty Credit Risk (After Credit Risk Mitigation) as at 31st December 2012

Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	RWA RM'000
Direct credit substitutes	–		–	–
Transaction-related contingent items	106,104		53,052	37,170
Short-term self-liquidating trade-related contingencies	55,603		11,121	1,298
Assets sold with recourse	932,585		932,585	705,629
NIFs and obligations under an ongoing underwriting agreement	90,000		45,000	45,000
Foreign exchange related contracts	**438,362**	**186**	**4,809**	**3,539**
1 year or less	438,362	186	4,809	3,539
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Profit rate related contracts	**3,300,000**	**2,383**	**48,833**	**24,417**
1 year or less	–	2,383	–	–
Over 1 year to 5 years	3,300,000		48,833	24,417
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,384,517		692,258	580,463
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,561,193		312,239	293,408
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	317,245		63,449	47,587
Unutilised credit card lines	–		–	–
Total	**8,185,609**	**2,569**	**2,163,346**	**1,738,511**

Note: The Bank does not have any OTC derivative transactions.

6.0 CREDIT RISK (CONTINUED)

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

Table 7b: Exposures for Off-Balance Sheet and Counterparty Credit Risk (After Credit Risk Mitigation) as at 31st December 2011

Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	RWA RM'000
Direct credit substitutes	35		35	35
Transaction-related contingent items	94,558		47,279	35,465
Short-term self-liquidating trade-related contingencies	42,424		8,485	967
Assets sold with recourse	–		–	–
NIFs and obligations under an ongoing underwriting agreement	208,500		104,250	104,250
Foreign exchange related contracts	**371,106**	**173**	**4,948**	**1,762**
1 year or less	371,106	173	4,948	1,762
Over 1 year to 5 years	–	–	–	–
Over 5 years	–	–	–	–
Profit rate related contracts	**2,600,000**	**–**	**49,500**	**24,750**
1 year or less	–	–	–	–
Over 1 year to 5 years	2,600,000	–	49,500	24,750
Over 5 years	–	–	–	–
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,540,307		308,061	283,688
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,686,599		337,320	337,320
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	740,059		148,012	111,009
Unutilised credit card lines	–		–	–
Total	**7,283,588**	**173**	**1,007,890**	**899,246**

Note: The Bank does not have any OTC derivative transactions.

6.0 CREDIT RISK (CONTINUED)

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

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2012

Exposure Class	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity Gas and Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants and Hotels RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business RM'000	Education, Health and Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under SA												
Sovereigns/Central Banks	–	–	–	–	–	–	–	–	8,799,505	–		8,799,505
Public Sector Entities	–	–	–	–	–	–	–	–	–	–	–	–
Banks, Development Financial Institutions and MDBs	–	–	–	–	–	–	–	1,859,655	–	–	–	1,859,655
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–	–	–	–	–	–	–	–	–
Corporates	178,437	24,721	1,109,497	487,384	884,519	398,664	398,793	2,172,889	182,403	–	739,485	6,576,792
Regulatory Retail	34,488	3,710	93,695	1,679	88,339	95,088	61,785	81,983	14,162	8,554,481	87,358	9,116,768
Residential Mortgage	–	–	–	–	–	–	–	–	–	–	–	–
Higher Risk Assets	–	–	–	–	–	–	–	9,407	–	–	–	9,407
Other Assets	–	–	–	–	–	–	–	–	–	–	125,422	125,422
Equity Exposure	–	–	–	–	–	–	–	–	–	–	–	–
Total Exposures under SA	**212,925**	**28,431**	**1,203,192**	**489,063**	**972,858**	**493,752**	**460,578**	**4,123,934**	**8,996,070**	**8,554,481**	**952,265**	**26,487,549**

6.0 CREDIT RISK (CONTINUED)

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

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2011

Exposure Class	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity Gas and Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants and Hotels RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business RM'000	Education, Health and Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under SA												
Sovereigns/Central Banks	–	–	–	–	–	–	–	–	3,461,159	–	7,872,932	11,334,091
Public Sector Entities	–	–	–	–	–	–	–	–	–	–	–	–
Banks, Development Financial Institutions and MDBs	–	–	–	–	–	–	–	560,494	–	–	–	560,494
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–	–	–	–	–	–	–	–	–
Corporates	161,046	23,183	761,329	399,530	451,381	402,793	333,006	1,031,578	259,239	–	545,376	4,368,461
Regulatory Retail	43,949	4,132	122,473	927	80,096	102,501	104,680	71,973	27,302	6,322,086	2,848	6,882,967
Residential Mortgage	–	–	–	–	–	–	–	–	–	–	–	–
Higher Risk Assets	–	–	–	–	–	–	–	29,160	–	–	–	29,160
Other Assets	–	–	–	–	–	–	–	–	–	–	154,229	154,229
Equity Exposure	–	–	–	–	–	–	–	–	–	–	–	–
Total Exposures under SA	**204,995**	**27,315**	**883,802**	**400,457**	**531,477**	**505,294**	**437,686**	**1,693,205**	**3,747,700**	**6,322,086**	**8,575,385**	**23,329,402**

6.0 CREDIT RISK (CONTINUED)

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

Table 9a: Credit Risk Exposures by Maturity as at 31st December 2012

Exposure Class	One Year or less RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
Exposure under Standardised Approach				
Sovereigns/Central Banks	3,536,571	409,358	4,853,576	8,799,505
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions and MDBs	1,014,819	452,215	392,621	1,859,655
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–
Corporates	408,519	2,165,497	4,002,776	6,576,792
Regulatory Retail	75,437	1,522,154	7,519,177	9,116,768
Residential Mortgage	–	–	–	–
Higher Risk Assets	9,407	–	–	9,407
Other Assets			125,422	125,422
Equity Exposures	–	–	–	–
Total Standardised Approach	**5,044,753**	**4,549,224**	**16,893,572**	**26,487,549**

Table 9b: Credit Risk Exposures by Maturity as at 31st December 2011

Exposure Class	One Year or less RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
Exposure under Standardised Approach				
Sovereigns/Central Banks	5,123,290	578,660	5,632,141	11,334,091
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions and MDBs	510,994	49,500	–	560,494
Insurance Cos, Securities Firms and Fund Managers	–	–	–	–
Corporates	433,672	1,330,040	2,604,749	4,368,461
Regulatory Retail	209,344	951,169	5,722,454	6,882,967
Residential Mortgage	–	–	–	–
Higher Risk Assets	29,160	–	–	29,160
Other Assets	–	–	154,229	154,229
Equity Exposures	–	–	–	–
Total Standardised Approach	**6,306,460**	**2,909,369**	**14,113,573**	**23,329,402**

6.0 CREDIT RISK (CONTINUED)

6.7 Use of External Ratings

For sovereigns, corporates and banking institutions, external ratings from approved external credit assessment institutions (ECAI), where available, are used to determine the risk-weighted assets and regulatory capital.

The process used to map ECAI issuer ratings or comparable ECAI issue ratings are in accordance to BNM standards. Approved ECAIs are as follows:-

- Standard & Poors (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. Where the counterparty is not rated, the corresponding exposure is mapped as 'unrated' and the appropriate risk weighting for unrated exposures is assigned.

The following tables show the Bank's credit exposures to sovereigns, corporate and banking institutions as at 31st December 2012 compared with 31st December 2011 position, according to the ratings by ECAIs:-

6.0 CREDIT RISK (CONTINUED)

6.7 Use of External Ratings (continued)

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

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On- and Off-Balance Sheet Exposures						
Corporates (RM'000)		1,595,541	20,323	–	–	4,960,928

Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On- and Off-Balance Sheet Exposures							
Sovereigns and Central Banks (RM'000)		–	8,799,505	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On- and Off-Balance Sheet Exposures							
Banks, MDBs and DFIs (RM'000)		1,808,212	51,443	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.7 Use of External Ratings (continued)

Table 10b: Rated Exposures According to Rating by ECAIs as at 31st December 2011

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On- and Off-Balance Sheet Exposures						
Corporates (RM'000)		979,464	20,322	–	–	3,368,675

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On- and Off-Balance Sheet Exposures							
Sovereigns and Central Banks (RM'000)		–	11,334,091	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On- and Off-Balance Sheet Exposures							
Banks, MDBs and DFIs (RM'000)		508,423	52,071	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.8 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 and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor.

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

- Commodity Murabahah Fixed Deposits, Mudharabah General Investment Account and Cash Deposits/Cash Margins,
- Land and/or Buildings,
- Vessels and Automobiles,
- Quoted Shares, Unit Trusts, Government Investment Instruments and Securities, and Islamic Private Debt Securities
- Endowment Life Policies with Cash Surrender Value, and
- Other tangible business assets, such as inventory and equipment.

Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically; analysed and updated concurrently with the annual/periodic renewal of facilities, as well as updated into the Bank's system.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture, assignment of contract payments, subject to internal guidelines on eligibility. Currently, the Bank does not use on-balance sheet netting to mitigate its credit exposures.

Equity securities or collaterals acquired arising from debt conversions are accounted for as a disposal of the financing and an acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business rather than as an impairment of the original instrument.

6.0 CREDIT RISK (CONTINUED)

6.8 Credit Risk Monitoring and Control (continued)

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

Exposure Class	Exposures before CRM RM'000	Exposures Covered by Guarantees/ Credit Derivatives RM'000	Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	8,799,505	2,213,314	–
Banks, Development Financial Institutions & MDBs	1,808,374	50,421	–
Corporates	5,812,123	448,513	92,895
Regulatory Retail	7,556,249	501	54,966
Residential Mortgage	–	–	–
Higher Risk Assets	–	–	–
Other Assets	125,422	–	–
Equity Exposures	–	–	–
Defaulted Exposures	222,530	731	5,492
Total On-Balance Sheet Exposures	**24,324,203**	**2,713,480**	**153,353**
Off-Balance Sheet Exposures			
OTC Derivative	–	–	–
Off-balance sheet exposures other than OTC derivatives or Credit Derivatives	2,163,346	–	–
Defaulted Exposures	–	–	–
Total Off-Balance Sheet Exposures	**2,163,346**	**–**	**–**
Total On- and Off-Balance Sheet Exposures	**26,487,549**	**2,713,480**	**153,353**

6.0 CREDIT RISK (CONTINUED)

6.8 Credit Risk Monitoring and Control (continued)

Table 11b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31st December 2011

Exposure Class	Exposures before CRM RM'000	Exposures Covered by Guarantees/ Credit Derivatives RM'000	Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	11,334,091	–	–
Banks, Development Financial Institutions & MDBs	508,423	–	–
Corporates	3,504,314	4,110	14,196
Regulatory Retail	6,468,754	–	29,968
Residential Mortgage	–	–	–
Higher Risk Assets	–	–	–
Other Assets	154,229	–	–
Equity Exposures	–	–	–
Defaulted Exposures	351,701	–	–
Total On-Balance Sheet Exposures	**22,321,512**	**4,110**	**44,164**
Off-Balance-Sheet Exposures			
OTC Derivatives	–	–	–
Off-balance sheet exposures other than OTC derivatives or Credit Derivatives	1,007,890	–	–
Defaulted Exposures	–	–	–
Total Off-Balance Sheet Exposures	**1,007,890**	**–**	**–**
Total On- and Off-Balance Sheet Exposures	**23,329,402**	**4,110**	**44,164**

6.0 CREDIT RISK (CONTINUED)

6.8 Credit Risk Monitoring and Control (continued)

Credit Concentration Risk

The Bank manages the diversification of its portfolio to avoid undue credit risk concentrations. Credit risk concentrations exist 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 these concentrations, exposure limits are established for single customer groups and industry segments. In this respect, analysis of large customer group exposures are regularly conducted, and the financing and financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sectoral analysis are also incorporated within the overall credit risk management regiment. In this respect, the Bank seeks to continually update financing guidelines based on periodic reviews and updates of industry and sectoral risk factors and economic outlooks. This facilitates the better management of credit concentration risks.

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management and risk committees, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and financing impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct.

Group Internal Audit conducts independent post approval reviews on sampling basis to ensure that the quality of credit appraisals and approval standards are in accordance with the credit standards and financing policies established by the Bank's management, laws and regulations.

6.9 Impairment Allowances for Financing

The Bank has implemented the latest guidelines on 'Classification and Impairment Provisions for Financing' issued by Bank Negara Malaysia (BNM) November 2011. The principles in this revised guidelines are in line with those applicable under the new International Financial Reporting Standards (IFRS) compliant framework, the Malaysia Financial Reporting Standards 139 (MFRS 139).

Under this revised guideline, the Bank is to classify financing as impaired:-

1. When the principal or profit or both is past due for more than 90 days or 3 months,
2. In the case of revolving facilities (e.g. overdraft facilities), the facility shall be classified as impaired when the outstanding amount is in excess of the approved limit for a period of more than 90 days or 3 months, or,
3. Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the financing exhibits weaknesses that render a classification appropriate according to the Bank's credit risk grading framework,
4. Where repayments are scheduled on intervals of 3 months or longer, the financing is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the Bank's credit risk grading framework.

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (continued)

5. For re-scheduled and restructured facilities, the account shall be classified as impaired in accordance with paragraphs (1), (2) and (3) above, based on the revised or restructured terms.
6. Where any one of the Mandatory Status Triggers (MST) or any two or more of the Ancillary Status Triggers (AST) have occurred. MST and AST are a set of pre-defined trigger events approved by the Bank, such as bankrupt/wound-up, ceased operations, etc.

Individual Assessment – Impairment Triggers

For customers with threshold of RM5 million and above per customer and fall under individual assessment, the Bank needs to perform impairment assessment when any one of the MSTs or any two of the ASTs events has occurred. Such customer will be classified as impaired financing even though no impairment provision is required after impairment assessment.

Mandatory Status Triggers (MST) are:-

- Aging more than 90 days
- Customers that are rated N20 (Special Mentioned), N21 (Sub-standard), N22 (Doubtful) or N23 (Bad) and/or with recalled facility by the Bank when a writ of summons has been served on the customer
- Bankrupt/wound-up
- Liquidator/Receiver and Manager appointed
- Under PN1/PN17 of the main market listing requirements of Bursa Malaysia or Section 176 of the Companies Act 1965
- Operations ceased
- Material fraud discovered
- Restructure or re-schedule its financing more than once in 2 years

Ancillary Status Triggers (AST) are:-

- Habitually ageing, as reflected by:-

  (a) Ageing with at least 3 incidents of 1 month in arrears or more, or 1 incident of 2 months in arrears or more, for the past 6 months, or
  (b) Latest Central Credit Reference Information System (CCRIS) report (of no more than 3 months old) shows credit facilities with other financial institutions are ageing with at least 3 incidents of 1 month in arrears or more, or 2 months in arrears or more, out of the past 6 months.

- Other financiers recalling credit facilities on demands or through legal action.
- Material loss of assets (including securities) or major disruption to operations.
- Significant deterioration in external/internal rating or financial performance, as reflected by one or more of the following:-

  (a) Deterioration of external rating (if available), where customer's rating is downgraded by 2 notches or more,
  (b) Deterioration of internal rating where customer's rating is downgraded by 3 notches or more and resulting in the new rating lower than PD15,
  (c) Negative cash-flow from operations for 2 or more consecutive years,

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (continued)

Ancillary Status Triggers (AST) are:- (continued)

(d) Negative shareholders' funds for 2 consecutive years (after taking into account of subordinated advances),
(e) Loss making for 2 or more consecutive years.

– External auditors' report qualification/disclaimer (qualified financial report) not related to any AST triggers.
– A third party petition for winding-up is presented and is not withdrawn or discharged after 90 days from the date of service of the petition.
– If there are changes in shareholders and Chief Executive Officer without the Bank's consent that may have major adverse impact to customer's business.
– Other examples include adverse market information/development about customer, guarantor(s) and related parties of the customer.

Generally, customers with financing guaranteed by the Government of Malaysia will be exempted from individual impairment assessment.

Individual Impairment Provisions

A customer with financing outstanding of RM5 million and above and triggered either by any one of the MSTs or any two of the ASTs will be classified as impaired financing, which is subject to impairment provisions based on recovery cash-flow method, i.e. net present value of future cash flows are discounted based on original effective profit rates and compared against carrying amount. Any impairment will be provided in full immediately.

Collective Impairment Provisions

Collective impairment applies to all other accounts (performing and non-performing) that do not fall within the threshold of individual assessment. The impairment provisions for accounts under collective assessment are as follows:-

– Segmentation is applied to group of financing, both performing and non-performing, based on similar credit risk characteristics, for the purpose of assessing impairment and computing historical default rates and loss rates,
– Probability of Default (PD) model is established with standard loss identification period (by months) and Point of No Return (by months in arrears). PD model adopted could either be migration analysis model or flow rate model. The approaches to migration analysis model could be either by way of outstanding balances or number of accounts,
– Loss Given Default (LGD) model establishes loss rate at the point in time when the loss event occurred i.e. based on actual incurred loss model.

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (continued)

Re-classification and Recovery of Impaired Customers

An impaired customer may be re-classified as a non-impaired customer under the following situations:-

(a) When the financing repayment of the impaired customer has improved with the principal or profit (or both) of its facilities with the Bank being past due by 90 days or 3 months or less,
(b) Where the customer exhibits weakness that renders it to be classified as impaired, even though its financing is past-due by 90 days or less than 3 months or less, such customers may be re-classified as non-impaired when these weaknesses have been subsequently addressed and resolved,
(c) Where the customer has been individually assessed as impaired due to either any one of the MSTs or any two of the ASTs, the customer may be re-classified as non-impaired when these triggers have been addressed and resolved subsequently with only one AST remaining or none at all.

However, for customers under approved rescheduling or restructuring, the reclassification to non-impaired status and the write-back of impairment provision can only be effected upon fulfilment of the specified cooling period.

Write-Off of Impaired Financing

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

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

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.

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (continued)

Write-Off of Impaired Financing (continued)

Table 12a: Impaired, Past Due Financing and Provisions for Impairment by Industry Sector as at 31st December 2012

Industry Sector	Impaired and Advances Financing RM'000	Past Due Financing RM'000	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000	Charges/ (Write-back) for Individual Impairment Provision RM'000	Write-Offs RM'000
Agriculture	4,514	504	–	3,685	2,697	2,697
Mining and Quarrying	25,504	500	3,518	32	(2,934)	–
Manufacturing	63,914	13,173	9,890	19,764	7,045	32,328
Electricity, Gas and Water Supply	–	–	–	5,587	–	–
Construction	43,305	7,983	17,324	13,651	10,219	42
Wholesale, Retail Trade, Restaurants and Hotels	17,315	425	5,163	9,177	8,100	3,825
Transport, Storage and Communication	5,093	14,155	–	9,703	–	–
Finance, Insurance, Real Estate and Business	82,452	2,554	53,118	15,726	43,835	70,426
Education, Health and Others	339	11,344	–	2,394	(1,042)	–
Household	166,332	468,111	–	97,247	–	17,031
Others	296	–	–	808	–	1,457
Total	**409,064**	**518,749**	**89,013**	**177,774**	**67,920**	**127,806**

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (continued)

Write-Off of Impaired Financing (continued)

Table 12b: Impaired, Past Due Financing and Provisions for Impairment by Industry Sector as at 31st December 2011

Industry Sector	Impaired and Advances Financing RM'000	Past Due Financing RM'000	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000	Charges/ (Write-back) for Individual Impairment Provision RM'000	Write-Offs RM'000
Agriculture	7,291	89	467	4,442	1,471	18,453
Mining and Quarrying	25,454	–	165	17	5,807	–
Manufacturing	69,476	23,807	35,395	20,858	2,359	3,060
Electricity, Gas and Water Supply	–	–	–	9,697	2,590	–
Construction	18,708	3,783	3,367	9,756	–	–
Wholesale, Retail Trade, Restaurants and Hotels	15,662	2,704	3,688	11,883	1,046	22,204
Transport, Storage and Communication	2,923	21,148	3,963	14,089	6,554	–
Finance, Insurance, Real Estate and Business	170,117	2,537	66,949	12,646	–	–
Education, Health and Others	56,664	543	238	2,289	(2,514)	2,570
Household	194,022	324,747	16,492	110,759	(7,087)	24,440
Others	300	–	–	–	–	–
Total	**560,617**	**379,358**	**130,724**	**196,436**	**10,226**	**70,727**

Note: All impaired, past due and provisions for impaired financing are for credit exposures booked in Malaysia.

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (continued)

Write-Off of Impaired Financing (continued)

Table 13a: Reconciliation of Changes to Financing Impairment Provisions as at 31st December 2012

Impairment Provision Details	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000
Opening Balance	130,724	190,768
Effect on full adoption of MFRS 139	–	5,668
Net Allowance Made/(Recovered)	67,920	(487)
Reclassification	–	–
Amount Written-Off	(108,708)	(19,098)
Transfer to impairment of Investment securities	(923)	923
Closing Balance	**89,013**	**177,774**

Table 13b: Reconciliation of Changes to Financing Impairment Provisions as at 31st December 2011

Impairment Provision Details	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000
Opening Balance	163,440	158,828
Effect on full adoption of MFRS 139	–	91,864
Net Allowance Made/(Recovered)	10,226	(26,472)
Reclassification	–	–
Amount Written-Off	(42,942)	(27,784)
Transfer to impairment of Investment securities	–	–
Closing Balance	**130,724**	**196,436**

7.0 MARKET RISK

Market risk is the risk of loss arising from adverse movements in market variables, such as profit rates, credit spreads, prices of bonds and equities, currency exchange rates, and rate of return risk.

Market risk is segregated into trading market risk and non-trading market risk. Trading market risk arises from changes in profit rate risk, foreign exchange rates, equity process and credit spreads on the value assets held for trading while non-trading market risk arises from changes in profit rate, foreign exchange rates and equity prices, of which the main non-trading, market risk is profit rates risk arising from re-pricing mismatches of its assets and liabilities from banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, profit rates, exchange rates, or indices. Derivative contracts entered into by the Bank such as Islamic Profit Rate Risk Swap (IPRS) are primarily over the-counter derivatives.

The Bank has established a Trading Book Policy as guidelines for market risk management. This is reviewed regularly, and/or upon change in strategy or significant event that has a material impact on policy compliance.

The Group's Asset and Liability Committee (Group ALCO) performs a critical role in the management of market risk and supports the Group Risk Management Committee in the overall market risk management. Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of market risk; 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 Market Risk Management is the working level that forms a centralised function that support senior management and operationalise the processes and methods to ensure adequate risk control and oversight are in place.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk (VaR), sensitivity analysis and stress testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the various business units within the allocated limits. All trading positions are monitored on a daily basis by independent support units. Should exposures or transactions set off pre-established triggers, management will deliberate and determine course of actions required on a timely basis.

7.0 MARKET RISK (CONTINUED)

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Bank's Hedging Policies that prescribe the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

A hedge is defined as a position that materially or entirely offsets the component risk elements of another position or portfolio.

Hedging instruments used to mitigate these risks include derivatives such as swaps that are approved by the Group Shariah Committee. 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 guidelines. The market risk-weighted assets (RWA) and the corresponding market risk capital charge for the Bank as at 31st December 2012 and 31st December 2011 are shown in the tables below:

Table 14a: Market Risk-Weighted Assets and Capital Requirement as at 31st December 2012

	Long Position RM'000	Short Position RM'000	RWA RM'000	Capital Charge RM'000
Market Risk (Standardised Approach)				
Profit Rate Risk	987,482	550,000	190,692	15,255
Foreign Currency Risk	4,250	74,694	74,694	5,976
Total			**265,386**	**21,231**

Table 14b: Market Risk-Weighted Assets and Capital Requirement as at 31st December 2011

	Long Position RM'000	Short Position RM'000	RWA RM'000	Capital Charge RM'000
Market Risk (Standardised Approach)				
Profit Rate Risk	3,033,008	2,600,000	554,398	44,352
Foreign Currency Risk	10,705	225	10,705	856
Total			**565,103**	**45,208**

Note: The Bank did not have any exposure under
- *equity risk, commodity risk, inventory risk and options risk, and*
- *market risk exposure absorbed by PSIA.*

There is a decrease in Risk Weighted Assets as at 31st December 2012 by RM300 million. This is because in the financial year 2012, Islamic Profit Rate Swap (IPRS) transactions amounting to RM2.75 billion had qualified for hedging in the banking book, and hence were carved out from market risk capital charge computation.

8.0 LIQUIDITY RISK

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to meet contractual commitments when due. Market liquidity risk is the risk that the Bank will be unable to sell assets quickly, closer to its fair value without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.

Through the Group's Liquidity Practices Guide, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Group's Liquidity Practices Guide include maintaining financial market confidence at all times, protecting key stakeholder profits and meeting regulatory liquidity requirements.

The Group ALCO supports Group Risk Management Committee by performing the critical role in the management of liquidity risks, and is responsible in establishing strategies that assist in controlling and reducing any potential exposures to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Bank's balance sheet profile. Global and domestic economic data, information and events are synthesised at the Group ALCO which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets profit rates for liabilities products as well as reference rates for financing products and services.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources and contingency funding lines.

Liquidity Contingency Plan

The Group's Liquidity Policy Statement establishes guidelines for managing a liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, the Group's Liquidity Policy Statement 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

Profit rate risk in the banking book refers to any opportunity loss to the Bank's income and/or economic value to changes in profit rate, which may arise from both on and off-balance sheet positions in the banking book. Profit rate risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. Excessive profit rate risk can pose a significant threat to the Bank's earnings and capital. Changes in profit rates may affect the Bank's earnings in terms of the net profit income and economic value of equity.

Profit rate risk in the banking book comprises:

- Re-pricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and re-pricing (for floating rate) of bank's assets, liabilities and off-balance sheet positions,
- Basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics,
- Yield curve risk – changes in the shape and slope of the yield curve, and
- Embedded optionality – the risk pertaining to profit-related options embedded in bank's products.

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

The Group ALCO supports Group Risk Management Committee in establishing policies, strategies and limits for the management of balance sheet risk exposure. Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the profit rate risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net profit income as well as to ensure that profit rate exposures are maintained within defined risk tolerances.

In addition, the Bank has established the Rate of Return Risk Policy which provides for the governance of rate of return. Profit rate sensitivity triggers are applied on earnings for the respective profit centres within the Bank. The Bank regularly considers the economics and necessity of increasing or reducing its profit rate risk hedges.

In line with the Bank's Rate of Return Risk Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in profit rates, profit rate risk to earnings is controlled using Management Action Triggers (MATs) and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme profit rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of profit rate risks in an environment of rapid financial market changes.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in profit rate to earning and economic value as at 31st December 2012 and 31st December 2011 are shown in the tables below:

Table 15a: Profit Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2012

Currency	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings RM'000		Increase/(Decline) in Economic Value RM'000	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
MYR	(25,669)	25,669	(233,361)	233,361
Total	**(25,669)**	**25,669**	**(233,361)**	**233,361**

Note: As at 31st December 2012

1. *The EaR and EVE exposures are additive and do not take into account any correlation impact in the aggregation.*
2. *The economic values for the Bank were computed assuming that all profit sensitive position that of indeterminate maturity are classified under 1 week bucket. This is the more conservative approach that is adopted by BNM.*

The reduction in Profit Rate Risk as at 31st December 2012 was due to additional RM700 million IPRS transactions, RM1.9 billion PSIA placement from the parent bank as well as RM1.5 billion recourse obligation on financing sold to Cagamas transacted during the year.

Table 15b: Profit Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2011

Currency	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings RM'000		Increase/(Decline) in Economic Value RM'000	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
MYR	(55,930)	55,930	(558,392)	558,392
Total	**(55,930)**	**55,930**	**(558,392)**	**558,392**

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:

- Profit rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever that is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point profit rate change impact.
- For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of profit bearing items.

Economic value is characterised by the impact of profit rate changes on the value of all net cash flows i.e. the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions which provides a more comprehensive view of the potential long-term effects of changes in profit rates than is offered by the earnings perspective.

However, the computation of economic value takes into account of net cash flows which is derived from a series of assumption, for instance, assets and liabilities with non fix maturity e.g. current and savings accounts. Assumptions are made to reflect the behavioural changes against profit rate movements. The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

10.0 OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems and from external events, which also includes IT and legal risks. Operational risks are inherent in the Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risks is the existence of a sound internal control system, based on the principle of dual control, checks and balance, segregation of duties, independent checks and verification processes, segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:-

- Analysis and Enhancement – The 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 progressively improve the 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 against operational losses.

10.0 OPERATIONAL RISK (CONTINUED)

- Monitoring and Intervention – This is where the principal head office risk control units, including the operations management function, compliance function and the internal audit function, actively manage operational non-compliances, incidences, and undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

Operational Risk Management Function and Organisation

The Operational Risk Management Department reporting directly to the Director of Group Risk Management has the functional responsibility for the development of risk policies, frameworks and methodologies, and providing guidance and information to the business units on operational risk areas. Its function also includes generating a broader understanding and awareness of operational risk issues at all levels of the RHB Banking Group. It also ensures that operational risk from new products, processes and systems are adequately managed and mitigated. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the senior management, IRMC/GRMC and the Board. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting allows senior management to identify adverse operational lapses, take corrective actions promptly, and ensure appropriate risk mitigation decision making and action plans.

Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting. These are outlined as follows:

- **Risk and Control Self Assessment (RCSA)**

  Each business unit is required to identify and assess their own operational risks. RCSA is a risk profiling tool which facilitates effective operational risk management for the Bank, and focuses on future risk assessment by using past records of loss or near misses, key risk indicators, and related issues such as audit findings. The RCSA process is facilitated by the business units themselves who together with personnel from Operational Risk Management would identify and assess key operational risks that could affect the effectiveness of controls and impact the achievement of business objectives. For identified risks lacking sufficient mitigation, the business units are required to establish action plans to improve the control environment so as to contain the risks to acceptable levels.

- **Key Risk Indicators (KRIs)**

  Business units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up given frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident and Loss Management**

  Business and support units are required to report operational losses for further analysis of root cause for further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

  The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management.

10.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls

Risk mitigation tools and techniques are used to minimise risk to an acceptable level and aims to decrease the likelihood of an undesirable event and the impact on the business, should it occur.

The control tools and techniques are as follows:-

- **Business Continuity Management (BCM)**

  To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Planning (BCP) programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management (BCM) Department.

  The Board of Directors has an oversight function through the IRMC/GRMC and Group Management Committee (GMC). The Group Business Continuity Management Steering Committee (GBCMSC) is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCMSC reports to the GMC.

- **Outsourcing**

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

- **Insurance Management**

  The Bank considers risk transfer by means of insurance to mitigate operational risk. The Bank has a programme of insurances designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third party insurers and will financially mitigate the economic consequences of risks.

New Product and Services Approval Process

The Bank has established a Policy on 'Introduction of New/Variation Products and Services Lifecycle' which governs the risk management for new products, services or significant changes thereto. The responsible units have a duty to assess the operational risks for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Bank's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

10.0 OPERATIONAL RISK (CONTINUED)

Treatment for Operational Risk Capital Charge

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

Table 16: Operational Risk-Weighted Assets and Capital Requirement

Operational Risk	2012 RM'000	2011 RM'000
Risk-Weighted Assets	689,105	608,028
Risk Capital Charge	55,128	48,642

For the year ended 31st December 2012, there was an increase in operational risk-weighted assets and risk capital charge by RM81 million and RM6.5 million respectively, and this was due to the increase in the gross income during the financial year.

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 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 Group's interest, thus reducing the risks associated with business activities.

12.0 REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk will arise from failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental or social risk.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Framework.

The key elements for management of reputational risk include:

- prompt and effective communication with all stakeholders,
- strong and consistent enforcement of controls relating to governance, business compliance and legal compliance,
- continuous monitoring of threats to reputation,
- ensuring ethical practices throughout the organisation, and
- establishing and continually updating crisis management plans.

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

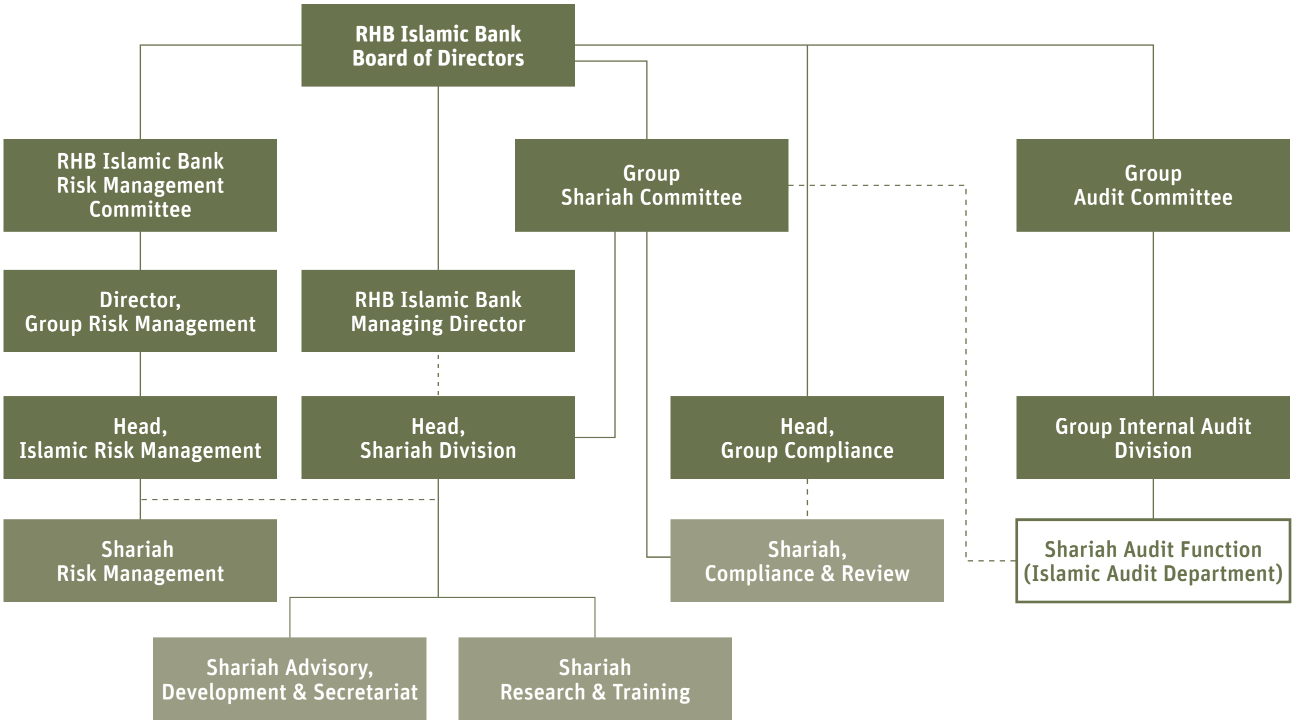
Shariah non-compliance risk may arise from the Bank's failure to comply with the Shariah rules and principles as determined by the Shariah Committee of RHB Islamic Bank or any other relevant body, such as the BNM's Shariah Advisory Council.

A Shariah Framework has been developed with the objective of governing the entire Shariah compliance process with Islamic banking operations, and to:

- ensure that the planning, development, and implementation of the 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 requirements and authorities' regulations related to the Shariah, and
- act as a guide on the Bank's expectations to all the personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

The reporting structure of Shariah governance is as follows:-



The Group Shariah Committee (GSC) of the Bank was established under BNM's Shariah Governance Framework to advise the RHB Islamic Bank's Board on Shariah matters. Additionally, the Bank has also established a dedicated Islamic Risk Management Department in line with BNM's Shariah Governance Framework.

The GSC reports to the Board of Directors of RHB Islamic Bank. This reporting structure reflects the status of the GSC as an independent advisory body of the Bank. As for the day-to-day operations, the Bank has established its Shariah Division.

The main duties and responsibilities of GSC are to advise the Bank's Board of Directors on Shariah matters in its 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 the Bank's financial statements.

The Head of Shariah Division reports functionally to the GSC and administratively to the Managing Director of the Bank. The key functions of the Shariah Unit are undertaken by two sub-units, which are organised along the various functional lines of the Bank – 'Shariah Advisory, Development and Secretariat' and 'Shariah Research and Training'.

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

The main duties and responsibilities of Shariah Advisory, Development & Secretariat are to conduct reviews on the Bank's proposed new products and services, provide internal Shariah advisory support to the management of the Bank in its daily business and operational matters, and to represent the Bank in any Shariah related matters. Meanwhile, the main duties and responsibilities of Shariah Research and Training function are to assist GSC in elaborating and discussing on pertinent Shariah issues, to provide in-depth research on competitive analysis in order to help GSC in making decision and to conduct Shariah related training for the Bank.

The Shariah Compliance and Review function is under the purview of Group Compliance. The main duties and responsibilities of Shariah Compliance and Review are to conduct post approval review on Islamic Banking business activities on a regular basis to ensure that the Bank's business activities and all the processes as well as the conduct of the business are in compliance with Shariah principles and the endorsement by regulatory bodies and GSC.

Any incidences of Shariah non-compliance are reported to the GSC and the Islamic Bank's Risk Management Committee. 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 no major Shariah non-compliant income arising from the Bank's products or services during the financial year 2012.

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.

Table 17	Glossary of Terms
BIA	Basic Indicator Approach
BCM	Business Continuity Management
BCP	Business Continuity Planning
BNM	Bank Negara Malaysia
Board	Board of Directors
CAFIB	Capital Adequacy Framework for Islamic Banks
CCC	Central Credit Committee
CCR	Counterparty Credit Risk
CCRIS	Central Credit Reference Information System
CRM	Credit Risk Mitigation
DFIs	Development Financial Institutions
EAD	Exposure at Default
EaR	Earnings- at- Risk
ECAIs	External Credit Assessment Institutions
EVE	Economic Value of Equity
Fitch	Fitch Ratings
GBCMSC	Group Business Continuity Management Steering Committee
GCPM	Group Credit Procedures Manual
GCSRMC	Group Capital and Strategic Risk Management Committee
GMC	Group Management Committee
GRM	Group Risk Management
GRMC	Group Risk Management Committee
Group ALCO	Group Asset and Liability Committee
GSC	Group Shariah Committee
IPRS	Islamic Profit Rate Swap
IRMC	Islamic Risk Management Committee
KRI	Key Risk Indicators
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody’s	Moody’s Investors Service
OTC	Over-the-Counter
PD	Probability of Default
PSIA	Profit Sharing Investment Accounts
QMVU	Quantitative Model Validation Unit
R&I	Rating and Investment Information, Inc
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self Assessment
RM	Malaysian Ringgit
RM‘000	Malaysian Ringgit in Nearest Thousand
RWA	Risk-Weighted Assets
SA	Standardised Approach
S&P	Standard & Poors
VaR	Value-at-Risk

Branch Network

KUALA LUMPUR

Cawagan Utama Kuala Lumpur
19A-1-1 & 19A-1-2, UOA Centre, 19,
Jalan Pinang, 50450 Kuala Lumpur
Tel : (03) 2161 1599
Fax : (03) 2161 0599

Jalan Raja Laut
Lot G-04, Ground Floor,
Bangunan KWSP,
No. 5, Jalan Raja Laut,
50350 Kuala Lumpur
Tel : (03) 2693 6300
Fax : (03) 2698 5751

SELANGOR

Bandar Baru Bangi
39-G-1, Jalan Medan Pusat Bandar 4,
43650 Bandar Baru Bangi, Selangor
Tel : (03) 8926 5433
Fax : (03) 8926 3343

Bayu Tinggi, Klang
No.1, Jalan Bayu Tinggi 6,
Taman Bayu Tinggi, Klang,
41200 Selangor
Tel : (03) 3326 2255
Fax : (03) 3325 9522

Kelana Jaya
A-G-3, Jalan SS 6/5A, Dataran
Glomac, Pusat Bandar Kelana Jaya,
Kelana Jaya, 47301 Selangor
Tel : (03) 7803 4614
Fax : (03) 7880 6716

Laman Seri, Shah Alam
Lot 17 - 1 & 17 - 2, No. 1 Laman
Seri Business Park, Seksyen 13,
Shah Alam, 40100 Selangor
Tel : (03) 5511 2722
Fax : (03) 5511 2422

KEDAH

Sungai Petani
Lot No. 41, Jalan Perdana Heights
2/2, Perdana Heights, Sg Petani,
08000 Kedah
Tel : (04) 422 8088
Fax : (04) 422 7088

PULAU PINANG

Auto City, Prai
No. 1808-B, Jalan Perusahaan,
Auto City, Persimpangan Juru,
Lebuhraya Utara-Selatan,
13600 Prai, Pulau Pinang
Tel : (04) 508 0500
Fax : (04) 501 6700

JOHOR

Taman Flora Utama
1 & 2, Jalan Flora Utama 1,
Taman Flora Utama,
83000 Batu Pahat, Johor
Tel : (07) 433 6777
Fax : (07) 433 4848

Taman Setia Tropika
1, Jalan Setia Tropika 1/30,
Taman Setia Tropika,
81200 Johor Bahru, Johor
Tel : (07) 238 0078
Fax : (07) 238 0012

KELANTAN

Kubang Kerian
Lot 1679, Jalan Raja Perempuan
Zainab 2, Bandar Baru Kubang Kerian,
16150 Kota Bahru, Kelantan
Tel : (09) 764 0222
Fax : (09) 764 0700

TERENGGANU

Kuala Terengganu
20, Pusat Niaga Paya Keladi,
Kuala Terengganu, 20000 Terengganu
Tel : (09) 6305 577
Fax : (09) 6305 533

SABAH

Kota Kinabalu
Lot BG-01, Ground Floor, Block B,
Bangunan KWSP, 49, Jalan
Karamunsing, Kota Kinabalu,
88100 Sabah
Tel : (088) 245 777
Fax : (088) 234 499

SARAWAK

Jalan Satok
192E & 192F, Jalan Satok,
93400 Kuching, Sarawak
Tel : (082) 258 800
Fax : (082) 243 900

www.rhb.com.my

facebook.com/RHBGroup
twitter.com/RHBGroup

RHB Islamic Bank Berhad (680329-V)
Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur
Tel : 603-9287 8888 Fax : 603-9280 6507