RHB Islamic Bank Berhad

ANNUAL REPORT

2013

A NEW DAWN

CROSSING BOUNDARIES...

CROSSING BOUNDARIES

With a strong focus on delivering enhanced customer service experiences, the Group is now poised on the threshold of a new dawn. As we propel forward towards achieving our aspiration to be the region's Leading Multinational Financial Services Group, we are confident of making strong advances towards achieving our 2020 ambitions of attaining strong market leadership in the local arena while gaining recognition as a regional powerhouse.

Inside this Report

RHB's Aspirations

By 2020

To be a Leading Multinational Financial Services Group

- **TOP 3 IN MALAYSIA/TOP 8 IN ASEAN** by size and performance
- **STRONG MARKET LEADERSHIP IN MALAYSIA** across targeted products and segments
- **REGIONAL POWERHOUSE IN ASEAN+** with 40% revenue contribution from international operations
- **NEXT GENERATION CUSTOMER CENTRIC BANK** delivering innovative and personalised customer offerings
- **PROMINENT EMPLOYER OF CHOICE** within the region

Five-Year Financial Summary

	2013 RM'000	2012 RM'000	2011 RM'000	2010 RM'000	2009 RM'000
RESULTS					
Operating revenue	**1,211,922**	1,136,990	792,691	548,746	483,741
Net income	**446,496**	398,955	366,808	236,055	237,010
Profit before zakat and taxation	**218,276**	208,611	211,026	90,625	86,594
BALANCE SHEET					
Shareholders' equity	**2,027,132**	1,693,673	1,341,141	984,665	895,462
Total assets	**29,131,089**	25,609,662	22,650,317	13,111,820	11,205,509
Financing and advances	**18,436,792**	16,002,714	12,732,595	8,713,761	5,842,302
Total deposits	**25,461,734**	21,889,173	20,811,963	12,013,575	9,958,802
RATIOS					
Return on average equity (%)	**8.95**	10.30	11.40	7.18	7.30
Return on average assets (%)	**0.61**	0.65	0.90	0.56	0.62
Risk Weighted Capital Ratio (%)	**14.424**	14.699*	13.93	13.56	13.78
Core Capital Ratio (%)	**13.864**	13.971*	12.88	12.23	12.50

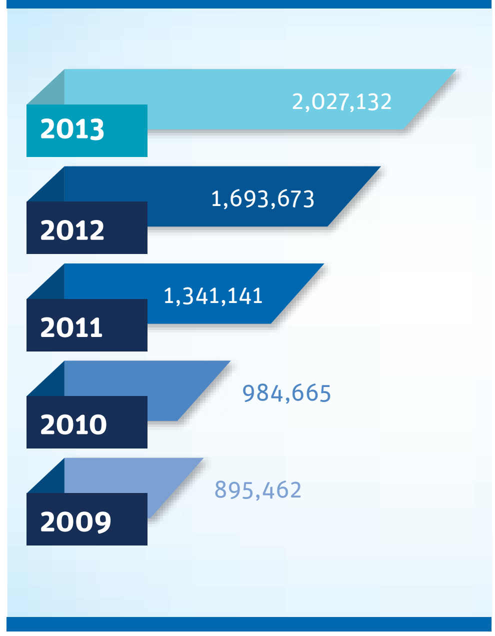
* Restated in accordance with BNM's Capital Adequacy Framework for Islamic Banks (capital components).

Five-Year Financial Highlights

PROFIT BEFORE TAXATION (RM'000)

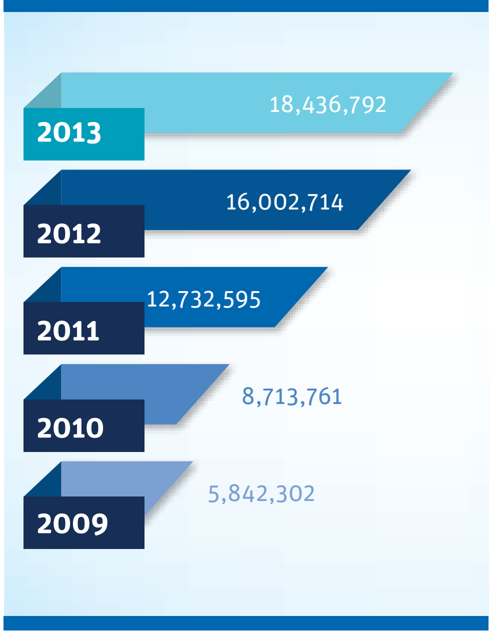
SHARE CAPITAL (RM'000)

SHAREHOLDERS' EQUITY (RM'000)



TOTAL ASSETS (RM'000)

FINANCING AND ADVANCES (RM'000)



TOTAL DEPOSIT (RM'000)

Corporate Information

As at 3 March 2014

BOARD OF DIRECTORS

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

Datuk Haji Faisal Siraj
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

Tuan Haji Ibrahim Hassan
Managing Director/Chief Executive Officer

BOARD COMMITTEES

BOARD AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Dato' Saw Choo Boon

Datuk Haji Faisal Siraj

BOARD RISK COMMITTEE#

Tuan Haji Khairuddin Ahmad
Chairman

Patrick Chin Yoke Chung

Tuan Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

Dato' Saw Choo Boon

BOARD NOMINATING AND REMUNERATION COMMITTEE#

Datuk Haji Faisal Siraj
Chairman

Dato' Mohamed Khadar Merican

Dato' Saw Choo Boon

Dato' Teo Chiang Liang

Tuan Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

BOARD CREDIT COMMITTEE*

Dato' Mohamed Khadar Merican
Chairman

Tuan Haji Khairuddin Ahmad

Abdul Aziz Peru Mohamed

Patrick Chin Yoke Chung

Tuan Haji Md Ja'far Abdul Carrim

BOARD TECHNOLOGY COMMITTEE*

Choong Tuck Oon
Chairman

Ong Seng Pheow

Dato' Mohd Ali Mohd Tahir

Charles Lew Foon Keong

Kellee Kam Chee Khiong

Dato' Khairussaleh Ramli

ISLAMIC RISK MANAGEMENT COMMITTEE

Dato' Mohd Ali Mohd Tahir
Chairman

Tuan Haji Md Ja'far Abdul Carrim

Datuk Haji Faisal Siraj

Choong Tuck Oon

COMPANY SECRETARY

Azman Shah Md Yaman

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong
Group Managing Director
RHB Banking Group

Dato' Khairussaleh Ramli
Deputy Group Managing Director,
RHB Banking Group/
Managing Director, RHB Bank Berhad

Mike Chan Cheong Yuen
Managing Director
RHB Investment Bank Berhad

Tuan Haji Ibrahim Hassan
Managing Director
RHB Islamic Bank Berhad

U Chen Hock
Executive Director
Group International Business

Yap Choi Foong
Group Chief Financial Officer

Rohan Krishnalingam
Group Chief Operations Officer

Norazzah Sulaiman
Group Chief Governance Officer

Patrick Ho Kwong Hoong
Group Chief Risk Officer

Jamaluddin Bakri
Group Chief Human Resource Officer

Christopher Loh Meng Heng
Group Chief Strategy & Transformation Officer

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
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 No. 10145
50907 Kuala Lumpur
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.)

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

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.

Members of RHB Islamic Bank's Shariah Committee

(a) Dr Ghazali Jaapar (Chairman)

Dr Ghazali Jaapar ("Dr Ghazali") is currently serving as Assistant Professor of the 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 began his career as a lecturer in 2007 at the Ahmad Ibrahim Kulliyyah of Laws, IIUM and is still attached with the university, teaching subjects such as Islamic Legal System and Usul al-Fiqh for LLB (Undergraduate), Siyasah Syar'iyyah for LLM (Administration of Islamic Law) and Islamic Legal Maxims for Certificate in Islamic Law (Bank Negara Malaysia and Standard Chartered Bank).

He has contributed to various journals and written 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.

(b) Professor Dr Joni Tamkin Borhan

Prof Dr Joni Tamkin Borhan ("Prof Dr Joni Tamkin") is currently serving as Senate Member and 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, at University of Malaya from September 2006 until August 2007.

He has published and written numerous books, articles and journals. He was also a guest speaker at various workshops and conferences covering various fields, mostly in Islamic Banking.

(c) Dr Amir Shaharuddin

Dr Amir Shaharuddin ("Dr Amir") has been Dean for the Faculty of Economics & Muamalat, Islamic Science University of Malaysia ("USIM") since December 2013. Dr Amir was the first recipient of the Scholar of Residence in Islamic Finance Award, jointly initiated by the Securities Commission in Malaysia and the Oxford Centre for Islamic Studies ("OCIS").

Dr Amir obtained his B.A. Shariah (Hons) from Al-Azhar University, Egypt (2001), he 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 at various international seminars in Indonesia, Bahrain, the United Kingdom and Italy.

He has contributed to various journals and written 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.

(d) Wan Abdul Rahim Kamil Bin Wan Mohamed Ali

Wan Abdul Rahim Kamil ("Wan Abdul Rahim") has more than 25 years of Islamic Banking experience and has been actively involved in various areas of operations including Corporate Financing and Syndication, Debt Capital Market and Corporate Advisory.

He has been awarded with the "Outstanding Leadership in Islamic Finance" award by the London Sukuk 2011, organised by ICG Events and the UK Trade and Industry Ministry in London, United Kingdom.

He is also a regular trainer and speaker at various seminars and in-house training workshops organised by Bank Negara Malaysia ("BNM"), Securities Industries Development Corporation ("SIDC"), Islamic Banking and Finance Institute Malaysia ("IBFIM"), both locally and internationally.

He is currently an Islamic Capital Market consultant to Securities Commission Malaysia. Prior to this, he was the Chief Executive Officer of ABRAR Discounts Berhad from 1994 to 2006. He started his career in Corporate Finance Department with Aseambankers (Malaysia) Berhad in 1977 before moving to Bank Islam Malaysia Berhad in 1983 in various capacities.

He has been a member of the following:

1) Task Force on Islamic Banking and Takaful for Labuan Offshore Financial Services Authority ("LOFSA") Malaysia;
2) Islamic Capital Markets Working Group ("ICMWG") – Securities Commission Malaysia;
3) Market and Product Development Committee under the International Islamic Financial Market ("IIFM"), Bahrain representing LOFSA;
4) Private Debt Securities Task Force of the Islamic Banking & Finance Institute Malaysia ("IBFIM"), a body under BNM;
5) Islamic Banking Committee, Majlis Tindakan Ekonomi Negara ("MTEN") under the Prime Minister's Department.

He graduated from Institut Teknologi MARA in 1976 and in the same year was accepted as a Professional Member of the Institute of Statisticians, United Kingdom (now merged with the Royal Statistical Society UK). In 1983, he completed his Post Graduate Diploma in Islamic Banking & Economics from the International Institute of Islamic Banking & Economics (in association with Al Azhar University, Cairo), in the Turkish Federated State of Cyprus.

Wan Abdul Rahim has written various articles and presentations on the subjects of Sukuk, Corporate Governance in Shariah, Rating of Islamic Financial Institutions, Islamic Factoring, Islamic Asset Backed Securities, Islamic Gold Dinar and Securitisation.

(e) Mohd Fadhly Md Yusoff

Mohd Fadhly Md Yusoff ("Mohd Fadhly") has more than 13 years of experience in Islamic Capital Market from his tenure as a manager with Islamic Capital Market Department of Securities Commission Malaysia from 1995 to 2008. During this period, he was involved in Shariah compliance supervision in relation to submissions for the issuances of Sukuk, structured products, collective investment schemes and Islamic REITs. Additionally, he has also undertaken in-depth research for the development of new Islamic Capital Market instruments as well as providing technical inputs for the preparation of various guidelines issued by Securities Commission Malaysia.

Currently, he also serves as a member of Shariah Committee of CIMB Aviva Takaful Berhad as well as an external Shariah advisor for University Tenaga Nasional.

He has actively participated in various industry development initiatives namely the International Organisation of Securities Commission ("IOSCO") Task Force on Islamic Capital Market, Islamic Financial Services Board's ("IFSB") Governance of Islamic Investment Funds Working Group, technical member for the publication of *Resolutions of the Securities Commission Shariah Advisory Council* and Islamic Capital Market educational/ promotional programmes.

He obtained his Bachelor of Syariah (First Class Honours) from University of Malaya, in 1995.

RHB Capital Berhad
Group Structure

As at 3 March 2014

RHB Capital Berhad

COMMERCIAL BANKING GROUP

100% RHB Bank Berhad

- 100% RHB Islamic Bank Berhad
- 100% RHB Bank (L) Ltd
  - 100% RHB International Trust (L) Ltd
    - 100% RHB Corporate Services Sdn Bhd
- 100% RHB Leasing Sdn Bhd
- 100% RHB Capital Nominees (Tempatan) Sdn Bhd
  - 100% RHB Capital Nominees (Asing) Sdn Bhd
- 100% RHB Capital Properties Sdn Bhd
- 100% Utama Assets Sdn Bhd
- 100% RHB Bank Nominees Pte Ltd (Singapore)
- 100% Banfora Pte Ltd (Singapore)
- 100% RHB Investment Ltd (Singapore)
- 100% RHB Trade Services Limited (Hong Kong)
- 100% Utama Gilang Sdn Bhd (3) *
- 100% UMBC Sdn Bhd *
- 100% RHB Delta Sdn Bhd (3) *
- 100% RHB Indochina Bank Limited *(formerly known as OSK Indochina Bank Limited)*
  - 100% RHB OSK Indochina Securities Limited *(formerly known as OSK Indochina Securities Limited)*

INVESTMENT BANKING GROUP

100% RHB Investment Bank Berhad

- 100% RHB OSK International Investments Pte Ltd *(formerly known as OSK International Investments Pte Ltd)*
  - 100% RHB OSK Asset Management Pte Ltd *(formerly known as RHB OSK International Asset Management Pte Ltd)*
    - 40% RHB OSK GC-Millennium Capital Pte Ltd (5) *(formerly known as OSK GC-Millennium Capital Pte Ltd)*
- 100% RHB Holdings Hong Kong Limited *(formerly known as OSK Holdings Hong Kong Limited)*
  - 100% RHB OSK Securities Hong Kong Limited *(formerly known as OSK Securities Hong Kong Limited)*
    - 100% RHB OSK Nominees Hong Kong Limited * *(formerly known as OSK Nominees Hong Kong Limited)*
  - 100% RHB OSK Futures Hong Kong Limited *(formerly known as OSK Futures Hong Kong Limited)*
  - 100% RHB OSK Finance Hong Kong Limited *(formerly known as OSK Finance Hong Kong Limited)*
  - 100% RHB OSK Capital Hong Kong Limited *(formerly known as OSK Capital Hong Kong Limited)*
  - 100% RHB OSK Precious Metals Hong Kong Limited *(formerly known as OSK Precious Metals Hong Kong Limited)*
  - 100% RHB OSK Asset Management Limited *(formerly known as OSK International Investments Hong Kong Limited)*
  - 100% RHB OSK Wealth Management Hong Kong Limited *(formerly known as OSK Wealth Management Hong Kong Limited)*
  - 100% RHB OSK (China) Investment Advisory Co Ltd *(formerly known as OSK (China) Investment Advisory Co Ltd)*
- 99% PT RHB OSK Securities Indonesia *(formerly known as PT OSK Nusadana Securities Indonesia)*
  - 99.62% PT RHB OSK Asset Management *(formerly known as PT OSK Nusadana Asset Management)*
- 51% DMG & Partners Securities Pte Ltd
  - 100% DMG & Partners Nominees Pte Ltd #
  - 100% Summit Nominees Pte Ltd #
  - 100% DMG & Partners Research Pte Ltd
- 99.95% RHB OSK Securities (Thailand) Public Company Limited *(formerly known as OSK Securities (Thailand) Public Company Limited)*
- 100% OSK Futures and Options Sdn Bhd *
- 100% OSK Research Sdn Bhd *
- 100% RHB OSK International Asset Management Sdn Bhd * *(formerly known as OSK International Asset Management Sdn Bhd)*
- 100% OSK Nominees (Tempatan) Sdn Bhd *
- 100% OSK Nominees (Asing) Sdn Bhd *
- 100% TCL Nominees (Tempatan) Sdn Bhd #
- 100% TCL Nominees (Asing) Sdn Bhd #
- 100% KE-ZAN Nominees (Tempatan) Sdn Bhd #
- 100% KE-ZAN Nominees (Asing) Sdn Bhd #
- 80% RHB Trustees Berhad (6) 20% *(formerly known as OSK Trustees Berhad)*
- 80% Malaysian Trustees Berhad (6) 20%
- 100% OSK Investment Management Berhad * *(formerly known as OSK-UOB Investment Management Berhad)*
- 100% RHB Asset Management Sdn Bhd *(formerly known as RHB Investment Management Sdn Bhd)*
  - 100% RHB Islamic International Asset Management Berhad *(formerly known as OSK-UOB Islamic Fund Management Berhad)*
  - 100% RHB Islamic Asset Management Sdn Bhd *
- 100% RHB Research Institute Sdn Bhd
- 100% RHB Merchant Nominees (Tempatan) Sdn Bhd
  - 100% RHB Merchant Nominees (Asing) Sdn Bhd
- 100% RHB Nominees Sdn Bhd
- 100% RHB Nominees (Tempatan) Sdn Bhd
- 100% RHB Nominees (Asing) Sdn Bhd
- 100% RHB Excel Sdn Bhd (4)
- 100% RHB Progressive Sdn Bhd (4)
- 100% RHB Marketing Services Sdn Bhd (3)
- 100% RHB Unit Trust Management Berhad (4)
- 100% RHB Private Equity Holdings Sdn Bhd
  - 100% RHB Private Equity Management Ltd
  - 100% RHB Private Equity Fund Ltd *(Cayman Islands)*
- 34.88% iFast-OSK Sdn Bhd
  - 100% iFast Capital Sdn Bhd
    - 100% iFast Nominees Sdn Bhd
  - 100% FA Corporate and Compliance Consultancy Sdn Bhd
- 40.05% RHB Finexasia.com Sdn Bhd 59.95% *(formerly known as Finexasia.com Sdn Bhd)*
  - 100% RHB OSK Stock 188.com Sdn Bhd *(formerly known as Stock 188.com Sdn Bhd)*
- 49% Vietnam Securities Corporation (5)

100% OSK Investment Bank (Labuan) Limited *

OTHERS

- 94.70% RHB Insurance Berhad
- 100% RHB Equities Sdn Bhd (1)
  - 100% KYB Sdn Bhd (4) *
- 100% RHB Capital (Jersey) Limited
  - 100% RHB (Philippines) Inc (2) *
- 100% RHB Hartanah Sdn Bhd
  - 100% Positive Properties Sdn Bhd
  - 100% RHB Property Management Sdn Bhd
- 100% Straits Asset Holdings Sdn Bhd
  - 100% SSSB Services (Melaka) Sdn Bhd (4) *
  - 100% SFSB Services (Melaka) Sdn Bhd *
- 100% RHBF Sdn Bhd *
- 100% RHB Venture Capital Sdn Bhd *
- 100% RHB Kawal Sdn Bhd
- 100% OSKIB Sdn Bhd *

Notes :

* Dormant Company
# Inactive 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) Jointly controlled entity.
(6) Held by: (i) RHB Investment Bank Berhad; (ii) RHB Nominees (Tempatan) Sdn Bhd; (iii) RHB Nominees (Asing) Sdn Bhd; and (iv) OSK Futures and Options Sdn Bhd with direct shareholdings of 20% each.

Board of Directors

1 **TUAN HAJI MD JA'FAR ABDUL CARRIM**
Non-Independent Non-Executive Chairman

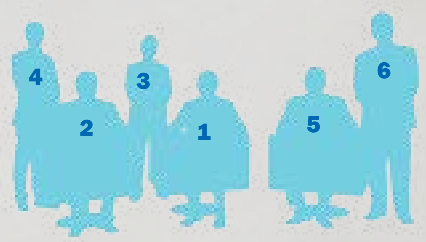
2 **DATUK HAJI FAISAL SIRAJ**
Senior Independent Non-Executive Director

3 **CHARLES LEW FOON KEONG**
Independent Non-Executive Director

4 **CHOONG TUCK OON**
Independent Non-Executive Director

5 **DATO' MOHD ALI MOHD TAHIR**
Independent Non-Executive Director

6 **TUAN HAJI IBRAHIM HASSAN**
Managing Director/Chief Executive Officer



Profiles of the Board of Directors

Tuan Haji Md Ja'far Abdul Carrim

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

Tuan 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. Thereafter, he was appointed as Independent Non-Executive Chairman on 4 June 2013.

On 25 June 2013, Haji Ja'far was re-designated as Non-Independent Non-Executive Chairman. He also serves as a Member of the Board Credit Committee, Board Risk Committee, Board Nominating and Remuneration Committee as well as Islamic Risk Management Committee of RHB Islamic Bank.

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 is a Council Member for the Chair on Financial Planning for Old Age at University Malaya. He is also on the Board of Employees Provident Fund, Malaysia.

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. He was re-designated as Senior Independent Non-Executive Director of RHB Insurance Berhad on 23 May 2013 and on 20 June 2013, re-designated again to Non-Independent Non-Executive Director.

Datuk Haji Faisal Siraj

(68 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 Bank 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 was appointed as Senior Independent Non-Executive Director on 4 June 2013. Datuk Faisal also serves as the Chairman of the Board Nominating and Remuneration Committee, as well as a Member of the Board Audit Committee and Islamic 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, RHB Capital Berhad, RHB Trustees Bhd (formerly known as OSK Trustees Bhd) and Malaysian Trustees Bhd.

Charles Lew Foon Keong

(56 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. He also serves as a Member of the Board Technology Committee.

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 Hong Kong 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 Hastings Rare Metal Ltd.

Choong Tuck Oon

(55 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 Board Technology Committee and Member of Board Risk Committee, Board Nominating and Remuneration Committee as well as Islamic Risk Management Committee of RHB Islamic Bank.

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 11 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 directorships include RHB Bank Berhad, RHB Indochina Bank Limited, RHB OSK Indochina Securities Limited and RHB Private Equity Holdings Sdn Bhd. He is also a Non-Executive Director in NTUC Income Insurance Cooperative Singapore.

Dato' Mohd Ali Mohd Tahir

(61 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 the Chairman of the Islamic Risk Management Committee of RHB Islamic Bank as well as a Member of Board Technology 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 and has completed Bank Negara Malaysia's Financial Institution Directors' Education ("FIDE") core programme.

Dato' Ali was with HSBC Bank Malaysia Berhad ("HSBC Bank") for 36 years until his retirement in 2008 as Chief Operating Officer. As a career banker, he has extensive experience in commercial banking, both corporate and consumer, and in regional and branch management. In the later half of his career, he headed the strategic core banking system conversion and was responsible for the entire banking operations, risk management and process efficiency.

Tuan Haji Ibrahim Hassan

(57 years of age – Malaysian)
Managing Director/Chief Executive Officer

Tuan Haji Ibrahim Hassan ("Haji Ibrahim") was appointed as the Managing Director/Chief Executive Officer ("MD/CEO") of RHB Islamic Bank on 2 September 2013.

Haji Ibrahim has over 30 years of banking experience and was previously the president director of Maybank Syariah Indonesia, previously known as Maybank Indocorp, which commenced operations in October 2010. Prior to that, he was the CEO of Maybank Islamic Berhad.

He began his illustrious career in the banking industry in the dealing rooms of three Maybank international offices in Hong Kong, New York and London where he worked for more than 10 years. Upon returning to Malaysia, he was instrumental in strengthening the treasury operations of Maybank Group.

He was then appointed as the CEO of Mayban Discount for a period of two years from 1996 - 1998 and subsequently became the head of the market risk division whereby he developed the market risk management policies and model for Maybank Group.

He was then promoted as the head of international banking in 2001 to oversee the operations of Maybank international branches and subsidiaries in 14 countries. In 2007, Haji Ibrahim was later reassigned to lead a team to de-merge the operations of Maybank Islamic window operations into a separate fully-fledged Islamic banking subsidiary of Maybank Group. He was appointed as CEO of Maybank Islamic when it started operations in January 2008.

Corporate Governance Statement

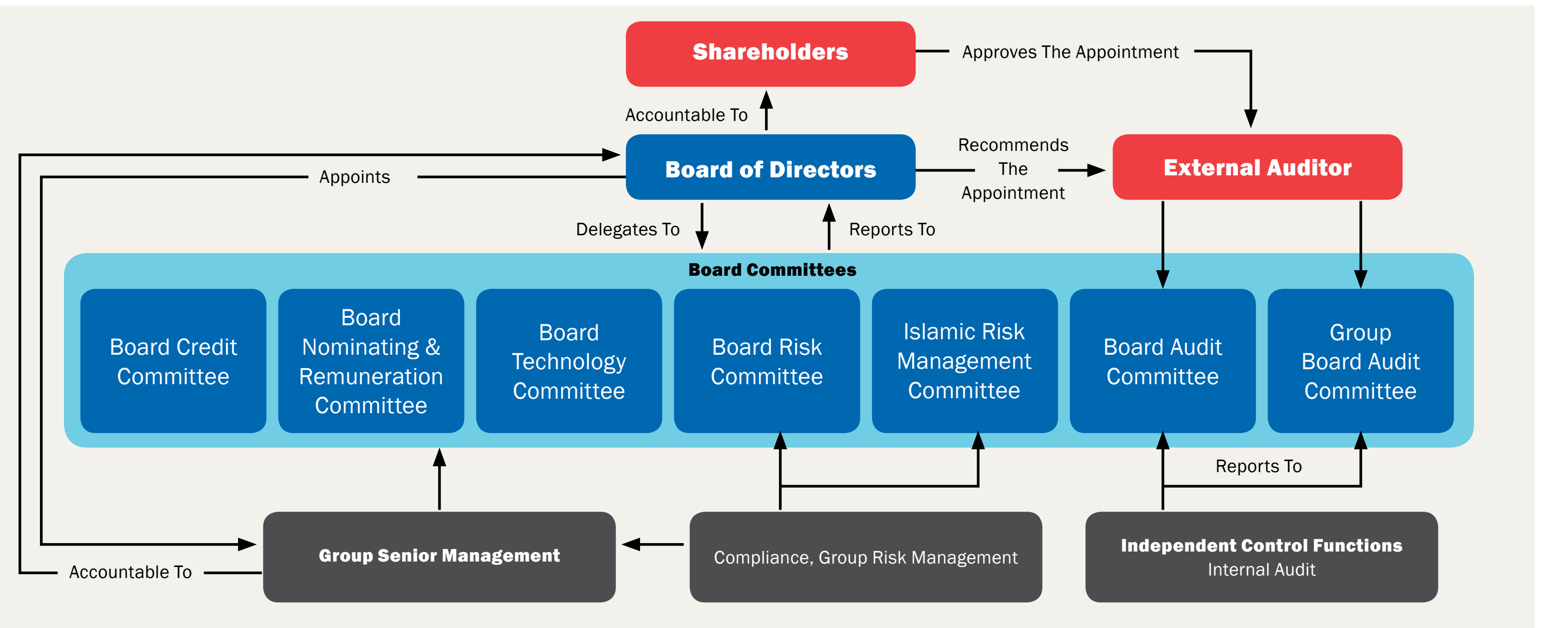
"Good corporate governance plays a vital role in underpinning the integrity and efficiency of the capital market. It is a testament of a company's commitment to values and ethical business conduct. Effective corporate governance structures encourage companies to create value (through entrepreneurialism, innovation and development) and provide accountability and control systems which commensurate with the risks involved. When companies are well governed, they are better able to attract capital investment and raise the standing of the capital market as a whole."

Foreword, Chairman, Bursa Malaysia Berhad
Corporate Governance Guide (2nd Edition)

The Board of Directors ("Board") of RHB Islamic Bank Berhad ("RHB Islamic Bank" or "the Bank") recognises the importance of good corporate governance in pursuing quantifiable and long term success for the RHB Banking Group ("Group"), and value creation for shareholders and all other stakeholders. The Board is fully 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 the Bank's and the Group's integrity and professional conduct are beyond reproach.

An effective corporate governance structure lies at the core of the Group's pursuit to realise its vision to be a "Leading Multinational Financial Services Group". This structure is based on stringent corporate governance practices and regulations, a clear organisational structure with well-defined accountabilities and responsibilities, and robust internal control and risk management mechanisms. Throughout the years, the Board has made concerted efforts to ensure a strict compliance to regulatory requirements and that its corporate governance framework, internal processes, guidelines and systems remain robust and relevant. The Board believes there is always room for improvement and continuously explores improvement to the governance processes. The Board exercises a significant effort to understand and manage stakeholders' expectations to fulfil their evolving needs and ensure that the Group's position as a whole and reputation as a leading financial holding company are held in good stead.

Governance Model



ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Board and Management

The Board governs the business and affairs of the Bank and exercises all such powers pursuant to the Articles of Association of the Bank. To ensure effectiveness in discharging its roles and responsibilities, the Board delegates specific authorities to the relevant Board Committees. Such delegation of authority is expressly stipulated in the Terms of References ("TOR") of the respective Board Committees. The TORs are reviewed periodically to ensure effective and efficient decision-making in the Group. The Board Committees also act as oversight committees where they evaluate and recommend matters under their purview for the Board to consider and approve. To ensure the efficient running of the businesses and operations, the Board also delegates certain decision-making powers to the Managing Director of the Bank. The MD executes the Board's directions within his realm of authority and purview and he is supported by the management of the Bank. The MD develops effective collaboration with other entities in the Group to achieve the Group's vision and mission. The MD manages the Company's business performance, operational efficiency and Shariah compliance as the main pillars of the Company's business. Besides that, he also spearheaded various improvements to the core banking system and introduced automation in the Company's digital initiatives, in line with the Group's transformation initiatives to continue to be competitive with its ambit of business.

At each Board meeting, the Board is among others informed of the decisions and salient issues deliberated by the Board Committees and the Management through minutes of meetings which are tabled thereat. The Board also receives updates from the respective chairmen/ representatives of the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee on matters that have been deliberated and considered at these Committees' meetings that require specific attention. This practice also applies for other operating entities within the Group.

Matters such as the annual business plan and budget, dividend distribution, business restructuring, reorganisation plan, strategic proposals, risk appetite, human capital management policies, appointment of the Bank's senior management, talent and succession planning, brand positioning, investor and stakeholder relations direction as well as capital and operating expenditures above the Group Manual Of Authority limits are reserved for the Board.

The role of the Board

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

The Board together with the Management are constantly monitoring the performance of its Islamic banking business and its position in the market place. The competitive environment within the industry is expected to intensify and hence, necessitate a more robust and effective way in managing the business. Accordingly, the Bank has embarked on various measures to ensure that its market share and profitability are not significantly impacted.

The Board and the Management are looking at various strategies like risk based pricing, product innovation, leveraging business model and differentiation, as well as strengthening of delivery and distribution channels in equipping the Bank to take on the new opportunities. Apart from that, the Bank will also be strengthening its brand building and exploiting the business opportunities as a result of being part of the Group.

Among the Board's key roles and responsibilities are:

(a) Strategy setting

The Board plays an active role in reviewing the Bank's strategies, business plans, financial objectives, major capital and operating budgets and policies proposed by the Management. The Board monitors the Management's performance in implementing the adopted strategies and plans and provide relevant direction and advice where necessary so as to ensure the achievement of the objectives.

For 2013, the Group's strategic planning process began with an offsite Strategic Development & Brainstorming Session held in October 2012, where the Management presented its proposed strategy, business plan and annual budget for financial year 2013. During this session, the Board discussed both the Management's and its own strategic perspectives, and challenged the Management's views and assumptions. The Board subsequently approved the proposed strategy, business plan and annual budget at its meeting held in November 2012. The Board also reviewed and approved the proposed 2013 performance scorecard for the Bank, ensuring that the proposed targets correspond to the Group's strategy and business plan, reflect competitive industry trends and internal capabilities, and provide sufficient stretch for the Management.

In 2013, the merger of the Group's investment banking and asset management businesses with OSK Investment Bank Berhad (now known as OSKIB Sdn Bhd) Group ("OSK") was completed. With the completion of the merger, RHB Banking Group is now present in almost all of the ASEAN countries and Hong Kong. The Bank will leverage on this platform and further enhance its business opportunities. Being part of a large banking group, the Bank will exploit such advantage and strive to reach the optimum, especially the regional footprint.

In November 2013, the Group Senior Management initiated a 3-year transformation journey to achieve the Group's vision of becoming a leading multinational financial services group by 2020. The roadmap and 6 strategic levers for the transformation dubbed IGNITE 2017 and the Group business plan and budget for 2014 were discussed and evaluated by the Board and Management at an offsite meeting and subsequently approved at the Board Meeting held in January 2014. Under the transformation, RHB Islamic Bank will embark on its Islamic Transformation Programme to leverage on the larger Group infrastructure to attain scale in business and efficiency in operations as part of its strategic initiative to support the group-wide cluster.

(b) The Bank's and the Group's operations and conduct

The Board governs the business conduct, performance and operations of the Bank with close collaboration with the Management. To ensure high performance, the Board reviews and approves performance objectives for the senior management team and monitors their performance on a regular basis. Interventions and reviews may be made to ensure that the execution of the plans is aligned with the set objectives and goals. The Board also governs the Bank's risk management, controls and human resource ("HR") management through delegation of certain decision-making and/or oversight responsibilities to various Board Committees namely the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee. At the executive level, the MD assumes the overall responsibilities for the execution of the Bank's strategies and plans in line with the Board's direction, oversees the operations and drives the Bank's businesses and performance towards achieving the Group's vision and goals. In carrying out his tasks, the MD is supported by various key Senior Management of the Bank. The Board is updated on the Bank's performance through a status report presented by the MD which includes a comprehensive summary of the Bank's business drivers and financial performance of each reporting period vis a vis the approved balanced scorecard of RHB Islamic Bank and the industry benchmark. The Board also keeps abreast of the key strategic initiatives, significant operational issues and the latest developments of the financial services industry.

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

(c) Risk Management

The Board has the responsibility to identify the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board entrusted the Board Risk Committee ("BRC"), which comprises four Independent Non-Executive Directors ("INEDs") and one Non-Independent Non-Executive Director ("NINED") representing the respective entities within the Group, with the responsibility to provide oversight and governance of risks for the Group. The composition of the BRC and the attendance of the members at meetings held in 2013 were as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (INED/ Chairman)	22/25 (88%)
Mr Patrick Chin Yoke Chung (INED)	24/25 (96%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	25/25 (100%)
Mr Choong Tuck Oon (INED)	19/25 (76%)
Dato' Saw Choo Boon (INED)	24/25 (96%)

The salient terms of reference of the BRC 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 risks and to ensure that the risk management processes of each entity in the Group are in place and functioning;
- to promote the management of the Group's risks in accordance with a risk-return performance management framework; and
- to provide guidance and make recommendations to the Board of each relevant entity within the Group in respect of risk management matters of the respective entities.

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

The Board is also supported by the Islamic Risk Management Committee ("IRMC") who looks at the Islamic aspects of risk management. The IRMC comprises three INEDs and one NINED. The composition of the IRMC and the attendance of the members at meetings held in 2013 were as follows:

Name of Directors	Attendance at Meetings
Dato' Mohd Ali Mohd Tahir# (INED/Chairman)	17/18 (94%)
Tuan Haji Md Ja'far Abdul Carrim*(NINED)	18/18 (100%)
Datuk Haji Faisal Siraj (INED)	18/18 (100%)
Mr Choong Tuck Oon^ (INED)	8/12 (67%)

Note:
Appointed as Chairman/Member with effect from 23 May 2013.
* Re-designated as Member with effect from 23 May 2013.
^ Appointed as Member with effect from 23 May 2013.

(d) Talent Development and Succession Planning

Talent development and succession planning are key priorities of the Board in ensuring a high performing workforce to maintain the Bank's and the Group's sustainability and competitiveness. The Board entrusted the Board Nominating & Remuneration Committee ("BNRC") with the responsibility to deliberate on HR strategies, policies, systems and development of the Bank. The BNRC is also given the responsibility to select, assess and recommend to the Board the appointment and remuneration matters of Directors, Board Committee members, Group Shariah Committee and key Senior Management officers.

During the year, the Group has put in place programmes for the identification, competency assessment and development of talent to fill senior positions, to continuously strengthen the Group's succession plan. These programmes are monitored regularly by the BNRC. Other major issues deliberated by the BNRC were pay structures and policies, review and harmonisation of benefits and retention plans for Senior Management.

(e) Internal control system

The Board governs the adequacy and integrity of the Bank's internal control system. With the support of the Board Audit Committee and Group Internal Audit, the Board ensures that there is an effective and efficient framework for reporting internal controls and regulatory compliance. Details pertaining to the Company's internal control system and review of its effectiveness are set out in the Statement on Risk Management and Internal Control in this Annual Report.

Code of ethics

The Board is committed to establish a corporate culture which engenders ethical conduct that permeates throughout the Bank. 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, establish uniform ethical standards and promote ethical conduct for Directors in line with the governing laws, regulations and guidelines. The Code of Ethics includes principles relating to general standard of conduct, conflict of interest, insider trading, maintaining confidentiality, use of corporate assets, etc.

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

The Group has also established a Group Whistle Blower Policy in strengthening its governance practice and the policy was also adopted by the Bank. 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, three complaints pursuant to the Group Whistle Blower Policy were received, investigated and pursued based on the requirement of the said policy. All reports or complaints are filed with the Designated Recipient as specified in the Group Whistle Blower Policy. The Group Whistle Blower Policy is available on the Group's internal portal for reference by the staff across the Group.

Promotion of sustainability

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 further recognises that the Bank and the Group's ability to prosper hinges substantially upon the ability to make business decisions that give credibility to their sense of economic, social and environmental responsibilities, and by which the stakeholders and society can hold them accountable. Therefore, environment, social and governance ("ESG") issues are of the utmost importance in the Board's decision-making in order to maintain the standard of being a responsible corporate citizen.

The Group established a Corporate Responsibility ("CR") strategic framework that supports and creates value for the Group's business, operations and brand, and ensures positive contribution to the shareholders, customers, employees and society at large. The Group's CR Report for 2013 is uploaded on RHB's website prior to the forthcoming Annual General Meeting ("AGM") of RHB Capital Berhad ("RHB Capital"). The Group's CR Report addresses among others the CR and ESG elements of the Group. The framework will be eventually translated into a governing policy.

The foundation of CR initiatives is premised on four quadrants which include Community, Environment, Workplace and Marketplace. The issue of sustainability is defined as conducting business responsibly and ethically by factoring in social, economic and environmental considerations in the decision-making process for long term business success that in turn will contribute to the socioeconomic development of the communities in which it operates. As such, the Group will embark on activities that conserve the environment, enrich the lives of communities, promote a culture of respect and care for its workforce and the public, all of which, appropriately implements good governance.

Information and advice

The Board whether as a group or individually, regularly obtain the advice and dedicated support services of the Company Secretary in ensuring the effective functioning of the Board. The Board members may interact directly with the Management, seek their clarification and advice as well as request for information on matters pertaining to the Bank's operations or business concerns from them. Should the need arise, the Directors may also seek independent professional advice, at the Bank's expense, pursuant to the Group's "Standard Procedures for Directors to Have Access to Independent Advice" when deemed necessary for the proper discharge of their duties.

Dedicated Company Secretary

The Board is supported by a dedicated Company Secretary in the discharge of their roles and responsibilities. In addition to acting as a custodian of the Bank's statutory records, 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 in the discharge of their governance obligations and responsibilities as Directors of the Bank. The Company Secretary also facilitates the communication of key decisions and policies between the Board, Board Committees and the Senior Management. The Board is updated by the Company Secretary on the follow-up or implementation of its decisions/ recommendations by the Management until their closure.

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

Board Charter

The Bank has developed a Board Charter, which set out the key corporate governance principles adopted by the Board. The responsibilities of Board, Chairperson, Senior Independent Director and the Managing Director/ Chief Executive Officer are clearly defined therein. The Board Charter clearly stipulates the role that each party undertakes in ensuring checks and balances in the day-to-day management of the Bank's business and operations.

Within these broad boundaries, the Board, also discussed, set and agreed 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 the Board at intervals.

The Board reviews the Board Charters from time to time to keep them up to date with changes in regulations and best practices as well as ensure its effectiveness and relevance to the Boards' objectives.

STRENGTHEN COMPOSITION

Board Nominating & Remuneration Committee

The Board Nominating & Remuneration Committee ("BNRC") comprises six Non-Executive Directors of whom five are INEDs and one is a NINED representing the respective entities within the Group. The BNRC is chaired by Datuk Haji Faisal Siraj, the Senior INED of RHB Capital. The BNRC met 15 times during financial year 2013. The composition of the BNRC and the attendance of the members at meetings held in 2013 were as follows:-

Name of Directors	Attendance at Meetings
Datuk Haji Faisal Siraj (INED/Chairman)	14/15 (93%)
Dato' Mohamed Khadar Merican (INED)	13/15 (87%)
Dato' Saw Choo Boon (INED)	15/15 (100%)
Dato' Teo Chiang Liang (INED)	12/15 (80%)
Mr Choong Tuck Oon (INED)	12/15 (80%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	15/15 (100%)

The salient TOR of the BNRC 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.
- 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, 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 of responsibilities.
- Ensure Directors, Board Committee members and GSC receive appropriate induction and continuous training programmes for closure of skill gaps and keeping abreast with latest developments.

Directors' Appointment and Assessment

(a) Appointment of Directors

The BNRC is guided by a nomination framework approved by the Group's Boards, to ensure that individuals appointed to relevant senior positions and the Boards within the Group have the appropriate fitness and propriety to properly discharge their prudential responsibilities on appointment and during the course of their appointment. A fit and proper assessment is carried out for each Director and relevant key Management.

Nomination Framework

For the appointment of new Directors, a thorough and comprehensive fit and proper assessment (including background, skills, knowledge and experience) of the nominee is undertaken by the BNRC 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, declaration being completed by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy and regulatory disqualification. 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.

During its review of the suitability of the candidates and criteria for the appointment process, the BNRC is continuously mindful to have a balanced diversity in age, gender, race, culture and nationality, to facilitate optimal decision-making by harnessing different insights and perspectives.

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

In 2013, the BNRC undertook a holistic review on the compositions of the Boards and Board Committees within the Group in order to ensure effective functioning of the Boards and Board Committees and decision-making process, particularly the regional governance aspects post the RHB-OSK merger. The Board is intensifying its effort to secure new Board members with the right skill-sets and experience to close identified gaps. In addition, the BNRC also provided support to the Management in recruiting the quality candidates to fill vacant key Senior Management positions.

(b) Board Effectiveness Evaluation

The Group has since 2006 undertaken the Board Effectiveness Evaluation ("BEE") exercise annually on the Boards and Board Committees with the objective of assessing their effectiveness and that of the individual Directors. The BEE is designed to detect strengths and weaknesses so that actions can be taken to improve overall effectiveness. The results of the Directors' self and peer evaluations form part of the basis for evaluation by the BNRC for the re-appointment of the respective Directors.

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

Part A: Board Evaluation

1. Board responsibilities
2. Board composition
3. Board administration and process
4. Board conduct
5. Board interaction and communication with management and stakeholders
6. Overall Board performance
7. Chairman's evaluation
8. Managing Director's evaluation

Part B: Board Committees Evaluation

1. Structure and processes
2. Accountability and responsibilities

Part C: Directors' Self and Peer Evaluation

1. Board dynamics and participation
2. Integrity and objectivity
3. Technical competencies
4. Recognition
5. Independent Directors' evaluation

Part D: Committee Members' Self and Peer Evaluation

1. Participation levels and contribution
2. 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, PricewaterhouseCoopers Advisory Services Sdn Bhd ("PwCAS") has been engaged to collate and tabulate the results of the evaluation. This approach is in line with market best practices in ensuring the assessment is conducted independently from any internal influence. The BEE also includes in-depth interviews with Directors and Senior Management by PwCAS to encompass areas which fall outside the realm of the written assessment. The detailed BEE results are discussed with the Chairmen of the BNRC and Boards by PwCAS.

In November 2013, each Director and Board Committee member were provided with individual results together with a peer average rating on each area of assessment for personal information and further improvement. A summarised report has been presented to the BNRC and the Board of the Bankin December 2013 to enable the Board to identify and put in place actions to address areas for improvement.

Remuneration strategies

The Board is mindful that fair remuneration is critical to attract, retain and motivate the Directors with the relevant experience and expertise required for the stewardship of the Bank and the Group. The BNRC has been entrusted to discharge its remuneration role (as outlined in its TOR), as follows:

- Ensure the establishment of formal and transparent procedures for developing remuneration and HR policies, strategies and framework for Directors, GSC and key Senior Management officers.
- 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; and
  - The framework should cover all aspects of remuneration including Directors' fees, salaries, allowances, bonuses, option and benefit-in-kind.
- Ensure HR strategies, policies and frameworks are in place for all the building blocks of a quality HR Management System (e.g. succession planning, talent and leadership development, training, etc.) to support the Group in achieving its objectives.

The Group has also established a common reference (incorporating the Non-Executive Directors' ("NEDs") Remuneration Framework) as a guide. It is aimed at applying the general 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. 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 practices within the industry and is reviewed at least once every two years to be aligned with the market.

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

(a) Directors' Fees

The NEDs are entitled to annual Directors' fees. The annual Directors' fees are subject to shareholders' approval at the AGM of the Company.

In 2013, the Board has approved the BNRC's recommendation to revise the NEDs' remuneration based on a new tiering system. From a peer group benchmarking perspective, the Board believes that a more equitable and competitive remuneration should be offered to the NEDs in line with the complexity of the duties, responsibilities, expectations and commitment of the NEDs relative to the expanding scope of the Group's initiatives, particularly on regional business expansion. The proposed revised NEDs' fees have been aligned to the accepted industry range and will be presented to the shareholders at the forthcoming 9th AGM, for approval.

(b) Board Committee' Allowances

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

In 2013, the Board revised the Group's existing Board Committee allowances structure to be in line with the increase in complexity of roles and responsibilities and heavier commitment of the Board Committees.

(c) Meeting attendance allowance

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

(d) Benefits-in-kind

Benefits are 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, consisting of a competitive 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 Bank.

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

REINFORCE INDEPENDENCE

Assessment of independence

The independence of the Directors is reviewed on an annual assessment and benchmarked against best practices and regulatory provisions. The BNRC assesses the independence of NEDs, via the BEE exercise, which takes into account the individual Director's ability to exercise independent judgement at all times and to contribute to the effective functioning of the Board. Based on the BEE 2012 results, the Board is generally satisfied with the level of independence demonstrated by all the NEDs, and their ability to act in the best interest of the Bank.

In addition, 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 9.1 of Bank Negara Malaysia's ("BNM") Guidelines on Corporate Governance for Licensed Institutions ("BNM's CG Guidelines") and BNM's CG Guidelines for Licensed Islamic Banks, respectively. All the Independent Directors are independent from the substantial shareholders of the Bank, not being substantial shareholders themselves nor directly associated with any substantial shareholders.

Role of the Chairman and Managing Director

The Non-Independent Non-Executive Chairman, Tuan Haji Md Ja'far Abdul Carrim, 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. Additionally, the Chairman ensures that general meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965.

The MD, Tuan Haji Ibrahim Hassan, who has extensive experience and knowledge in the Islamic banking business, assumes the overall responsibilities for the execution of the Bank's strategies in line with the Board and the Group's direction, and drives the Bank's businesses and performance towards achieving the vision and goals of the Bank and the Group.

The distinct and separate roles of the Chairman and MD, with a division of responsibilities, ensure balance of power and authority, such that no one individual has unfettered powers of decision-making.

The Board of Directors

Currently, the Board of RHB Islamic Bank comprises six Members, with a Non-Independent Non-Executive Chairman, four INEDs and the MD. The structure and composition of the Board comply with the BNM's CG Guidelines for Licensed Islamic Banks where it is stipulated that the Board should include a balance of Executive Directors and Non-Executive Directors (including Independent Non-Executives) such that no individual or small group of individuals can dominate the board's decision-making. However, Directors with executive powers must not account for more than 40% of the total board members at any time. The presence of the four 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 the BNM's CG Guidelines. They are not involved in the day-to-day management of the Bank, nor do they participate in any business dealings of the 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.

FOSTER COMMITMENT

Time commitment

For the financial year ended 31 December 2013, the Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of RHB Islamic Bank. All Directors have complied with the required minimum Board Meetings attendance of 75% under the BNM's revised guidelines.

The Board convened seventeen meetings for the financial year ended 31 December 2013. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Tuan Haji Md Ja'far Abdul Carrim	17/17	100
Datuk Haji Faisal Siraj	17/17	100
Mr Charles Lew Foon Keong	15/17	88
Mr Choong Tuck Oon	17/17	100
Dato' Mohd Ali Mohd Tahir	14/17	82
Tuan Haji Khairuddin Ahmad#	6/6	100
Tuan Haji Ibrahim Hassan*	7/7	100

Note:
Retired with effect from 26 May 2013.
* Appointed with effect from 2 September 2013.

In ensuring that Directors' commitment, resources and time are more focused to enable them to discharge their duties effectively, each Member of the Board is to hold a maximum of 5 directorships in public listed issuers. The Directors are required to notify the Board on changes of their other directorships and shareholdings as and when such changes arise. Such information is used to monitor the number of directorships held by the Directors of RHB Islamic Bank, including those on public listed companies, and to notify the Companies Commission of Malaysia accordingly.

An annual meeting schedule is prepared and circulated to the Directors before the beginning of every year to ease the Directors' time planning. It provides the scheduled dates for meetings of the Boards and Board Committees as well as the AGM. The Group has, since 2011, embarked on the use of iPADs and eBooks at Board/Board Committee Meetings, whereby encrypted Board and Board Committee papers will be circulated electronically for Directors/Board Committee members to download the same via iPADs. This initiative has significantly enhanced mobility, movements of the documents, cost and time savings, greater convenience, better security and a positive impact on the environment. Directors who are unable to attend the Board/Board Committee Meetings physically are encouraged to participate in the deliberations and discussions via telephone or video-conferencing.

Training

The Board emphasises the importance of continuing education and training for its Directors to ensure that they are kept abreast of the latest development in business, corporate strategy, 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 to meet the challenges of the Board. A budget for Directors' training is provided each year by RHB Capital. The Board, as part of the BEE exercise, assesses the training needs of each Director annually. 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 NEDs of the Bank and the Group are encouraged to attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme. This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that 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.

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.

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

(a) Corporate Governance

- Governance in Groups Programme
- 5th Annual Corporate Governance Summit "Embedding the culture of voluntary governance in organisations"
- Risk Management Committees – Insurance Programme
- FIDE Elective Programme : Advanced Risk Governance and Risk Management

(b) Banking and Finance

- Financial Services Act 2013 and Islamic Financial Services Act 2013 and Directors and Officers Liability Insurance Policy
- FIDE Elective Programme: Banking Fundamental Programmes
- FIDE Elective Programme: Corporate Finance For Directors Programme
- FIDE Elective Programme: Mergers & Acquisitions For Financial Institutions

(c) Legal, Business and Human Resource

- Training on OSK Products
- Personal Data Protection Act 2010 and Foreign Account Tax Compliance Act Presentation For Directors
- FIDE Elective Programme: Director's Legal Tool-Kit Programme
- Syariah Awareness Programme

UPHOLD INTEGRITY IN FINANCIAL REPORTING

Compliance with financial reporting standards

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

The Board Audit Committee ("BAC"), with the assistance of both external and internal auditors, reviews the integrity and reliability of the Bank's financial statements on a quarterly basis, prior to recommending the same for the Board's approval. During the reviews, the Group Chief Financial Officer provides assurance to the BAC that adequate processes and controls are in place for an effective and efficient financial statement close process, that appropriate accounting policies have been adopted and applied consistently and that the relevant financial statements give a true and fair view of the state of affairs of the Bankin compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Companies Act, 1965. The BAC also meets twice a year with the external auditors, without the presence of the Management and the executive Board member, for discussion on any key issues/areas that require attention of the BAC and the Board.

Group Internal Audit ("GIA") also undertakes an independent assessment of the internal control systems throughout the Bank and the Group, based on the annual audit plan approved by the BAC, to ensure that deficiencies or issues will be promptly resolved by the Management. An overview of the Bank internal control are contained in the Statement on Risk Management & Internal Control set out on pages 32 to 35 of this Annual Report.

Assessment of external auditors

The BAC undertakes an assessment of the suitability and independence of the External Auditors based on qualifying criteria for the appointment of auditors and terms of audit engagements in accordance with BNM's Guidelines – "External Auditor" dated 28 June 2013. In addition, the work performance of the External Auditors is assessed through a survey sent out to management personnel requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the reporting financial year. The survey covers areas such as quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness, relationship management and staff continuity. Having satisfied itself with their performance and fulfilment of criteria as set out in the relevant BNM's Guidelines, the BAC will recommend the re-appointment of the External Auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC and Group Board Audit Committee ("GBAC") 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 report on non-audit fees is also presented to the BAC and the GBAC 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/confirm their independence for all non-audit engagements undertaken.

RECOGNISE AND MANAGE RISKS

Risk management framework

The Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and safeguard shareholders' investments as well as the Bank's and the Group's assets. The BRC oversees the risk framework of the Group, reviews the Management's risk management activities and policies formulated by the Management for recommendation to the Boards for approval. In addition to the monthly updates on matters that have been deliberated at BRC meeting, a Group Risk Management Report (including the entities' and the Group's risk metrics and tolerance dashboard) is also presented to the Board on a monthly basis.

The Bank and the Group continue to maintain and review its internal control procedures to ensure, as far as possible, the protection of its assets and liabilities and its shareholders' investments. The Board considers that the Group's risk management framework and system of internal control maintained by the Management, and which was in place throughout the financial year and up to and as of the date of this report, are operating adequately and effectively to safeguard the shareholders' investment and the Bank's and the Group's assets.

Internal audit

The GIA, led by the Group Chief Internal Auditor, reports directly to the GBAC and BAC. Being guided by the Group Internal Audit Charter, the GIA 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 BAC/GBAC. The follow-up actions and the review of the status of actions taken as per the auditors' recommendations are carried out by the Management via the various Management Audit Committees ("MACs") (chaired by their respective Managing Directors) established at the key operating subsidiaries within the Group. These MACs have been consolidated into one committee and renamed as Group Audit Committee effective March 2014. 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.

ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate disclosure

The Group place strong emphasis on clear, comprehensive, timely and equitable dissemination of information on the business activities, the milestones achieved, the developments that have taken place and financial performance. The Group, guided by the Bursa Securities' Corporate Disclosure Guide, MMLR, Financial Services Act 2013, etc., ensure that complete and accurate financial information, updates on major corporate exercises, business events, etc. are released to the public on a timely manner. In 2013, the Group adopted a media communication plan whereby clear roles and responsibilities of Chairman and Senior Management are defined together with levels of authority in handling disclosure of material corporate, business and financial information to the public via media channels.

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

Information technology and efficient dissemination of information

The corporate section on the Bank's website which provides all relevant information on RHB Islamic Bank (including information on financials, capital & debt instruments, credit rating, annual reports as well as corporate structure) is publicly accessible.

COMPLIANCE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012 ("CODE")

The Board is satisfied that the Bank is generally in compliance with principles and recommendations of the Code.

This Statement on Corporate Governance was approved by the Board on 2 May 2014.

ADDITIONAL COMPLIANCE INFORMATION

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 BAC for deliberation.

Statement on Risk Management & Internal Control

INTRODUCTION

The Board of Directors ("Board") recognises the importance of maintaining a sound risk management framework and internal control system to safeguard shareholders' investments and the RHB Islamic Bank Berhad's (the "Islamic Bank") assets. The risk management and internal control system 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, regulations and internal procedures.

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

RESPONSIBILITY

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

The risk management and control framework established by the Islamic Bank to manage risks includes an ongoing process for identifying, evaluating, managing and reporting significant risks that may affect the achievement of the Bank's business objectives and strategies.

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

Management assists the Board in implementing Board policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operations and monitoring of appropriate internal controls to mitigate these risks. In this regard, the Board acknowledges that it has received assurances 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.

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 Islamic Risk Management Committee, Board Risk Committee and Board Audit Committee, assessed the adequacy and effectiveness of the Islamic Bank's risk management and internal control system. Based on 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.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

A sound framework of risk management and internal control is fundamental to good corporate governance. The key processes established by the Board for maintaining a sound system of risk management and internal control include the following:

Risk Management framework

The risk management process seeks to identify, measure, monitor and control risk. It also seeks to ensure that risk exposures are adequately managed and that the expected returns compensate the risks taken, given that the risks within the industry we operate in are continuously changing and evolving. This process is regularly reviewed by the Board through its Board Risk Committee ("BRC") which ensures the proper management of risks and that the appropriate measures are taken to mitigate any identified weaknesses in the control environment.

The Board, through the BRC, maintains overall responsibility for risk oversight within the Group. In discharging its overall duties and responsibilities, the BRC 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.

The Islamic Risk Management Committee is supported by the Islamic Bank's risk management function set-up within the Group Risk Management Division, which monitors and evaluates the effectiveness of the Islamic Bank's risk management system on an ongoing basis.

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 Asset & Liability Committee, Group Credit Committee, Board Credit Committee, Board Technology Committee as well as Group Capital & Risk Committee.

In line with regulatory requirements and industry best practices, the Group subscribes to the principle that risk management is a core responsibility of the respective businesses and operating units. This has been 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 key operating entities within the Group as part of the risk management process. These entities are required to identify and document the controls and processes for managing the risks arising from their business activities, as well as to assess the effectiveness thereof.

An Internal Capital Adequacy Assessment Process ("ICAAP") framework has also been implemented to ensure that all material risks are identified, measured and reported, and that 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 ("GIA") performs regular reviews of the Bank's operations and systems of internal control, and evaluates the adequacy and effectiveness of the controls, risk management and governance processes implemented by Management. GIA adopts a risk-based approach in determining the auditable units and frequency of audits. The annual audit plan is reviewed and approved by the Board Audit Committee ("BAC").

The results of the audits conducted by GIA are reported to the BAC. Follow-up action and the review of the status of action taken as per the auditors' recommendations are carried out by Management via the Management Audit Committee (chaired by the Managing Director) whose members comprise senior management. The minutes of meetings of the Management Audit Committee is tabled to the BAC for notation. The various Management Audit Committees established at the key operating subsidiaries in the Group have been consolidated into one committee and renamed as Group Audit Committee effective March 2014.

With regards to Shariah audit, findings and recommendations are communicated to the Group Shariah Committee and Board Audit Committee for notification and deliberation.

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

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

Group Compliance framework

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

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

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

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

To enable business and operating units to comply with various laws and regulations, the Compliance unit also conducts off-site surveillance and reviews on a regular basis. Weaknesses noted are conveyed to the respective business and operating units so that immediate corrective actions can be taken.

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 non-compliance risk, briefings as well as various awareness and learning initiatives were conducted throughout the year to heighten awareness of compliance and to embed a compliance culture within the Group.

Shariah Compliance

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

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

In mitigating Shariah non-compliance risk, various briefings aimed at creating awareness as well as learning programmes were conducted throughout the year to ensure compliance with 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 oversight authority to examine and/or consider all matters within their scope of responsibility and make recommendations to the Board for approval, if such is required.

The followings are the Group Board Committees that resides at RHB Bank Berhad:

- Board Credit Committee;
- Board Audit Committee; and
- Board Technology Committee.

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

- Board Nominating and Human Resource Committee;
- Board Risk Committee; and
- Group Board Audit Committee.

Management Committee

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

Authority limits

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

Internal policies and procedures

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

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, taking into account of risk appetite, 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 the reasons for significant variances as well as action plans by Management are reported to the Board.

Performance review

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

The Management Committee and the Board receive and review the Islamic Bank's financial performance against set targets and measures that are being put in place to meet such targets.

Human capital management

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

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

The Group places emphasis on human capital development and talent management with the objective of ensuring that staff at every level are adequately trained 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, as well as aims to maintain confidence in the security and integrity of the Group's business practices.

It is a requirement that all employees of the Group understand and observe the Code. New recruits are briefed on the Code and are required to sign the Employee Declaration of Compliance Form upon joining the Group.

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 confidentiality 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 Group being exposed or used to launder money or finance illegal activities including terrorist financing.

Incident Management framework

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

Board Audit Committee Report

ACTIVITIES OF THE BOARD AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Activities of the Board Audit Committee

During the financial year ended 31 December 2013 ("year"), a total of twenty (20) Board Audit Committee ("BAC") meetings were held. The BAC comprises the following members and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of the BAC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	20/20 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	19/20 (95%)
3. Dato' Saw Choo Boon (Member/Independent Non-Executive Director)	20/20 (100%)
4. Dato' Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director) - Resigned as a member on 28 January 2014	16/20 (80%)
5. Tuan Haji Md Ja'far Abdul Carrim (Member/Non-Independent Non-Executive Director) - Resigned as a member on 23 May 2013	9/9 (100%)
6. Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director) - Appointed as a member on 28 January 2014	Not Applicable

Tuan Haji Md Ja'far Abdul Carrim, a Non-Independent Non-Executive Director, resigned as a member of the BAC on 23 May 2013.

On 28 January 2014, Datuk Haji Faisal Siraj, an Independent Non-Executive Director ("INED"), was appointed as a member of BAC in place of Dato' Mohd Ali Mohd Tahir, an INED, who has resigned as BAC member.

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

- Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Islamic Bank Berhad and the key operating entities within the Group before recommending them for approval by the Board;
- Reviewed the audit plan of the external auditors, the audit strategy, risk assessment and areas of audit emphasis for the year;
- 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 without the presence of the Management;
- Reviewed the non-audit services rendered by the external auditors and the related fees taking into consideration the fees threshold established under the Group policy;
- Evaluated the performance of the external auditors and made the necessary recommendations to the Board for consideration in relation to 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 internal audit reports, audit recommendations and Management's responses to these recommendations as well as actions taken to improve the system of internal controls and procedures, and completion of the internal audit plan;
- Reviewed the related party transactions entered into by RHB Islamic Bank Berhad and the other entities within the Group;
- 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 BAC meeting to the Board for notation, and for further direction by the Board, where necessary.

During the year, the Members of the BAC attended the following training programmes, conferences and seminars:

(a) Banking and Finance

- Training on OSK Products
- Financial Services Act 2013 and Islamic Financial Services Act 2013 and Directors and Officers Liability Insurance Policy Presentation
- Personal Data Protection Act 2010 and Foreign Account Tax Compliance Act Presentation
- FIDE Elective Programmes: Banking Fundamentals Programme
- FIDE Elective Programmes: Corporate Finance for Directors Programme
- FIDE Elective Programmes: Merger & Acquisitions for Financial Institutions
- Training Session No. 4 of Internal Capital Adequacy Assessment Process

(b) Board and Corporate Governance

- Syariah Awareness Programme
- Directors' Remuneration Seminar 2013 "The Best Practice"
- Corporate Governance Symposium 2013
- Governance in Groups Programme
- FIDE Elective Programmes: Advanced Risk Governance and Risk Management
- FIDE Elective Programmes: Risk Management Committees – Insurance Programme
- Advocacy Sessions on Corporate Disclosure for Directors of Listed Issuers

Internal Audit function

The Group has an in-house group internal audit function which is guided by the Group Internal Audit Charter and reports to the BAC. Group Internal Audit's primary role is to assist the BAC 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 BAC approves the annual internal audit plan at the beginning of each financial year. Group Internal Audit adopts 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, Group Internal Audit closely monitors the implementation progress of its 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 are then presented to the Management and the BAC.

Group Internal Audit works closely with the external auditors to resolve any control issues raised by them to ensure that all reported issues are duly acted upon by Management.

TERMS OF REFERENCE OF THE BOARD 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 Board 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 Group Chief Internal Auditor and to review the appraisals of senior staff members of the internal audit function.

16. To approve any appointment or termination of the Group Chief Internal Auditor 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 coordination 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 BNM/RH/GL/003-2: 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 review the minutes of meetings of other Board Audit Committees within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising there from are being appropriately addressed by these other Board Audit Committees.

28. 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 Group Chief Operations Officer, the Group Chief Financial Officer, the Group Chief Internal Auditor 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 cooperate 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 Group Chief Internal Auditor shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the Managing Director/Chief Executive Officer, the Group Chief Operations Officer, the Group 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 written 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 Board Nominating & Remuneration 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

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 comply with 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 2013 and of the financial results and cash flows of the Bank for the financial year ended 31 December 2013.

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 128 of the financial statements.

Directors' Report

The Directors submit herewith their report together with the audited financial statements of the Bank for the financial year ended 31 December 2013.

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	**166,500**

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 RM973,424,000 to RM1,173,424,000 via issuance of 200,000,000 new ordinary shares of RM1.00 each to RHB Bank Berhad, its immediate holding company.

The Bank has also increased its authorised share capital from RM1,000,000,000 to RM3,000,000,000 to facilitate the issuance of new shares.

The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary share 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:

Tuan Haji Md Ja'far Abdul Carrim	(Appointed as Chairman on 4 June 2013)
Datuk Haji Faisal Siraj	
Mr Charles Lew Foon Keong	
Mr Choong Tuck Oon	
Dato' Mohd Ali Mohd Tahir	
Tuan Haji Ibrahim Hassan	(Appointed as Managing Director/Chief Executive Officer on 2 September 2013)
Tuan Haji Khairuddin Ahmad	(Retired as Chairman on 23 May 2013)

Pursuant to Article 68 of the Bank's Articles of Association, Datuk Haji Faisal Siraj and Tuan Haji Md Ja'far Abdul Carrim retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 73 of the Bank's Articles of Association, Tuan Haji Ibrahim Hassan who was appointed during the financial year, retires at the forthcoming Annual General Meeting and being eligible, offers 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 26 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 1.1.2013	**DRP**	**Sold**	**As at 31.12.2013**
Ultimate Holding Company				
RHB Capital Berhad				
Mr. Choong Tuck Oon				
- direct	1,061	31	-	**1,092**

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.

IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

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.

TUAN HAJI MD JA'FAR ABDUL CARRIM
CHAIRMAN

TUAN HAJI IBRAHIM HASSAN
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur
6 March 2014

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, Wan Abdul Rahim Kamil Wan Mohamed Ali and Mohd Fadhly Md. Yusoff 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 2013.

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 2013 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

Wan Abdul Rahim Kamil Wan Mohamed Ali
Member of the Committee

Mohd Fadhly Md Yusoff
Member of the Committee

Kuala Lumpur

Statement of Financial Position

As at 31 December 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
ASSETS			
Cash and short term funds	2	**3,331,680**	2,881,135
Deposits and placements with banks and other financial institutions	3	**704,325**	1,988,635
Financial assets held-for-trading	4	**793,559**	439,382
Financial investments available-for-sale	5	**2,379,701**	1,499,013
Financial investments held-to-maturity	6	**2,586,660**	2,034,698
Financing and advances	7	**18,436,792**	16,002,714
Other assets	8	**48,131**	67,001
Derivative assets	9	**23,457**	2,278
Statutory deposits with Bank Negara Malaysia	10	**790,000**	672,755
Deferred tax assets	11	**12,146**	927
Property, plant and equipment	12	**13,923**	13,201
Intangible assets	13	**10,715**	7,923
TOTAL ASSETS		**29,131,089**	25,609,662
LIABILITIES AND EQUITY			
Deposits from customers	14	**21,034,100**	17,326,681
Deposits and placements of banks and other financial institutions	15	**4,427,634**	4,562,492
Bills and acceptances payable		**15,092**	21,613
Derivative liabilities	9	**7,240**	20,112
Recourse obligations on financing sold to Cagamas Berhad ("Cagamas")	16	**1,308,332**	1,462,521
Other liabilities	17	**297,760**	498,970
Provision for tax and zakat		**13,799**	23,600
TOTAL LIABILITIES		**27,103,957**	23,915,989
Ordinary share capital	18	**1,173,424**	973,424
Reserves	19	**853,708**	720,249
TOTAL EQUITY		**2,027,132**	1,693,673
TOTAL LIABILITIES AND EQUITY		**29,131,089**	25,609,662
COMMITMENTS AND CONTINGENCIES	31	**8,839,469**	7,253,024

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

Income Statement

For the Financial Year Ended 31 December 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
Income derived from investment of depositors' funds	20	**1,100,857**	1,046,357
Income derived from investment of shareholders' funds	21	**111,065**	90,633
Allowance for impairment on financing and advances	22	**(32,089)**	(70,479)
Profit equalisation reserve		**-**	7,252
Impairment losses on other assets		**(701)**	-
Total distributable income		**1,179,132**	1,073,763
Income attributable to depositors	23	**(732,636)**	(674,808)
		446,496	398,955
Personnel expenses	24	**(79,213)**	(72,265)
Other overheads and expenditures	25	**(149,007)**	(118,079)
Profit before zakat and taxation		**218,276**	208,611
Zakat		**(1,641)**	(320)
Profit after zakat before taxation		**216,635**	208,291
Taxation	27	**(50,135)**	(52,395)
Net profit for the financial year		**166,500**	155,896
Basic earnings per share (sen)	28	**14.73**	18.89

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

Statement of Comprehensive Income

For the Financial Year Ended 31 December 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
Net profit for the financial year		**166,500**	155,896
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss			
Financial investments available-for-sale			
- Unrealised net (loss)/gain on revaluation		**(45,501)**	17,024
- Net transfer to income statement on disposal or impairment		**1,447**	(21,509)
Income tax relating to components of other comprehensive income	29	**11,013**	1,121
Other comprehensive loss for the financial year		**(33,041)**	(3,364)
Total comprehensive income for the financial year		**133,459**	152,532

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 2013

			Non distributable		Distributable	
	Note	Share capital RM'000	Statutory reserve RM'000	AFS reserves RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2013		**973,424**	**358,359**	**3,739**	**358,151**	**1,693,673**
Net profit for the financial year		**-**	**-**	**-**	**166,500**	**166,500**
Other comprehensive income/(loss):						
Financial investments available-for-sale						
- Unrealised net loss on revaluation		**-**	**-**	**(45,501)**	**-**	**(45,501)**
- Net transfer to income statement on disposal or impairment		**-**	**-**	**1,447**	**-**	**1,447**
Income tax relating to components of other comprehensive loss		**-**	**-**	**11,013**	**-**	**11,013**
Total comprehensive income		**-**	**-**	**(33,041)**	**166,500**	**133,459**
Transactions with owner:						
Issuance of share	18	**200,000**	**-**	**-**	**-**	**200,000**
Transfer to statutory reserves		**-**	**83,250**	**-**	**(83,250)**	**-**
Balance as at 31 December 2013		**1,173,424**	**441,609**	**(29,302)**	**441,401**	**2,027,132**
Balance as at 1 January 2012		773,424	280,411	7,103	280,203	1,341,141
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
Transactions with owner:						
Issuance of share	18	200,000	-	-	-	200,000
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.

Statement of Cash Flows

For the Financial Year Ended 31 December 2013

	31.12.2013 RM'000	31.12.2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	**218,276**	208,611
Adjustments for:		
Depreciation of property, plant and equipment	**3,907**	5,855
Amortisation of computer software licenses	**523**	230
Income from:		
- Investment on financial assets held-for-trading	**(7,123)**	(7,235)
- Investment on financial investments available-for-sale	**(74,821)**	(65,433)
- Investment on financial investments held-to-maturity	**(89,884)**	(70,990)
Net loss/(gain) on sale of financial investment available-for-sale	**1,447**	(21,509)
Net gain on sale of financial assets held-for-trading	**(9,895)**	(12,070)
Net gain on redemption of financial assets held-to-maturity	**-**	(1,484)
Unrealised loss/(gain) from revaluation of derivative	**9,720**	(1,363)
Unrealised (gain)/loss from financial assets held-for-trading	**(1,495)**	174
Allowance for impairment on financing and advances	**68,359**	79,540
Write-back for profit equalisation reserve	**-**	(7,275)
Operating profit before working capital changes	**119,014**	107,051
Increase/(decrease) in operating assets:		
Deposits and placements with banks and other financial institutions	**1,284,310**	(1,918,558)
Financing and advances	**(2,502,437)**	(3,349,661)
Financial assets held-for-trading	**(335,664)**	13,281
Other assets	**18,870**	20,193
Statutory deposits with Bank Negara Malaysia	**(117,245)**	(66,300)
	(1,533,152)	(5,193,994)
Increase/(decrease) in operating liabilities:		
Deposits from customers	**3,707,419**	276,585
Deposits and placements of banks and other financial institutions	**(134,858)**	800,625
Bills and acceptances payable	**(6,521)**	7,839
Amount due to holding company	**(177,551)**	(1,107)
Other liabilities	**(67,432)**	43,112
Recourse obligation on financing sold to Cagamas	**(154,189)**	1,462,521
Cash generated from/(used in) operations	**1,633,716**	(2,604,419)
Taxation and zakat paid	**(61,782)**	(16,451)
Net cash generated from/(used in) operating activities	**1,571,934**	(2,620,870)

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 2013

	Note	31.12.2013 RM'000	31.12.2012 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial instruments available-for-sale and held-to-maturity:			
- Purchase		**(6,964,013)**	(3,493,295)
- Proceeds from disposal		**5,501,346**	3,056,455
Purchase of property, plant and equipment		**(3,482)**	(5,284)
Purchase of intangible assets		**(4,630)**	(692)
Proceeds from disposal of property, plant and equipment		**168**	8
Financial assets held-for-trading, financial investments available-for-sale and held-to-maturity:			
- profit income received		**69,505**	69,132
- investment income received		**79,717**	60,749
Net cash used in investing activities		**(1,321,389)**	(312,927)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		**200,000**	200,000
Net cash generated from financing activities		**200,000**	200,000
Net increase/(decrease) in cash and cash equivalents		**450,545**	(2,733,797)
Cash and cash equivalents at beginning of the financial year		**2,881,135**	5,614,932
Cash and cash equivalents at end of the financial year	2	**3,331,680**	2,881,135

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

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

For the Financial Year Ended 31 December 2013

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis of Preparation of the Financial Statements

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sales, financial assets and financial liabilities (including derivative financial 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) 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 2013 are as follows:

- MFRS 12 "Disclosures of Interests in Other Entities"
- MFRS 13 "Fair value measurement"
- Amendments to MFRS 7 "Financial Instruments: Disclosures"
- Annual Improvements to MFRS 2009-2011 cycle

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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) Basis of Preparation of Financial Statements (Continued)

(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 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.

- Amendment to MFRS 139 "Novation of Derivatives and Continuation of Hedge Accounting" (effective 1 January 2014) provide relief from discontinuing hedge accounting in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of law or regulation. This is to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory law.

(ii) Effective date yet to be determined by the Malaysian Accounting Standards Board Financial year beginning on/after 1 January 2017

MFRS 9, "Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities" (effective no earlier than annual periods beginning on or after 1 January 2017) replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank is yet to assess MFRS 9's full impact. The Bank will also consider the impact of the remaining phases of MFRS 9 when the standard is completed and issued.

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 2017.

(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, of which the Bank commits to purchase or sell the asset.

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

(c) Subsequent measurement – gain and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. 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 16) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Financial Assets (Continued)

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the 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 de-recognised 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.

(3) Repurchase Agreements

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

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

The difference between sale and repurchase price as well as purchase and resale price are amortised as profit 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 ongoing 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) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Derivative Financial Instruments and Hedge Accounting (Continued)

(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.

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

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 18 on impairment of non-financial assets. Gain and losses arising from de-recognition of computer software licenses are measured as the difference between net disposal proceeds and the carrying amount of the computer software licenses and are recognised in profit or loss when the asset is de-recognised.

(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 de-recognised. All other repair and maintenance costs are recognised as expense in profit or loss during the financial year in which they are incurred.

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

Renovations	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%

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Property, Plant and Equipment and Depreciation (Continued)

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 18 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 de-recognised when extinguished.

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

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

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.

(c) Borrowings measured at amortised cost

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

(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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) 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.

(12) 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)

(13) Share Capital

(a) Classification

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

(b) Share issue cost

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

(c) Dividend distribution

Distributions to holders of an equity instrument 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.

(14) 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).

(15) Revenue Recognition

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

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.

(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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) 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;
- 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.

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) Individual 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Impairment of Financial Assets (Continued)

(a) Assets carried at amortised cost (Continued)

(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 groups together for collective impairment assessment. These financing and advances are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

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

(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 group 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.

(17) 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 employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) 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.

(19) Current and Deferred Income Taxes

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

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 statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

(20) Currency Conversion and Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) Segment Reporting

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

(22) Zakat

This represents business zakat which is an obligatory amount payable by the Bank to comply with the principles of Shariah and as approved by the 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.

(23) 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 judgement 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 judgement in estimating cash flow and collateral values.

The Bank makes allowance for losses based on assessment of recoverability. Management's judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2013

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, a limited liability company domiciled in Malaysia, and is principally engaged in 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

	31.12.2013 RM'000	31.12.2012 RM'000
Cash and balances with banks and other financial institutions	**131,684**	144,095
Money at call and deposit placements maturing within one month	**3,199,996**	2,737,040
	3,331,680	2,881,135

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2013 RM'000	31.12.2012 RM'000
Licensed Islamic banks	**90,339**	50,216
Bank Negara Malaysia	**-**	1,203,564
Other financial institutions	**613,986**	734,855
	704,325	1,988,635

4 FINANCIAL ASSETS HELD-FOR-TRADING

	31.12.2013 RM'000	31.12.2012 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	**23,077**	151,583
BNM monetary notes	**546,351**	-
Wakala Global Sukuk	**-**	7,144
Negotiable Islamic Debts Certificates	**198,686**	-
Cagamas bonds	**-**	250,324
Unquoted securities:		
Private debt securities	**25,445**	30,331
	793,559	439,382

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2013 RM'000	31.12.2012 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	**524,168**	486,371
Negotiable Islamic Debts Certificates	**99,488**	-
Wakala Global Sukuk	**28,159**	16,870
Khazanah bonds	**15,929**	36,017
Cagamas bonds	**59,958**	50,332
Quoted securities:		
In Malaysia		
Shares and warrants	**701**	-
Unquoted securities:		
In Malaysia		
Private debt securities	**1,450,104**	908,848
Perpetual sukuk	**200,619**	-
	2,379,126	1,498,438
At cost		
Unquoted securities:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ("IBFIM")	**575**	575
	2,379,701	1,499,013

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	31.12.2013 RM'000	31.12.2012 RM'000
At amortised cost		
Money market instruments:		
Malaysian government investment issues	**843,915**	743,403
Cagamas bonds	**223,901**	275,084
Khazanah bonds	**8,981**	8,658
Sukuk Perumahan Kerajaan Bonds	**9,932**	-
Islamic accepted bills	**33,634**	-
Negotiable Islamic Debts Certificates	**645,860**	422,086
Unquoted securities:		
In Malaysia		
Private debt securities	**820,437**	585,467
	2,586,660	2,034,698

7 FINANCING AND ADVANCES

	31.12.2013 RM'000	31.12.2012 RM'000
At amortised cost		
Cashline	**173,544**	151,526
Term financing		
- housing financing	**4,555,440**	3,471,369
- syndicated term financing	**439,831**	384,584
- hire purchase receivables	**4,921,395**	4,416,398
- other term financing	**6,254,242**	5,833,269
Bills receivable	**667,633**	852,323
Trust receipts	**36,094**	21,299
Staff financing	**5,717**	8,125
Credit/charge cards receivables	**199,631**	120,899
Revolving financing	**1,467,691**	1,006,569
Gross financing and advances	**18,721,218**	16,266,361
Fair value changes arising from fair value hedge	**(26,954)**	3,140
Allowance for bad and doubtful financing:		
- individual impairment allowance	**(111,703)**	(89,013)
- collective impairment allowance	**(145,769)**	(177,774)
Net financing and advances	**18,436,792**	16,002,714

(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 financing arising thereon.

As at 31 December 2013, the gross exposures to RPSIA financing are RM1,800 million (2012: RM1,800 million) and the portfolio impairment allowance relating to this RPSIA amounting to RM11.7 million (2012: RM7.7 million) 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 sold to Cagamas amounting to RM1,247 million (2012: RM1,435 million).

The remaining maturities of financing and advances are as follows:

	31.12.2013 RM'000	31.12.2012 RM'000
Maturing within one year	**2,877,518**	2,377,613
One to three years	**1,187,452**	934,479
Three to five years	**3,115,704**	2,315,176
Over five years	**11,540,544**	10,639,093
Gross financing and advances	**18,721,218**	16,266,361

7 FINANCING AND ADVANCES (CONTINUED)

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

	31.12.2013 RM'000	31.12.2012 RM'000
Domestic non-bank financial institutions		
- Others	**1,328,956**	570,347
Domestic business enterprises		
- Small medium enterprises	**742,141**	639,086
- Others	**2,598,087**	3,291,401
Government and statutory bodies	**3,316,244**	3,314,272
Individuals	**10,389,160**	8,255,302
Other domestic entities	**114,954**	292
Foreign entities	**231,676**	195,661
Gross financing and advances	**18,721,218**	16,266,361

Financing and advances analysed by contract are as follows:

	31.12.2013 RM'000	31.12.2012 RM'000
Bai' Bithaman Ajil ("BBA")	**827,574**	1,079,691
Ijarah	**5,818,859**	5,027,745
Murabahah	**4,654,690**	3,919,949
Musyarakah	**3,761,123**	2,526,493
Istisna'	**19,950**	133,283
Bai'Inah	**3,318,452**	3,469,626
Others	**320,570**	109,574
Gross financing and advances	**18,721,218**	16,266,361

7 FINANCING AND ADVANCES (CONTINUED)

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

	31.12.2013 RM'000	31.12.2012 RM'000
Fixed rate		
- Housing financing	**790,063**	933,103
- Hire-purchase receivables	**4,921,395**	4,416,398
- Other fixed rate financing	**6,325,235**	5,830,328
Variable rate		
- BFR-plus	**5,980,798**	4,212,910
- Cost-plus	**703,727**	873,622
Gross financing and advances	**18,721,218**	16,266,361

Financing and advances analysed by purpose are as follows:

	31.12.2013 RM'000	31.12.2012 RM'000
Purchase of transport vehicles	**4,895,270**	4,383,378
Purchase of landed property:		
- Residential	**4,369,790**	3,342,435
- Non-residential	**557,030**	241,249
Purchase of property, plant and equipment other than land and building	**378,810**	318,654
Personal use	**1,087,020**	647,841
Credit card	**199,631**	120,899
Purchase of consumer durables	**10**	17
Construction	**166,600**	791,046
Working capital	**2,767,620**	2,195,832
Other purposes	**4,299,437**	4,225,010
Gross financing and advances	**18,721,218**	16,266,361

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:

	31.12.2013 RM'000	31.12.2012 RM'000
Balance as at the beginning of the financial year	**409,064**	560,617
Classified as impaired during the financial year	**474,197**	377,761
Amount recovered	**(85,391)**	(114,629)
Amount written off	**(58,371)**	(137,476)
Reclassified as non-impaired	**(308,232)**	(277,209)
Balance as at the end of the financial year	**431,267**	409,064
Gross impaired financing and advances ratio	**2.30%**	2.51%

7 FINANCING AND ADVANCES (CONTINUED)

Impaired financing and advances analysed by purpose are as follows:

	31.12.2013 RM'000	31.12.2012 RM'000
Purchase of transport vehicles	**44,201**	48,580
Purchase of landed property:		
- Residential	**124,804**	129,841
- Non-residential	**27,295**	15,058
Purchase of property, plant and equipment other than land and building	**8,373**	12,741
Personal use	**2,843**	3,697
Credit card	**4,778**	3,452
Construction	**963**	1,289
Working capital	**154,027**	165,106
Other purposes	**63,983**	29,300
Gross financing and advances	**431,267**	409,064

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

	31.12.2013 RM'000	31.12.2012 RM'000
Individual impairment allowance		
Balance as at the beginning of the financial year	**89,013**	130,724
Allowance made during the financial year	**24,677**	67,920
Amount written off	**(6,637)**	(108,708)
Transfer from/(to) collective impairment allowance	**4,650**	(923)
Balance as at end of the financial year	**111,703**	89,013
Collective impairment allowance		
Balance as at the beginning of the financial year	**177,774**	196,436
Allowance made/(write-back) during the financial year	**6,522**	(487)
Amount written off	**(33,877)**	(19,098)
Transfer (to)/from individual impairment allowance	**(4,650)**	923
Balance as at end of the financial year	**145,769**	177,774
Collective impairment allowance as % of gross financing and advances (excluding RPSIA financing) less individual impairment allowance	**0.87%**	1.24%

8 OTHER ASSETS

	31.12.2013 RM'000	31.12.2012 RM'000
Prepayments	**1,005**	249
Deposits	**1,213**	1,243
Other debtors	**45,913**	65,509
	48,131	67,001

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.

	31.12.2013 RM'000	31.12.2012 RM'000
Derivative assets	**23,457**	2,278
Derivative liabilities	**(7,240)**	(20,112)
	16,217	(17,834)

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 uses 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:

	31.12.2013 RM'000	31.12.2012 RM'000
Gain on hedging instruments	**32,022**	4,365
Loss on hedged items	**(32,814)**	(3,157)
	(792)	1,208

	Contract for underlying principal amount RM'000	Year end positive value RM'000	Year end negative value RM'000
31.12.2013			
Foreign exchange related contracts:			
- forwards	**662,085**	**-**	**-**
Profit rate related contracts:			
- swaps	**3,425,000**	**23,457**	**7,240**
31.12.2012			
Foreign exchange related contracts:			
- forwards	438,362	-	-
Profit rate related contracts:			
- swaps	3,300,000	2,278	20,112

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	31.12.2013 RM'000	31.12.2012 RM'000
Balance as at end of the financial year	**790,000**	672,755

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:

	31.12.2013 RM'000	31.12.2012 RM'000
Deferred tax assets	**12,146**	927
Deferred tax assets		
- Settled more than 12 months	**10,294**	-
- Settled within 12 months	**6,987**	6,250
	17,281	6,250
Deferred tax liabilities		
- Settled more than 12 months	**-**	(4,258)
- Settled within 12 months	**(5,135)**	(1,065)
	(5,135)	(5,323)

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

	Intangible assets - computer software license 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
31.12.2013						
Balance as at the beginning of the financial year	**-**	**(4,075)**	**(1,248)**	**-**	**6,250**	**927**
Reclassification	**(4,338)**	**4,338**	**-**	**-**	**-**	**-**
Transfer (to)/from income statement	**(797)**	**397**	**-**	**-**	**606**	**206**
Transfer to equity	**-**	**-**	**11,013**	**-**	**-**	**11,013**
Balance as at the end of the financial year	**(5,135)**	**660**	**9,765**	**-**	**6,856**	**12,146**
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	-	-	-	(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

12 PROPERTY, PLANT AND EQUIPMENT

	Renovations RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2013					
Cost					
Balance as at the beginning of the financial year	**18,298**	**5,578**	**3,666**	**2,067**	**29,609**
Additions	**2,030**	**249**	**1,197**	**6**	**3,482**
Disposal	**(150)**	**-**	**(39)**	**-**	**(189)**
Written off	**-**	**(2)**	**(394)**	**-**	**(396)**
Reclassification from intangible assets	**(1,986)**	**1,988**	**7,244**	**-**	**7,246**
Balance as at the end of the financial year	**18,192**	**7,813**	**11,674**	**2,073**	**39,752**
Accumulated depreciation					
Balance as at the beginning of the financial year	**5,830**	**5,379**	**3,596**	**1,603**	**16,408**
Charge for the financial year	**1,548**	**1,093**	**1,101**	**165**	**3,907**
Disposal	**-**	**-**	**(23)**	**-**	**(23)**
Written off	**-**	**-**	**(394)**	**-**	**(394)**
Reclassification from intangible assets	**-**	**3**	**5,928**	**-**	**5,931**
Balance as at the end of the financial year	**7,378**	**6,475**	**10,208**	**1,768**	**25,829**
Net book value as at the end of the financial year	**10,814**	**1,338**	**1,466**	**305**	**13,923**
31.12.2012					
Cost					
Balance as at the beginning of the financial year	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	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)

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

	31.12.2013 RM'000	31.12.2012 RM'000
Cost		
Renovations	**1,635**	1,706

13 INTANGIBLE ASSETS

	31.12.2013 RM'000	31.12.2012 RM'000
Computer software license		
At cost		
Balance as at the beginning of the financial year	**14,670**	13,978
Additions	**4,630**	692
Reclassification to property, plant and equipment	**(7,298)**	-
Balance as at the end of the financial year	**12,002**	14,670
Accumulated amortisation		
Balance as at the beginning of the financial year	**6,747**	6,517
Amortisation	**523**	230
Reclassification to property, plant and equipment	**(5,983)**	-
Balance as at the end of the financial year	**1,287**	6,747
Net book value as at the end of the financial year	**10,715**	7,923

14 DEPOSITS FROM CUSTOMERS

	31.12.2013 RM'000	31.12.2012 RM'000
Non-Mudharabah funds:		
Demand deposits	**2,090,486**	1,830,203
Savings deposits	**779,844**	716,821
Commodity Murabahah	**3,835,078**	2,631,890
Wakalah Money Market Deposit	**3,867**	28,264
	6,709,275	5,207,178
Mudharabah funds:		
Demand deposits	**537,782**	480,301
Savings deposits	**156,497**	54,425
General investment accounts	**896,771**	802,880
Special investment accounts	**12,733,775**	10,781,897
	21,034,100	17,326,681

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

	31.12.2013 RM'000	31.12.2012 RM'000
Due within six months	**16,123,680**	12,583,414
Six months to one year	**1,327,556**	1,517,286
One year to three years	**9,328**	131,734
Three years to five years	**8,927**	12,497
	17,469,491	14,244,931

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

	31.12.2013 RM'000	31.12.2012 RM'000
Government and statutory bodies	**5,153,207**	5,875,912
Business enterprises	**12,930,945**	8,374,096
Individuals	**2,534,266**	1,490,441
Others	**415,682**	1,586,232
	21,034,100	17,326,681

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2013 RM'000	31.12.2012 RM'000
Non-Mudharabah funds:		
Licensed Islamic banks	**349,464**	691,262
Licensed banks	**1,307,594**	928,320
Bank Negara Malaysia	**604**	625
	1,657,662	1,620,207
Mudharabah funds:		
Licensed Islamic banks	**260,150**	392,273
Licensed banks	**1,895,835**	1,815,187
Other financial institutions	**613,987**	734,825
	4,427,634	4,562,492

16 RECOURSE OBLIGATIONS ON FINANCING SOLD TO CAGAMAS BERHAD ("CAGAMAS")

Recourse obligation on financing sold to Cagamas Berhad represents those acquired from the originators and sold to Cagamas Berhad with recourse. Under the agreement, the Bank undertake to administer the financing on behalf of Cagamas Berhad and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position. The financing are not de-recognised and are analysed in Note 7 to the financial statements.

17 OTHER LIABILITIES

	31.12.2013 RM'000	31.12.2012 RM'000
Sundry creditors	**8,665**	9,821
Amount due to ultimate holding company	**99**	99
Amount due to immediate holding company	**204,944**	382,495
Short term employee benefits	**13,090**	11,259
Accruals for operational expenses	**16,338**	13,509
Other accruals and payables	**54,624**	81,787
	297,760	498,970

The amount due to ultimate and immediate holding company is unsecured, non-profit bearing and repayable within the normal credit period.

18 ORDINARY SHARE CAPITAL

	31.12.2013 RM'000	31.12.2012 RM'000
Ordinary shares of RM1.00 each:		
Authorised:		
Balances as at the beginning	**1,000,000**	1,000,000
Issued during the financial year	**2,000,000**	-
Balances as at the end of financial year	**3,000,000**	1,000,000
Issued and fully paid:		
Balances as at the beginning of financial year	**973,424**	773,424
Issued during the financial year	**200,000**	200,000
Balances as at the end of financial year	**1,173,424**	973,424

During the financial year ended 31 December 2013, the Bank issued 200,000,000 new ordinary shares of RM1.00 each to the holding company for working capital purposes.

The Bank has also increased its authorised share capital from RM1,000,000,000 to RM3,000,000,000 to facilitate the issuance of new shares.

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

19 RESERVES

		31.12.2013 RM'000	31.12.2012 RM'000
Retained profits	(a)	**441,401**	358,151
Statutory reserve	(b)	**441,609**	358,359
AFS reserve	(c)	**(29,302)**	3,739
		853,708	720,249

(a) Pursuant to the Finance Act, 2007 which was gazetted on 28 November 2007, dividends paid, credited or distributed to shareholders are not tax deductible by the company, but are exempted from tax to the shareholders ("single tier system").

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax exempt income of RM10,398,934, under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its entire retained profits as at 31 December 2013.

(b) The statutory reserve represents non-distributable profits held by the Bank in compliance with Section 12 of the Islamic Financial Services Act, 2013. 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, de-recognition or impairment of such securities. The depositors' portion of unrealised losses on available-for-sale securities at the end of the financial year is RM27,953,331 (2012: gains of RM3,586,264).

20 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	31.12.2013 RM'000	31.12.2012 RM'000
Income derived from investment of:		
(i) General investment deposits	**42,272**	35,785
(ii) Other deposits	**1,058,585**	1,010,572
	1,100,857	1,046,357

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

	31.12.2013 RM'000	31.12.2012 RM'000
Finance income and hibah:		
Financing and advances	**32,122**	24,201
Financial assets held-for-trading	**265**	242
Financial investments available-for-sale	**2,740**	2,149
Financial investments held-to-maturity	**3,285**	2,345
Money at call and deposit with financial institutions	**3,266**	5,484
Total finance income and hibah	**41,678**	34,421
Other operating income (note a)	**594**	1,364
	42,272	35,785
Of which:		
Financing income earned on impaired financing	**641**	775
(a) Other operating income/(loss) comprise of:		
Commission	**176**	161
Guarantee fees	**49**	52
Net gain on revaluation and disposal of financial assets held-for-trading	**403**	392
Net (loss)/gain on disposal of financial investments available-for-sale	**(34)**	708
Net gain on early redemption on held-to-maturity	**-**	51
	594	1,364

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

(ii) Income derived from investment of other deposits:

	31.12.2013 RM'000	31.12.2012 RM'000
Finance income and hibah:		
Financing and advances	**804,007**	683,104
Financial assets held-for-trading	**6,519**	6,730
Financial investments available-for-sale	**68,551**	60,976
Financial investments held-to-maturity	**82,369**	66,109
Money at call and deposit with financial institutions	**82,415**	155,117
Total finance income and hibah	**1,043,861**	972,036
Other operating income (note a)	**14,724**	38,536
	1,058,585	1,010,572
Of which:		
Financing income earned on impaired financing	**15,497**	20,232
(a) Other operating income/(loss) comprise of:		
Commission	**4,402**	4,574
Guarantee fees	**1,214**	1,479
Net gain on revaluation and disposal of financial assets held-for-trading	**10,473**	11,078
Net (loss)/gain on disposal of financial investments available-for-sale	**(1,365)**	20,033
Net gain on early redemption on held-to-maturity	**-**	1,372
	14,724	38,536

21 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	Note	31.12.2013 RM'000	31.12.2012 RM'000
Finance income and hibah:			
Financing and advances		**41,350**	26,143
Financial assets held-for-trading		**339**	263
Financial investments available-for-sale		**3,530**	2,308
Financial investments held-to-maturity		**4,230**	2,536
Money at call and deposit with financial institutions		**4,174**	5,914
Total finance income and hibah		**53,623**	37,164
Other operating income (note a)		**57,442**	53,469
		111,065	90,633
Of which:			
Financing income earned on impaired financing		**833**	708
(a) Other operating income/(loss) comprise of:			
Commission		**12,810**	6,186
Service charges and fees		**44,698**	31,272
Guarantee and underwriting fees		**1,494**	1,808
Other fee income		**5,767**	4,080
Net gain on revaluation and disposal of financial assets held-for-trading		**514**	426
Net (loss)/gain on revaluation and disposal of financial assets available-for-sale		**(49)**	768
Net gain on early redemption of held-to-maturity		**-**	61
Net (loss)/gain on fair value hedges	9	**(792)**	1,208
Net (loss)/gain revaluation of derivative		**(9,720)**	1,363
Other income		**2,720**	6,297
		57,442	53,469

22 ALLOWANCES FOR IMPAIRMENT ON FINANCING AND ADVANCES

	31.12.2013 RM'000	31.12.2012 RM'000
Allowance for impairment on financing and advances:		
- Individual assessment allowance	**24,677**	67,920
- Collective assessment allowance	**6,522**	(487)
- Impaired financing recovered	**(36,270)**	(9,061)
- Impaired financing written off	**37,160**	12,107
	32,089	70,479

23 INCOME ATTRIBUTABLE TO DEPOSITORS

	31.12.2013 RM'000	31.12.2012 RM'000
Deposits from customers:		
- Mudharabah funds	**389,274**	384,931
- Non-Mudharabah funds	**126,652**	149,189
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	**104,802**	65,465
- Non-Mudharabah funds	**41,800**	44,816
Recourse obligations on financing sold to Cagamas	**70,108**	30,407
	732,636	674,808

24 PERSONNEL EXPENSES

	31.12.2013 RM'000	31.12.2012 RM'000
Salaries, allowance and bonuses	**63,474**	55,428
Contribution to Employees' Provident Fund	**11,815**	9,108
Other staff related cost	**3,924**	7,729
	79,213	72,265

25 OTHER OVERHEADS AND EXPENDITURES

	31.12.2013 RM'000	31.12.2012 RM'000
Establishment costs		
Property, plant and equipment		
- depreciation	**3,907**	5,855
Amortisation of computer software licenses	**523**	230
Information technology expenses	**2,614**	2,476
Repair and maintenance	**830**	643
Rental of premises	**5,366**	5,002
Water and electricity	**913**	710
Rental of equipment	**68**	195
Printing and stationeries	**3,471**	2,575
Insurance	**2,450**	686
Others	**3,277**	2,620
	23,419	20,993
Marketing expenses		
Advertisement and publicity	**9,436**	6,361
Sales commission	**11,949**	7,508
Travelling expenses	**1,734**	1,339
Motor vehicle expenses	**466**	414
Others	**3,896**	2,544
	27,481	18,166
Administration and general expenses		
Auditors' remuneration:		
- statutory audit	**147**	217
- limited review	**55**	50
- other audit related	**180**	55
- non-audit	**96**	13
Communication expenses	**3,711**	3,189
Legal and professional fee	**3,297**	1,711
Management fee	**85,387**	67,687
Others	**5,234**	5,998
	98,107	78,920
	149,007	118,079

Included in the administration and general expenses of the Bank are other Director's remuneration (excluding benefits-in-kind) totaling RM1,297,000 (2012: RM918,000) as disclosed in Note 26.

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

31.12.2013

	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Tuan Haji Ibrahim Hassan (appointed on 2 September 2013)	278	-	-	278
Tuan Haji Abd Rani Lebai Jaafar (resigned on 14 February 2013)	112	2	-	114
	390	2	-	392

	Fees RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Others* RM'000	Total RM'000
Non-Executive Directors				
Tuan Haji Md Ja'far Abdul Carrim	137	-	206	343
Datuk Haji Faisal Siraj	120	-	93	213
Mr Charles Lew Foon Keong	120	-	23	143
Mr Choong Tuck Oon	120	-	134	254
Dato' Mohd Ali Mohd Tahir	120	-	125	245
Tuan Haji Khairuddin Ahmad (retired on 23 May 2013)	59	-	40	99
	676	-	621	1,297

	Fees RM'000
Shariah Committee	
Dr Ghazali Jaapar (Chairman)	69
Professor Dr Joni Tamkin Borhan	58
Dr Amir Shaharuddin	58
Wan Abdul Rahim Kamil Wan Mohamed Ali (appointed on 13 April 2013)	57
Encik Mohd Fadhly Md. Yusoff (appointed on 13 April 2013)	60
Dr Akhtarzaite Abd. Aziz (resigned on 31 March 2013)	12
Dr Marjan Muhammad (resigned on 31 March 2013)	11
Total	325

* Others comprise Directors' committee allowance and meeting allowance.

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

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				
Tuan Haji Abd Rani Lebai Jaafar	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
Mr Charles Lew Foon Keong	80	-	18	98
Tuan Haji Md Ja'far Abdul Carrim	80	-	114	194
Mr 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

* Others comprise Directors' committee allowance and meeting allowance.

27 TAXATION

	31.12.2013 RM'000	31.12.2012 RM'000
Malaysian income tax:		
- Current tax	**51,808**	55,668
- Over provision in prior financial years	**(1,467)**	(7,235)
Deferred taxation (Note 11)	**(206)**	3,962
	50,135	52,395
Current tax		
Current year	**51,808**	55,668
Over provision in prior financial years	**(1,467)**	(7,235)
	50,341	48,433
Deferred tax		
Origination and reversal of temporary differences	**(2,379)**	(2,173)
Reversal of previously recognised deferred tax assets	**2,173**	6,135
	50,135	52,395

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

	31.12.2013 %	31.12.2012 %
Malaysian tax rate of 25% (2012: 25%)	**25.0**	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.2**	0.7
Over provision in respect of prior financial years	**(0.7)**	(3.5)
Temporary differences not recognised in prior financial years	**(0.2)**	2.9
Non-taxable income	**(1.4)**	-
Effective tax rate	**22.9**	25.1

28 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.

	31.12.2013 RM'000	31.12.2012 RM'000
Net profit for the financial year	**166,500**	155,896
Weighted average number of ordinary shares in issue	**1,130,684**	825,337
Basic earnings per share (sen)	**14.73**	18.89

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

	31.12.2013			31.12.2012		
	Before tax amount RM'000	Tax benefit RM'000	Net of tax amount RM'000	Before tax amount RM'000	Tax 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	**(44,054)**	**11,013**	**(33,041)**	(4,485)	1,121	(3,364)

30 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.

30 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
31.12.2013					
Income					
Commission	-	-	-	-	168
Income derived from investment of depositor's funds	-	-	29,400	-	-
Other income	-	1,928	-	-	-
	-	1,928	29,400	-	168
Expenditure					
Profit expense on deposits and placement	-	99,410	382	3	3,331
Other expenses	-	9,720	-	-	1,040
Reimbursement of operating expenses to holding company	-	85,373	-	-	-
	-	194,503	382	3	4,371
Amount due from					
Cash and short term funds	-	844	-	-	-
Financing and advances	-	-	615,025	-	-
Derivative assets	-	23,457	-	-	-
	-	24,301	615,025	-	-
Amount due to					
Derivative liabilities	-	7,240	-	-	-
Savings deposits	-	-	-	-	-
Current account and investment deposits	-	-	56,278	1,501	3,754
Deposits and placements of banks and other financial institutions	-	2,823,239	-	-	13,186
Other liabilities	99	204,944	-	-	407
	99	3,035,423	56,278	1,501	17,347

30 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
Amount due from					
Cash and short term funds	-	316	-	-	-
Financing and advances	-	-	648,039	-	-
Derivative assets	-	2,278	-	-	-
	-	2,594	648,039	-	-
Amount 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

30 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	31.12.2013 RM'000	31.12.2012 RM'000
Short term employee benefits:		
- Salary and other remuneration	**4,435**	5,057
- Benefits-in-kind (based on an estimated monetary value)	**2**	21
Post-employment benefits:		
- Defined contribution plan	**760**	845
	5,197	5,923

The above remuneration includes Directors' remuneration as disclosed in Note 26.

(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:

	31.12.2013 RM'000	31.12.2012 RM'000
Outstanding credit exposures with connected parties	**252,754**	86,432
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**0.84%**	0.33%

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.

31 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
31.12.2013			
Transaction-related contingent items	**102,870**	**51,435**	**34,486**
Short term self-liquidating trade-related contingencies	**103,292**	**20,658**	**20,472**
Obligations under underwriting agreements	**76,000**	**38,000**	**38,000**
Irrevocable commitments to extend credit:			
- maturity more than one year	**2,784,786**	**1,271,522**	**987,619**
- maturity less than one year	**1,685,436**	**337,087**	**317,112**
Foreign exchange related contracts*:			
- less than one year	**662,085**	**3,165**	**2,041**
Profit rate related contracts*:			
- one year to less than five years	**3,425,000**	**105,607**	**52,803**
Total	**8,839,469**	**1,827,474**	**1,452,533**
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

Included in transaction-related contingent items and short term self-liquidating trade-related contingencies are financial guarantee contracts of RM206,162,000 (2012: RM161,707,000), 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 unrealized gains or losses are reflected in Note 9 Derivative assets/(liabilities).

32 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:

	31.12.2013 RM'000	31.12.2012 RM'000
Within one year	**3,637**	4,873
Between one to five years	**1,709**	3,108
	5,346	7,981

33 CAPITAL COMMITMENTS

	31.12.2013 RM'000	31.12.2012 RM'000
Capital expenditure for property, plant and equipment:		
Authorised but not contracted for	**66,842**	50,763

34 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 risks 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 GRMC comprise only Non-Executive Directors with at least three (3) and five (5) members respectively. Members of the IRMC and GRMC are Directors who are exclusively Non-Executive in all of their directorships in the RHB Banking Group.

Overriding Objectives of the IRMC and GRMC:

(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 and the Banking Group is in place and functioning;

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

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major Areas of Risk

As a banking institution's 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 GRMC 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 Islamic and GRMC.

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

- For Currency Risk:
  - Approved overall position limits are applied for foreign exchange trading portfolio. Trading loss limits are imposed on whereby these exposures are monitored daily for compliance with the approved limits. These limits are reviewed regularly and are in line with strategies set by the IRMC and GRMC.
- 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.

34 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 Liquidity Incident Management Master Plan to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

Credit risk

- The 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 threshold. The adherence to the discretionary powers sanctioned by the Board is monitored by the Central Compliance function.

- A risk rating system is used to categorise the risk of individual credits. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to 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 approaches 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.

34 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 minimise unexpected losses.

Capital Planning and Management

The Bank's capital management objective is to maintain a strong capital position consistent with the expectations of various stakeholders while delivering sustainable returns to shareholders. It also calls for the Bank to ensure that adequate capital resources are available to support business growth, investment opportunities as well as adverse situations, and to meet regulatory capital requirements.

The Bank's capital management objective is translated to capital targets that are consistent with the need to support business growth in line with its strategic plans and risk appetite. Through the Internal Capital Adequacy Assessment Process ("ICAAP"), the Bank assesses its forecast capital supply and demand which is determined by the following:

- Material risk types where capital is deemed to be an appropriate risk mitigation method;
- Capital targets; and
- The use of forward three-year planning.

In addition, capital stress tests are also conducted to evaluate the sensitivity of the key assumptions in the capital plan to the effects of plausible stress scenarios and to assess how the Bank can continue to maintain adequate capital under such scenarios.

The Bank manages its capital using a consistent capital management framework and process. The capital management framework guides the establishment of capital strategy for the Bank, as well as highlights the internal analytics capabilities required, and the functions that support the capital management framework within the Bank.

Supported by monitoring and reporting capabilities, the Board and Senior Management are kept informed and updated of the Bank's capital utilisation and capital position which is generated by the Bank's information system and processes.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Risk Appetite

Capital risk appetite is set by the Board and reported through various metrics that enable the Bank to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Bank is prepared to accept in delivering our strategy. The ALCO reviews actual performance against risk appetite.

Basel II Implementation

RHB Banking Group places great importance on Basel II and views it as a group-wide initiative in meeting international best practices in this area. A dedicated Basel II Steering Committee ("B2SC") was set up in 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 Capital Adequacy Framework issued by BNM. The B2SC has since been dissolved in November 2011, and the powers and responsibilities of the B2SC are now vested in the Group Capital and Strategic Risk Management Committee. Project and operational issues related to Basel II Implementation are deliberated at the Group Basel Working Committee meetings.

The RHB Banking Group has also implemented the Internal Capital Adequacy Assessment Process ("ICAAP"). An ICAAP framework has been formulated for implementation across the Group to ensure that all material risks are identified, measured and reported, and that adequate capital levels consistent with the risk profiles, including capital buffers, are maintained to support the current and projected demand for capital, under existing and stressed conditions.

Basel III Implementation

The implementation of Basel III by BNM in Malaysia has commenced with effect from 1 January 2013. Under the new Basel III rules, banking institutions are required to maintain higher quantity and quality of capital, however the requirements are subject to a series of transitional arrangements that are to be phased in commencing 2013 and which will be fully effective by 2019.

The Basel III guidelines also includes new regulatory capital buffers, comprising the Capital Conservation Buffer of 2.5% of total risk-weighted assets ("RWA") and the Countercyclical Capital Buffer ranging from 0% - 2.5% of total RWA. These are incremental capital requirements that effectively result in higher minimum capital requirements. With the adoption of Basel III, the Bank has included the Basel III capital requirements in its internal capital targets.

34 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
31.12.2013					
Assets					
Cash and short term funds	**3,331,680**	**-**	**-**	**-**	**3,331,680**
Deposits and placement with banks and other financial institutions	**704,325**	**-**	**-**	**-**	**704,325**
Financial assets held-for-trading	**-**	**793,559**	**-**	**-**	**793,559**
Financial investments available-for-sale	**-**	**-**	**2,379,701**	**-**	**2,379,701**
Financial investments held-to-maturity	**-**	**-**	**-**	**2,586,660**	**2,586,660**
Financing and advances	**18,436,792**	**-**	**-**	**-**	**18,436,792**
Derivative assets	**-**	**23,457**	**-**	**-**	**23,457**
Other financial assets	**45,028**	**-**	**-**	**-**	**45,028**
Total	**22,517,825**	**817,016**	**2,379,701**	**2,586,660**	**28,301,202**

	Other financial liabilities at amortised cost RM'000	Total RM'000
Liabilities		
Deposits from customers	**21,034,100**	**21,034,100**
Deposits and placements of banks and other financial institutions	**4,427,634**	**4,427,634**
Bills and acceptances payable	**15,092**	**15,092**
Derivative liabilities	**7,240**	**7,240**
Recourse obligations on financing sold to Cagamas	**1,308,332**	**1,308,332**
Other financial liabilities	**253,744**	**253,744**
Total	**27,046,142**	**27,046,142**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (Continued)

	Financing and receivables RM'000	Assets at fair value through profit an 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 at amortised cost 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
Recourse 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

(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 2013.

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.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

(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") shift in the profit rate.

	Impact on profit after tax RM'000	Impact on equity RM'000
31.12.2013		
+100 bps	**(28,784)**	**(70,108)**
-100 bps	**28,963**	**74,930**
31.12.2012		
+100 bps	(31,913)	(46,244)
-100 bps	32,895	49,139

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 2012) change impact. For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these 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.

(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
31.12.2013	
+5%	**1,569**
-5%	**(1,569)**
31.12.2012	
+5%	2,642
-5%	(2,642)

34 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
31.12.2013									
Assets									
Cash and short term funds	3,192,600	-	-	-	-	-	139,080	-	3,331,680
Deposits and placement with banks and other financial institutions	-	50,000	40,000	61,731	195,885	356,370	339	-	704,325
Financial assets held-for-trading	-	-	-	-	-	-	-	793,559	793,559
Financial investments available-for-sale	-	109,455	-	81,605	472,571	1,497,393	218,677	-	2,379,701
Financial investments held-to-maturity	-	790,969	238,127	75,111	526,048	937,433	18,972	-	2,586,660
Financing and advances									
- performing	7,077,896	422,355	83,932	1,480,914	1,006,436	8,142,963	48,501	-	18,262,997
- impaired	-	-	-	-	-	-	173,795	-	173,795
Other assets	-	-	-	-	-	-	48,131	-	48,131
Derivative assets	-	-	-	-	6,699	16,745	-	13	23,457
Statutory deposits with BNM	-	-	-	-	-	-	790,000	-	790,000
Deferred tax assets	-	-	-	-	-	-	12,146	-	12,146
Property, plant and equipment	-	-	-	-	-	-	13,923	-	13,923
Intangible assets	-	-	-	-	-	-	10,715	-	10,715
Total assets	**10,270,496**	**1,372,779**	**362,059**	**1,699,361**	**2,207,639**	**10,950,904**	**1,474,279**	**793,572**	**29,131,089**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (Continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (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
31.12.2013									
Liabilities									
Deposits from customers	12,279,388	4,264,382	1,813,617	1,327,556	9,328	8,927	1,330,902	-	21,034,100
Deposits and placements of banks and other financial institutions	573,554	269,836	148,355	61,731	195,885	3,069,472	108,801	-	4,427,634
Bills and acceptances payable	-	-	-	-	-	-	15,092	-	15,092
Derivative liabilities	-	-	-	-	5,458	-	-	1,782	7,240
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	1,301,664	6,668	-	1,308,332
Other liabilities	-	-	-	-	-	-	297,760	-	297,760
Taxation and zakat	-	-	-	-	-	-	13,799	-	13,799
Total liabilities	12,852,942	4,534,218	1,961,972	1,389,287	210,671	4,380,063	1,773,022	1,782	27,103,957
Total equity	-	-	-	-	-	-	2,027,132	-	2,027,132
Total liabilities and equity	12,852,942	4,534,218	1,961,972	1,389,287	210,671	4,380,063	3,800,154	1,782	29,131,089
On-balance sheet profit sensitivity gap	(2,582,446)	(3,161,439)	(1,599,913)	310,074	1,996,968	6,570,841			
Off-balance sheet profit sensitivity gap	1,090,000	2,335,000	-	-	(600,000)	(2,825,000)			
Total profit sensitivity gap	(1,492,446)	(826,439)	(1,599,913)	310,074	1,396,968	3,745,841			

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (Continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (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									
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	11,912,004	1,124,069	439,382	25,609,662

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (Continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity dates: (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 and other financial institutions	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	-	-	940	304	15,034	2,897	-	937	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	1,590,110	1,698,407	343,258	3,916,751	1,682,251	937	23,915,989
Total equity	-	-	-	-	-	-	1,693,673	-	1,693,673
Total liabilities and equity	11,652,196	3,032,079	1,590,110	1,698,407	343,258	3,916,751	3,375,924	937	25,609,662
On-balance sheet profit sensitivity gap	(4,452,577)	(597,617)	(1,053,174)	(1,364,905)	1,286,430	7,995,253			
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	(1,053,174)	(1,364,905)	(513,570)	6,495,253			

34 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 maturities:

	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
31.12.2013								
Assets								
Cash and short term funds	2,456,523	875,157	-	-	-	-	-	3,331,680
Deposits and placement with banks and other financial institutions	-	-	50,166	40,174	61,731	552,254	-	704,325
Financial assets held-for-trading	-	-	695,530	49,651	-	48,378	-	793,559
Financial investments available-for-sale	593	4,932	114,682	5,013	81,605	1,970,981	201,895	2,379,701
Financial investments held-to-maturity	-	1,706	802,955	243,997	75,111	1,462,891	-	2,586,660
Financing and advances	253,331	341,912	438,262	94,652	1,511,066	15,797,569	-	18,436,792
Other assets	43,466	708	-	-	-	-	3,957	48,131
Derivative assets	-	-	23,457	-	-	-	-	23,457
Statutory deposits with BNM	-	-	-	-	-	-	790,000	790,000
Deferred tax assets	-	-	-	-	-	-	12,146	12,146
Property, plant and equipment	-	-	-	-	-	-	13,923	13,923
Intangible assets	-	-	-	-	-	-	10,715	10,715
Total assets	2,753,913	1,224,415	2,125,052	433,487	1,729,513	19,832,073	1,032,636	29,131,089

34 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 maturities: (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
31.12.2013								
Liabilities								
Deposits from customers	7,004,648	6,572,830	4,282,977	1,822,585	1,334,346	16,714	-	21,034,100
Deposits and placements of banks and other financial institutions	100,134	472,873	269,479	147,923	61,731	3,375,494	-	4,427,634
Bills and acceptances payable	15,092	-	-	-	-	-	-	15,092
Derivative liabilities	-	-	7,240	-	-	-	-	7,240
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	1,308,332	-	1,308,332
Other liabilities	160,716	13,090	11,427	-	68,195	317	44,015	297,760
Taxation and zakat	-	-	-	-	-	-	13,799	13,799
Total liabilities	7,280,590	7,058,793	4,571,123	1,970,508	1,464,272	4,700,857	57,814	27,103,957
Total equity	-	-	-	-	-	-	2,027,132	2,027,132
Total liabilities and equity	7,280,590	7,058,793	4,571,123	1,970,508	1,464,272	4,700,857	2,084,946	29,131,089

34 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 maturities: (Continued)

	Up to 1 week to 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

34 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 maturities: (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
31.12.2012								
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

34 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 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
31.12.2013							
Liabilities							
Deposits from customers	13,593,385	6,189,292	1,377,172	10,648	10,784	-	21,181,281
Deposits and placements of banks and other financial institutions	570,419	417,552	65,865	218,425	1,027,682	2,970,995	5,270,938
Bills and acceptances payable	15,092	-	-	-	-	-	15,092
Derivative liabilities	846	3,573	3,663	6,928	1,574	-	16,584
Recourse obligation on financing sold to Cagamas	23,495	82,611	107,437	441,883	791,472	-	1,446,898
Other liabilities	173,805	11,427	68,195	317	-	-	253,744
Total financial liabilities	**14,377,042**	**6,704,455**	**1,622,332**	**678,201**	**1,831,512**	**2,970,995**	**28,184,537**

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
31.12.2013			
Transaction-related contingent items	102,870	-	102,870
Short term self-liquidating trade-related contingencies	103,292	-	103,292
Obligations under underwriting agreements	76,000	-	76,000
Irrevocable commitments to extend credit	1,685,436	2,784,786	4,470,222
Total commitments and contingencies	**1,967,598**	**2,784,786**	**4,752,384**

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.

34 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
31.12.2012							
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

34 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:

	31.12.2013 RM'000	31.12.2012 RM'000
Credit risk exposure relating to:		
Short term funds (exclude cash in hand)	**3,323,096**	2,869,942
Deposits and placements with banks and other financial institutions	**704,325**	1,988,635
Financial assets and investments portfolios (exclude shares)		
- Held-for-trading	**793,559**	439,382
- Available-for-sale	**2,177,806**	1,498,438
- Held-to-maturity	**2,586,660**	2,034,698
Financing and advances	**18,436,792**	16,002,714
Other financial assets	**45,028**	59,574
Derivative assets	**23,457**	2,278
	28,090,723	24,895,661
Commitment and contingencies	**4,752,384**	3,514,662
Total maximum credit risk exposure	**32,843,107**	28,410,323

(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; and
(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 2013 is 68.1% (2012: 54.1%). The financial effect of collateral held for the other financial asset is insignificant.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

(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").

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:

	31.12.2013 RM'000	31.12.2012 RM'000
Neither past due nor impaired	**17,734,639**	15,341,688
Past due but not impaired	**528,358**	518,749
Individually impaired	**431,267**	409,064
Gross financing and advances	**18,694,264**	16,269,501
Less: Individual impairment allowance	**(111,703)**	(89,013)
Collective impairment allowance	**(145,769)**	(177,774)
Net financing and advances	**18,436,792**	16,002,714

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

(iii) Credit quality (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:

	31.12.2013 RM'000	31.12.2012 RM'000
Investment grade	**7,360,732**	6,948,029
Lower investment grade	**122,223**	267,860
Non-investment grade	**107,330**	116,464
Non-rated	**10,144,354**	8,009,335
	17,734,639	15,341,688

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:

	31.12.2013 RM'000	31.12.2012 RM'000
Past due up to 30 days	**25,019**	70,298
Past due 31 to 60 days	**373,630**	337,910
Past due 61 to 90 days	**129,709**	110,541
Past due but not impaired	**528,358**	518,749

(iii) Financing and advances that are determined to be individually impaired as at 31 December 2013:

	31.12.2013 RM'000	31.12.2012 RM'000
Individually impaired financing	**431,267**	409,064

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

(iii) Credit quality (Continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios 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
31.12.2013							
Neither past due nor impaired	**3,323,096**	**704,325**	**793,559**	**2,177,806**	**2,586,660**	**45,028**	**23,457**
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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

(iii) Credit quality (Continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios 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
31.12.2013							
AAA to AA3	**220,664**	**613,986**	**25,445**	**1,087,774**	**348,877**	**-**	**-**
A1 to A3	**120,766**	**-**	**-**	**28,159**	**-**	**-**	**-**
Non-rated of which:	**2,981,666**	**90,339**	**768,114**	**1,061,873**	**2,237,783**	**45,028**	**23,457**
- Malaysian Government Investment Issues	**-**	**-**	**23,077**	**524,168**	**843,915**	**-**	**-**
- Bank Negara Malaysia	**2,567,664**	**-**	**546,351**	**-**	**-**	**-**	**-**
- Private debt securities	**-**	**-**	**-**	**422,288**	**190,434**	**-**	**-**
- Khazanah bonds	**-**	**-**	**-**	**15,929**	**8,981**	**-**	**-**
- Negotiable Islamic Debt Certificates	**-**	**-**	**198,686**	**99,488**	**645,860**	**-**	**-**
- Others	**414,002**	**90,339**	**-**	**-**	**548,593**	**45,028**	**23,457**
	3,323,096	**704,325**	**793,559**	**2,177,806**	**2,586,660**	**45,028**	**23,457**
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	-	-
- Negotiable Islamic Debt Certificates	-	-	-	-	422,086	-	-
- Others	358,897	-	-	-	233,012	59,574	2,278
	2,869,942	1,988,635	439,382	1,498,438	2,034,698	59,574	2,278

.34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

(iii) Credit quality (Continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets. (Continued)

(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.

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 invesments available-for-sale RM'000	Financial invesments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commit-ments and contingen-cies RM'000
31.12.2013								
Agriculture	-	-	114,298	-	174,355	-	288,653	215,211
Mining and quarrying	-	-	-	-	5,609	-	5,609	-
Manufacturing	-	-	-	-	776,514	-	776,514	333,656
Electricity, gas and water	-	-	281,278	123,731	206,613	-	611,622	6,000
Construction	-	-	-	-	178,130	-	178,130	197,422
Real estate	-	-	124,095	189,033	136,012	-	449,140	95
Purchase of landed property	-	-	-	-	4,548,627	-	4,548,627	1,771,991
General commerce	-	-	-	-	468,098	-	468,098	402,911
Transport, storage and communication	-	-	279,192	62,218	414,282	-	755,692	65,447
Finance, insurance and business services	845,771	-	358,306	127,778	2,113,945	-	3,445,800	290,492
Government and government agencies	3,181,650	768,114	771,426	1,771,655	3,295,930	-	9,788,775	-
Purchase of transport vehicle	-	-	-	-	-	-	-	404,254
Consumption credit	-	-	-	-	-	-	-	406,339
Others	-	25,445	249,211	312,245	6,264,446	68,485	6,919,832	658,566
	4,027,421	793,559	2,177,806	2,586,660	18,582,561	68,485	28,236,492	4,752,384

Excludes collective impairment allowance amounting to RM145,769,000.

* Other financial assets include other financial assets amounting to RM45,028,000 and derivative assets amounting to RM23,457,000.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

(iii) Credit quality (Continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets (Continued):

(iii) Collateral and other credit enhancements (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 invesments available-for-sale RM'000	Financial invesments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commit-ments and contingen-cies RM'000
31.12.2012								
Agriculture	-	-	30,453	-	196,570	-	227,023	24,729
Mining and quarrying	-	-	-	-	26,597	-	26,597	-
Manufacturing	-	-	-	-	1,010,177	-	1,010,177	276,628
Electricity, gas and water	-	-	114,512	47,474	220,942	-	382,928	6,286
Construction	-	-	20,918	-	821,042	-	841,960	244,920
Real estate	-	5,094	192,032	177,345	144,009	-	518,480	10,000
Purchase of landed property	-	-	-	-	3,473,848	-	3,473,848	1,004,056
General commerce	-	-	-	-	417,340	-	417,340	343,501
Transport, storage and communication	-	25,236	152,284	15,232	314,329	-	507,081	61,093
Finance, insurance and business services	1,425,014	-	136,832	25,203	1,210,584	-	2,797,633	270,331
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
Consumption credit	-	-	-	-	-	-	-	320,488
Others	-	-	-	-	4,095,054	61,852	4,156,906	640,271
	4,858,577	439,382	1,498,438	2,034,698	16,180,488	61,852	25,073,435	3,514,662

\# 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 to RM2,278,000.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy

The Bank analyses its financial instruments measured at fair value into three categories as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on unobservable market data.

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
Recurring fair value measurements				
31.12.2013				
Financial assets				
Financial assets held-for-trading;	**-**	**793,559**	**-**	**793,559**
- money market instruments	**-**	**768,114**	**-**	**768,114**
- unquoted securities	**-**	**25,445**	**-**	**25,445**
Financial investments available-for-sale;	**701**	**2,177,806**	**201,194**	**2,379,701**
- money market instruments	**-**	**727,702**	**-**	**727,702**
- quoted securities	**701**	**-**	**-**	**701**
- unquoted securities	**-**	**1,450,104**	**201,194**	**1,651,298**
Derivative assets:				
- money market instruments	**-**	**23,457**	**-**	**23,457**
	701	**2,994,822**	**201,194**	**3,196,717**
Financial liabilities				
Derivative liabilities:				
- money market instruments	**-**	**7,240**	**-**	**7,240**
31.12.2012				
Financial assets				
Financial assets held-for-trading:	-	439,382	-	439,382
- money market instruments	-	409,051	-	409,051
- unquoted securities	-	30,331	-	30,331
Financial investments available-for-sale:	-	1,498,438	575	1,499,013
- money market instruments	-	589,590	-	589,590
- unquoted securities	-	908,848	575	909,423
Derivative assets:				
- money market instruments	-	2,278	-	2,278
	-	1,940,098	575	1,940,673
Financial liabilities				
Derivative liabilities:				
- money market instruments	-	20,112	-	20,112

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy (Continued)

There were no transfers between Level 1 and 2 during the year.

(i) Qualitative disclosures of valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This would include quoted securities.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies.

(ii) Reconciliation of movements in Level 3 financial instruments:

The following represents the changes in Level 3 instruments for the Bank.

Financial investments available-for-sale

	31.12.2013 RM'000	**31.12.2012 RM'000**
Balance as at the beginning of financial year	**575**	575
Purchase	**200,619**	-
Balance as at the end of financial year	**201,194**	575

35 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
31.12.2013		
Financial assets		
Financial investments held-to-maturity	**2,586,660**	**2,561,869**
Financing and advances	**18,436,792**	**18,725,013**
Financial liabilities		
Deposit from customers	**21,034,100**	**21,034,368**
Deposits and placements of banks and other financial institutions	**4,427,634**	**4,439,036**
Recourse obligations on financing sold to Cagamas	**1,308,332**	**1,264,857**
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
Recourse obligations on financing sold to Cagamas	1,462,521	1,410,286

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2013 but for which fair value is disclosed.

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2013				
Financial assets				
Financial investments held-to-maturity	-	**2,257,461**	**304,408**	**2,561,869**
Financing and advances	-	**18,725,013**	-	**18,725,013**
Financial liabilities				
Deposits from customers	-	**21,034,368**	-	**21,034,368**
Deposits and placements of banks and other financial institutions	-	**4,439,036**	-	**4,439,036**
Recourse obligations on financing sold to Cagamas	-	**1,264,857**	-	**1,264,857**

35 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(i) Cash and short term funds and deposits and placements with financial institutions

For cash and short term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market 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 assets held-for-trading, financial investments held-to-maturity and financial investments available-for-sale

The estimated fair value for financial assets held-for-trading, financial investments held-to-maturity and financial investments available-for-sale is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicate yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for similar instrument at the date of statements of financial position.

(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 are represented by their carrying value, net of impairment allowance.

(iv) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in “other assets and liabilities” are assumed to approximate their fair values as these items are not materially sensitive to the shift in market 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 amount 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.

36 CAPITAL ADEQUACY

BNM guidelines on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

Effective 1 January 2013, the capital ratios of the Bank has been computed based on BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). Correspondingly, the comparative disclosures for the financial year ended 31 December 2012 has been restated accordingly.

	31.12.2013 RM'000	Restated 31.12.2012 RM'000
Tier I Capital		
Paid-up ordinary share capital	**1,173,424**	973,424
Retained profits	**441,401**	358,151
Statutory reserve	**441,609**	358,359
Unrealised (losses)/gains on AFS financial instruments	**(29,302)**	3,740
	2,027,132	1,693,674
Less :		
Deferred tax assets	**(17,281)**	(5,265)
Other intangibles (include associated deferred tax liabilities)	**(5,580)**	(3,585)
55% of cumulative gains of AFS financial instruments	**-**	(2,057)
Ageing Reserves and Liquidity Reserve	**(92)**	(5,091)
Total Common Equity/Total Tier I capital	**2,004,179**	1,677,676
Tier II Capital		
Collective impairment/allowance for bad and doubtful financing^	**81,059**	87,435
Total Tier II capital	**81,059**	87,435
Total capital base	**2,085,238**	1,765,111
Capital Ratios		
CET 1 Capital Ratio	**13.864%**	13.971%
Tier 1 Capital Ratio	**13.864%**	13.971%
Risk-weighted capital ratio (inclusive of market risk)	**14.424%**	14.699%

36 CAPITAL ADEQUACY (CONTINUED)

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

	31.12.2013 RM'000	31.12.2012 RM'000
Credit risk-weighted assets	**14,818,230**	12,622,768
Credit risk-weighted assets absorbed by PSIA	**(1,307,029)**	(1,569,046)
Market risk-weighted assets	**160,838**	265,386
Operational risk-weighted assets	**783,884**	689,105
Total risk-weighted assets	**14,455,923**	12,008,213

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 2013, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM1,307 million (2012: RM1,569 million).

^ 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.

36 CAPITAL ADEQUACY (CONTINUED)

	Principal RM'000	Risk weighted RM'000
31.12.2013		
(i) Credit Risk		
0%	**9,118,826**	**-**
20%	**4,076,821**	**815,364**
50%	**915,799**	**457,900**
75%	**11,000,359**	**8,250,269**
100%	**4,755,287**	**4,755,287**
150%	**359,607**	**539,410**
	30,226,699	**14,818,230**
Less: Credit risk weighted assets absorbed by PSIA	**-**	**(1,307,029)**
(ii) Market Risk Capital Adequacy Framework	**2,435,271**	**160,838**
(iii) Basic Indicator Operational Risk Capital Charge	**-**	**783,884**
	32,661,970	**14,455,923**

	Principal RM'000	Risk weighted RM'000
31.12.2012		
(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

37 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The RHB Group has determined its Management Committee as its chief operating decision-maker.

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.

Retail banking

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

Treasury

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

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.

37 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
31.12.2013							
External revenue	308,206	43,350	587,695	264,293	4,792	3,586	1,211,922
Inter-segment (expense)/revenue	(128,693)	14,024	(163,017)	195,056	88,226	(5,596)	-
Total revenue	179,513	57,374	424,678	459,349	93,018	(2,010)	1,211,922
Depositors' payout	(90,739)	(16,452)	(154,944)	(421,481)	(47,249)	(1,771)	(732,636)
Net income	88,774	40,922	269,734	37,868	45,769	(3,781)	479,286
Operating overheads	(21,031)	(25,181)	(123,920)	(23,339)	(29,930)	(389)	(223,790)
Depreciation of property, plant and equipment	(640)	(605)	(1,519)	(552)	(591)	-	(3,907)
Amortisation of computer software	(15)	(24)	(263)	(151)	(70)	-	(523)
Allowance for impairment on financing	5,324	(16,140)	(27,409)	-	-	6,136	(32,089)
Impairment losses on other assets	-	(701)	-	-	-	-	(701)
Segmental results	72,412	(1,729)	116,623	13,826	15,178	1,966	218,276
Segmental results							218,276
Unallocated expenses							-
Profit before taxation and zakat							218,276
Zakat							(1,641)
Profit after zakat before taxation							216,635
Taxation							(50,135)
Net Profit for the financial year							166,500

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

37 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
31.12.2013								
Segment assets	7,381,172	1,260,272	10,825,219	15,485,477	2,589,623	297,727	(8,724,081)	29,115,409
Unallocated assets	-	-	-	-	-	-	-	3,534
Deferred tax assets	-	-	-	-	-	-	-	12,146
Total assets								29,131,089
Segmental liabilities	6,609,492	1,216,903	9,896,946	15,082,811	2,483,235	533,063	(8,724,081)	27,098,369
Unallocated liabilities	-	-	-	-	-	-	-	5,588
Total liabilities								27,103,957
Other segment items:								
Capital expenditure	371	1,637	202	406	866	-	-	3,482

37 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, plant 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)
Net Profit for the financial year							155,896

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

37 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								25,609,662
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

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 6 March 2014.

Statement By Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Tuan Haji Md Ja'far Abdul Carrim and Tuan Haji Ibrahim Hassan, 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 47 to 127 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2013 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 provisions of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of Directors.

TUAN HAJI MD JA'FAR ABDUL CARRIM
CHAIRMAN

TUAN HAJI IBRAHIM HASSAN
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur
6 March 2014

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Norazilla Binti Md Tahir, 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 47 to 127 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.

NORAZILLA BINTI MD TAHIR

Subscribed and solemnly declared by the above named Norazilla Binti Md Tahir at Kuala Lumpur in Wilayah Persekutuan on 6 March 2014.

Before me:

COMMISIONER FOR OATHS
Kuala Lumpur

Independent Auditors' Report
to the Member of RHB Islamic Bank Berhad

(Incorporated in Malaysia)
(Company No. 680329-V)

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 2013, 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 47 to 127.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

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 MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

NG YEE LING
(No. 3032/01/15 (J))
Chartered Accountant

Kuala Lumpur
6 March 2014

Basel II Pillar 3 Disclosures

31 December 2013

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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 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 31 December 2013 are accurate and complete.

TUAN HAJI IBRAHIM HASSAN
Managing Director

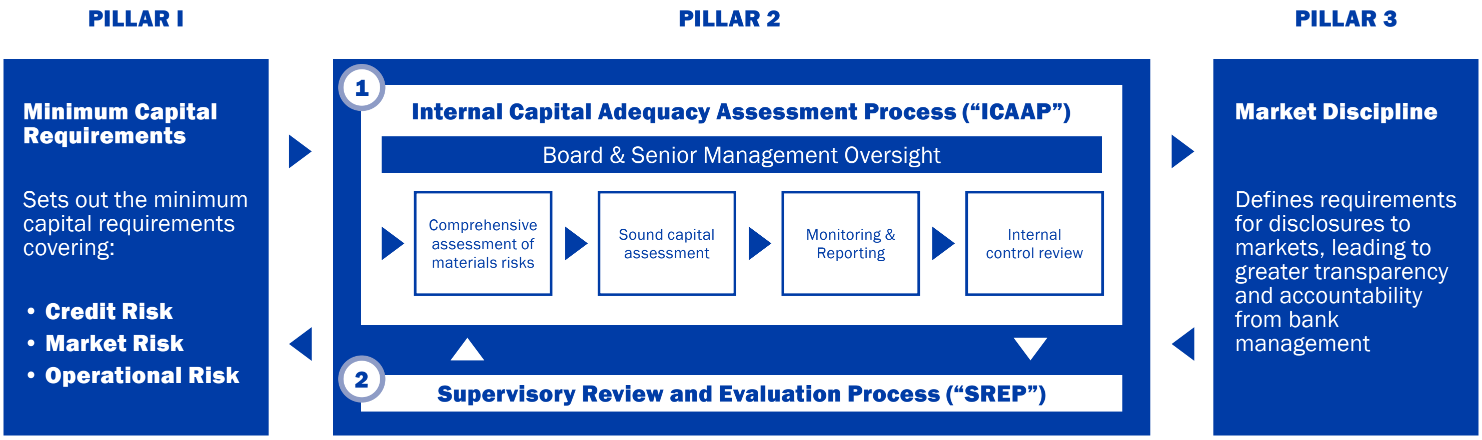
1.0 INTRODUCTION

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").

In November 2012, BNM had issued the revised requirements and guidance under the Capital Adequacy Framework (Basel II – Risk-Weighted Assets) for Islamic Banks, which specify the approaches for quantifying the risk-weighted assets ("RWA") for credit risk, market risk and operational risk.

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

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



Pillar I 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 I 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 risk under Pillar I.

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 under Basel II Pillar I, 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 31 December 2013 with comparative quantitative information of the preceding financial year 2012.

This is RHB Islamic Bank Berhad's fourth 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.rhbgroup.com as a separate report in the Bank's annual report 2013, 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 31 December 2013.

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, meet its business objectives and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting the regulatory requirements.

With a comprehensive capital management, the Bank aims to have a sound capital management practice that is aligned to BNM's ICAAP requirements.

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

- **Capital Strategy**

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

- **Capital Planning**

  Based on strategic direction 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 ("GCSC") for endorsement, and submitted to 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**

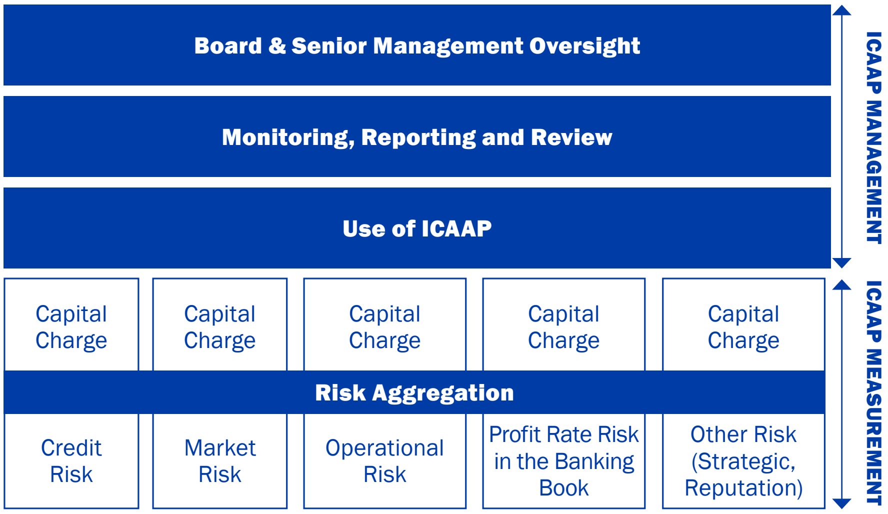
  The Bank aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.1 Internal Capital Adequacy Assessment Process ("ICAAP")

In line with BNM's Guideline on ICAAP under the Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2) issued in December 2011, the Bank has implemented ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy is assessed in relation to the Bank's risk profile, and strategies are in place to maintain appropriate capital levels.

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



Key Requirements

- Establish rigorous corporate governance and Senior Management oversight.
- Establish risk-based strategy including defining and setting the Bank's appetite and tolerance for risk.
- Assess and measure all meterial risks inherent in Bank'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 Bank.
- Relate capital to level of risk and ensure capital adequacy using scenario analysis and stress testing methods.

3.2 Basel III Implementation

The implementation of Basel III by BNM in Malaysia has commenced with effect from 1 January 2013. Under the new Basel III rules, banking institutions are required to strengthen the quality of their capital by maintaining higher minimum capital requirement and holding capital buffers namely the capital conservation buffer and the countercyclical capital buffer. However, the requirements are subject to a series of transitional arrangements with a gradual phase in beginning 2013 until 2019.

Apart from the above, the Bank has commenced the Basel III observation period reporting to BNM on the two key liquidity ratios, namely the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"), since June 2012.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios

BNM's Guideline on "Capital Adequacy Framework (Capital Components)" issued in November 2012 sets out the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital.

Banking institutions are required to maintain, at all times, the following minimum capital adequacy ratios:

Calendar Year	Common Equity Tier I ("CET I") Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
2013	3.5%	4.5%	8.0%
2014	4.0%	5.5%	8.0%
2015 onwards	4.5%	6.0%	8.0%

With effect from 1 January 2013, the capital ratios of the Bank are computed based on BNM's Guideline on "Capital Adequacy Framework for Islamic Banks (Basel II – Risk-Weighted Assets)".

The Bank's capital ratios are as follows:

Table 1: Capital Adequacy Ratios

	2013	2012
CET I Capital Ratio	13.864%	N/A
Tier I Capital Ratio	13.864%	14.055%
Total Capital Ratio	14.424%	14.741%

The above capital ratios are above the minimum level required by BNM.

3.4 Minimum Capital Requirements and Risk-Weighted Assets ("RWA")

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

	(RM'000)	
	2013	2012
Credit RWA	14,818,230	12,622,768
Credit RWA Absorbed by PSIA	(1,307,029)	(1,569,046)
Market RWA	160,838	265,386
Operational RWA	783,884	689,105
Total RWA	**14,455,923**	**12,008,213**

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 31 December 2013, the total placement was for financing exposures amounting to RM1.9 billion and the corresponding Credit RWA was RM1.3 billion.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.4 Minimum Capital Requirements and Risk-Weighted Assets (“RWA”) (Continued)

During the year, the Bank had reduced its holdings in corporate bonds with long maturity profiles and switched to Government securities with shorter maturity profiles. Both the reduction in corporate bond holdings and reduction in long dated maturities reduced the impact on Market RWA. Also, holdings in Government securities did not attract any capital charge, hence the lower Market RWA.

The following table shows a breakdown of the Bank’s RWA by risk types as at 31 December 2013 and 31 December 2012.

Table 3: Minimum Capital Requirements and Risk-Weighted Assets by Risk Types

Risk Types	RWA (RM’000)		Capital Requirement (RM’000)	
	2013	2012	2013	2012
Credit Risk	13,511,201	11,053,722	1,080,896	884,298
Under Standardised Approach	14,818,230	12,622,768	1,185,458	1,009,821
Absorbed by PSIA	(1,307,029)	(1,569,046)	(104,562)	(125,523)
Market Risk				
Under Standardised Approach	160,838	265,386	12,867	21,231
Operational Risk				
Under Basic Indicator Approach	783,884	689,105	62,711	55,128
Total	**14,455,923**	**12,008,213**	**1,156,474**	**960,657**

Capital requirement for the three risk types is derived by multiplying the risk-weighted assets by 8%.

The Bank did not have any capital requirement for Large Exposure Risk as there was no exposure arising from holding of equities.

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on "Capital Adequacy Framework for Islamic Banks (Capital Components)" Parts C and D. These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Bank. Tier I capital consists primarily of ordinary share capital, share premium, retained profits, other reserves and hybrid Tier I capital securities. Tier II capital consists of subordinated obligations and collective impairment allowance. Refer to Note 39 to the Financial Statements for the terms of these capital instruments.

Details on capital instruments, including share capital and reserves are found in notes 17 and 18 of the Financial Statements. The following table represents the Bank's capital position as at 31 December 2013 and 31 December 2012.

Table 4: Capital Structure

	(RM'000)	
	2013	**2012**
Tier I Capital		
Paid-up ordinary share capital	1,173,424	973,424
Share premium	-	-
Retained profits	441,401	358,151
Other reserves	441,609	358,359
Unrealised gains and losses on AFS financial instruments	(29,302)	-
Less:		
Goodwil	-	-
Other intangibles	(5,580)	-
55% of cumulative gains of AFS financing instruments	-	-
Ageing Reserves and Liquidity Reserve	(92)	-
Net deferred tax assets	(17,281)	(2,175)
Common Equity Tier I Capital ("CET I Capital")	**2,004,179**	**1,687,759**
Hybrid Tier I Capital Securities*	-	-
Total Tier I Capital	**2,004,179**	**1,687,759**
Tier II Capital		
Subordinated obligations#	-	-
Collective impairment allowance^	81,059	87,435
Less:		
Other Deduction	-	(5,091)
Total Tier II Capital	**81,059**	**82,344**
Total Capital	**2,085,238**	**1,770,103**

Notes:

* Hybrid Tier I capital securities that are recognised as Tier I capital instruments are subject to gradual phase-out treatment effective from 1 January 2013, as prescribed under paragraph 36.10 of the BNM's Guideline on "Capital Adequacy Framework (Capital Components)".

\# Subordinated obligations that are recognised as Tier II capital instruments are subject to gradual phase-out treatment effective from 1 January 2013.

^ 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".

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.

The Group's Risk Management Framework governs the management of risks in the RHB Banking Group ("the Group"), as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted (or economic) returns.

The following sections describe some of these risk management content areas.

Overarching Risk Management Principles

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

- Risk governance from the Boards of Directors of the various operating entities 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 various operating entities in the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

Risk Governance and Organisation

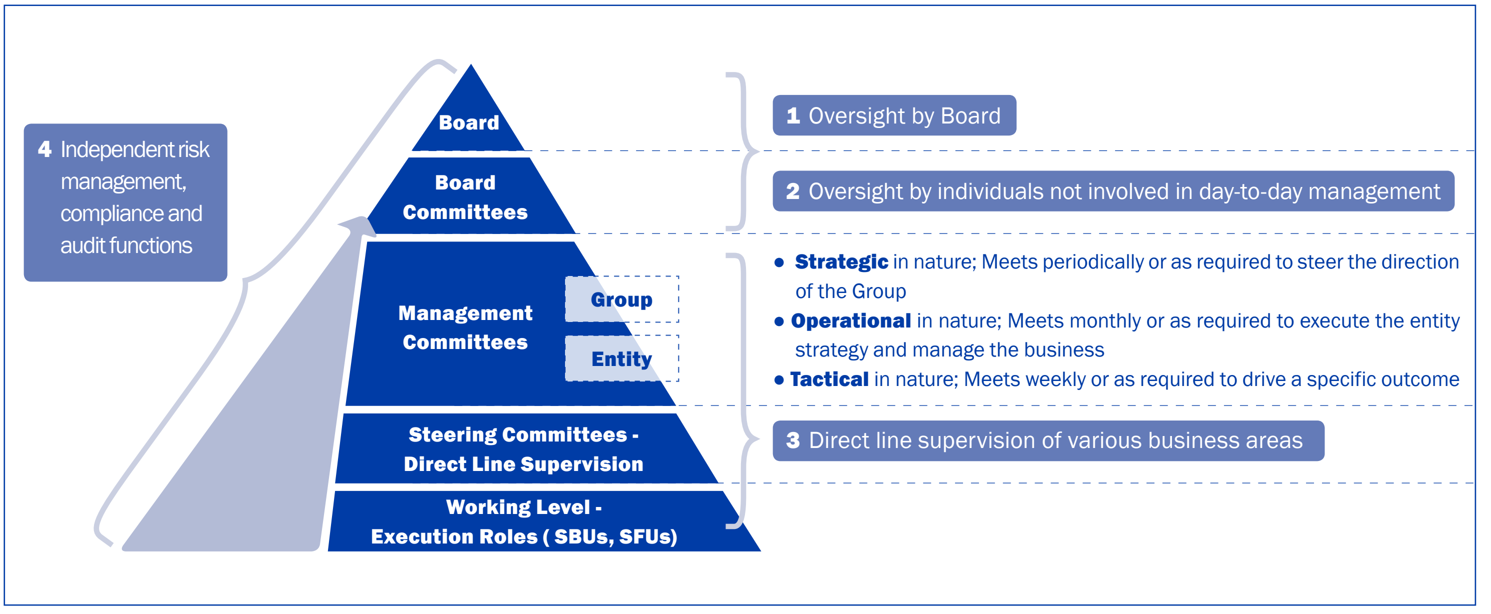
The Board of Directors ("Board") through the Group Risk Management Committee ("GRMC") and the Group Risk Management function ("GRM function") establishes the Group's risk appetite and risk principles. The GRMC is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The GRMC assists the Board to review the Group's overall risk management philosophy; risk management framework, risk management policy and risk management models.

An Islamic 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.

5.0 RISK MANAGEMENT (CONTINUED)

Risk Governance and Organisation (Continued)

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



Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The business ("SBUs") and functional units ("SFUs") of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including risk management function.

Principle 3: Institutionalisation of a Risk-Focused Organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk coordination functions and continuous reinforcement of a risk and control environment within the Group.

Central Risk Coordination Functions

The Risk Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short term pressures to generate revenues. This risk management function is responsible for formulating risk-related policies and presents risk performance and related reports to IRMC and GRMC for recommendation to the Board.

The Risk Management function is headed by the Director of Group Risk Management, who reports to the Group Managing Director. The role and responsibilities of the Director of Group Risk Management include:

- 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 proactive, balanced and risk attuned culture within the Group;
- Advising Senior Management, IRMC, GRMC and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies; and
- Administering the delegation of discretionary powers to Management personnel within the Group.

5.0 RISK MANAGEMENT (CONTINUED)

Risk and Control Environment

The 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 clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Principle 4: Alignment of Risk Management to Business Strategy

The Group's Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in economic capital 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.

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 is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk 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 financing 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 financing of the RHB Banking Group which are duly approved by the CCC, as well as to oversee the management of impaired financing and high risk accounts, as well as affirming, imposing additional covenants or vetoing impaired financing 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, 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 IRMC and the Board. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting allows Senior Management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision-making.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach

RHB Banking Group's credit risk management framework which is founded upon BNM's Guideline 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 the Credit Policy.

The Bank ensures that internal processes and credit underwriting standards are observed before financing proposals are approved. All financing proposals are first evaluated by the originating business units before being evaluated by an independent credit evaluation and management function. All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review by Group Internal Audit.

The Bank's credit 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 Bank's Retail Banking, Business Banking, Treasury, Corporate and Investment Banking, and Finance Business operations.

The GCPM has been designed to ensure that:

- The process of credit initiation, administration, supervision and management of financing are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- Procedures and guidelines governing the credit function are in compliance with the credit policies laid down by the respective Boards of the Group.

Financing to Corporate and Institutional Customers

Financing to corporate 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 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 risk is managed on a portfolio basis. Such products include residential mortgages, credit cards, auto finance, commercial property financing, personal and business financing. Financing is 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.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (Continued)

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 financing type, the Bank applies different credit risk measuring tools, so that the credit risk of each financing type is appropriately reflected. Credit risk is calculated from three key factors as follows:

1. Probability of Default ("PD")
   For corporate/non-retail financing, the probability of default is measured from obligor rating obtained from the risk rating system to determine the customer's level of risk. The risk rating of each customer is regularly reviewed to ensure that it actually reflects the debtor's risk. For retail financing, 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.

2. Loss Given Default ("LGD")
   For corporate financing, the LGD is determined via the credit risk mitigation adjustment, in which collateral and security will determine the level of LGD for a specific transaction. For retail financing, LGD is captured at respective segment (or pool) level.

3. Exposure at Default ("EAD")
   Exposure at default is calculated from the current outstanding balance and availability of committed financing line. In this regard, the key factor is the Bank's obligation related to the available financing line. For corporate financing, credit risk is measured at an individual obligor exposure. For retail financing, the principle of credit risk measurement is 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, material changes of the rating systems and validation results must be approved by IRMC/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.

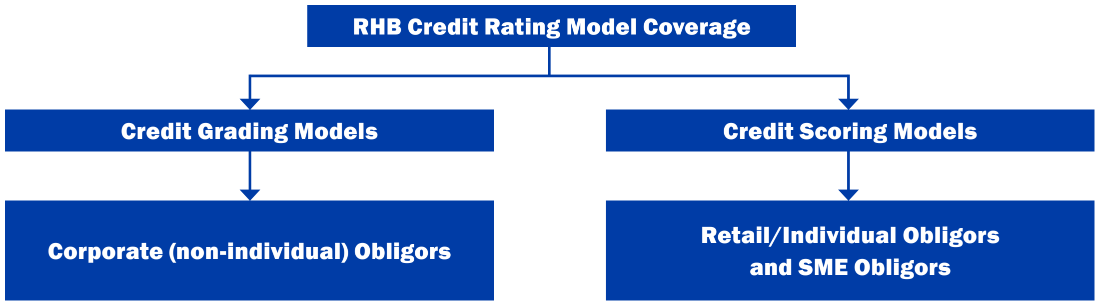
Credit risk/rating models can be classified into:

- Credit Grading Models
- Credit Scoring Models

6.0 CREDIT RISK (CONTINUED)

6.3 Internal Credit Rating Models (Continued)

The diagram below shows a broad perspective of the current credit rating model coverage for the different customers/obligors:



The credit grading models for corporate (or non-individual) obligors are used to risk rate the creditworthiness of the corporate customers/ guarantors based on their financial standing (such as gearing, expenses and profit) and qualitative aspects (such as management effectiveness and industry environment). Different rating models will be applied subject to the obligor's asset and sales volume, 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 programme lending type of financing for small-and medium-sized enterprises ("SMEs"). These models are developed through data 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 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 non-retail 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 Bank.

This credit grading scale 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 Selective Basis
UG0	Un-graded
FD0	Fully Secured by Cash
PN20	Impaired but Performing
N20 to N23	Impaired/Non-Performing

- Risk Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals to allow for risk-informed pricing considerations and strategic decisions.

- 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 31 December 2013

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%	8,361,466	9,786	684,202	54,782	-	-	8,590	-	9,118,826	-
20%	-	1,524,411	2,546,915	5,495	-	-	-	-	4,076,821	815,364
35%	-	-	-	-	-	-	-	-	-	-
50%	-	107,866	802,785	5,148	-	-	-	-	915,799	457,899
75%	-	-	-	11,000,359	-	-	-	-	11,000,359	8,250,269
100%	-	-	3,868,583	815,165	-	-	71,539	-	4,755,287	4,755,287
150%	-	-	51,291	93,894	-	214,422	-	-	359,607	539,411
Total	**8,361,466**	**1,642,063**	**7,953,776**	**11,974,843**	**-**	**214,422**	**80,129**	**-**	**30,226,699**	**14,818,230**

Table 5b: Portfolios under the Standardised Approach by Risk Weights as at 31 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**

6.0 CREDIT RISK (CONTINUED)

6.5 Off-Balance Sheet Exposures and Counterparty Credit Risk

The management of the following off-balance sheet exposures of the Bank is in accordance to the credit risk management approach as set out under Section 6.2 of this 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 financing, which includes the unutilised or undrawn portions of financing facilities;
- Unutilised credit card lines; and
- Principal or notional amount of derivative financial instruments.

Counterparty Credit Risk ("CCR") on derivative financial instruments is the risk that the Bank's counterparty 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/financing exposures ("EAD") as at 31 December 2013 and 31 December 2012, 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 31 December 2013

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	8,361,466	8,361,466	-	-	-	-
Public Sector Entities	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	1,534,521	1,534,521	305,200	-	305,200	24,416
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-
Corporates	7,276,141	7,276,141	4,192,357	(258,097)	3,934,260	314,741
Regulatory Retail	9,925,538	9,925,538	7,595,143	(1,026,675)	6,568,468	525,477
Residential Mortgage	-	-	-	-	-	-
Higher Risk Assets	200,619	200,619	300,928	-	300,928	24,074
Other Assets	80,129	80,129	71,539	-	71,539	5,723
Equity Exposures	-	-	-	-	-	-
Defaulted Exposures	262,245	262,245	326,393	(22,257)	304,136	24,331
Total On-Balance Sheet Exposures	**27,640,659**	**27,640,659**	**12,791,560**	**(1,307,029)**	**11,484,531**	**918,762**
Off-Balance Sheet Exposures						
OTC Derivatives	-	-	-	-	-	-
Credit Derivatives	-	-	-	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,586,040	2,586,040	2,026,670	-	2,026,670	162,134
Defaulted Exposures	-	-	-	-	-	-
Total Off-Balance Sheet Exposures	**2,586,040**	**2,586,040**	**2,026,670**	**-**	**2,026,670**	**162,134**
Total On and Off-Balance Sheet Exposures	**30,226,699**	**30,226,699**	**14,818,230**	**(1,307,029)**	**13,511,201**	**1,080,896**

Note: As at 31 December 2013, 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 31 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
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 31 December 2012, the Bank did not have any 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 (Before Credit Risk Mitigation) as at 31 December 2013

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	102,870		51,435	34,486
Short term self-liquidating trade-related contingencies	103,292		20,658	20,472
Assets sold with recourse	758,566		758,566	574,137
NIFs and obligations under an ongoing underwriting agreement	76,000		38,000	38,000
Foreign exchange related contracts	**662,085**	**694**	**3,165**	**2,041**
1 year or less	662,085	694	3,165	2,041
Over 1 year to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Profit rate related contracts	**3,425,000**	**23,457**	**105,607**	**52,803**
1 year or less	-	-	-	-
Over 1 year to 5 years	3,425,000	23,457	105,607	52,803
Over 5 years	-	-	-	-
Other commitments, such as formal standby facilities and financing lines, with an original maturity of over one year	2,381,882		1,190,941	927,183
Other commitments, such as formal standby facilities and financing lines, with an original maturity of up to one year	1,685,436		337,087	317,112
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	402,904		80,581	60,436
Unutilised credit card lines	-		-	-
Total	**9,598,035**	**24,151**	**2,586,040**	**2,026,670**

Note: As at 31 December 2013, the Bank did 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 (Before Credit Risk Mitigation) as at 31 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 financing lines, with an original maturity of over one year	1,384,517		692,258	580,463
Other commitments ,such as formal standby facilities and financing 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 customer'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: As at 31 December 2012, the bank did not have any OTC derivatives 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 31 December 2013

Exposure Class	Agriculture	Mining and Quarrying	Manufacturing	Electricity Gas and Water Supply	Construction	Wholesale, Retail Trade, Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business	Education, Health and Others	Household	Others	Total
	(RM'000)											
Exposures under Standardised Approach (SA)												
Sovereigns/ Central Banks	-	-	-	-	-	-	-	3,495,728	4,865,738	-	-	8,361,466
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	-	-	-	-	-	-	-	1,642,063	-	-	-	1,642,063
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	205,918	28,287	848,204	593,303	279,931	637,178	715,014	4,110,605	357,447	-	177,889	7,953,776
Regulatory Retail	30,195	4,924	101,945	1,029	105,815	131,624	54,484	92,446	13,314	11,155,182	283,885	11,974,843
Residential Mortgage	-	-	-	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	200,619	-	-	13,803	-	-	-	214,422
Other Assets	-	-	-	-	-	-	-	-	-	-	80,129	80,129
Equity Exposure	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures Under Standardised Approach	**236,113**	**33,211**	**950,149**	**594,332**	**586,365**	**768,802**	**769,498**	**9,354,645**	**5,236,499**	**11,155,182**	**541,903**	**30,226,699**

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 31 December 2012

Exposure Class	Agriculture	Mining and Quarrying	Manufacturing	Electricity Gas and Water Supply	Construction	Wholesale, Retail Trade, Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business	Education, Health and Others	Household	Others	Total
	(RM'000)											
Exposures under Standardised Approach (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 Standardised Approach	**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 9a: Credit Risk Exposures (Before Credit Risk Mitigation) by Maturity as at 31 December 2013

Exposure Class	One Year or less (RM'000)	One to five years (RM'000)	Over five years (RM'000)	Total (RM'000)
Exposures under Standardised Approach				
Sovereigns/Central Banks	2,567,663	365,493	5,428,310	8,361,466
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	1,526,670	54,515	60,878	1,642,063
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	326,585	1,433,641	6,193,550	7,953,776
Regulatory Retail	93,811	1,343,668	10,537,364	11,974,843
Residential Mortgages	-	-	-	-
Higher Risk Assets	13,803	-	200,619	214,422
Other Assets	-	-	80,129	80,129
Equity Exposures	-	-	-	-
Total Exposures under Standardised Approach	**4,528,532**	**3,197,317**	**22,500,850**	**30,226,699**

Table 9b: Credit Risk Exposures (Before Credit Risk Mitigation) by Maturity as at 31 December 2012

Exposure Class	One Year or less (RM'000)	One to five years (RM'000)	Over five years (RM'000)	Total (RM'000)
Exposures under Standardised Approach				
Sovereigns/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 Mortgages	-	-	-	-
Higher Risk Assets	9,407	-	-	9,407
Other Assets			125,422	125,422
Equity Exposures	-	-	-	-
Total Exposures under Standardised Approach	**5,044,753**	**4,549,224**	**16,893,572**	**26,487,549**

6.0 CREDIT RISK (CONTINUED)

6.7 Use of External Ratings

For Sovereigns and Central Banks, Corporate and Banking Institution, external ratings from approved external credit assessment institutions (“ECAIs”), 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 & Poor’s (“S&P”);
- Moody’s Investor Services (“Moody”s’);
- Fitch Ratings (“Fitch”);
- Malaysian Rating Corporation Berhad (“MARC”);
- Rating Agency Malaysia (“RAM”); and
- Rating and Investment Information, Inc (“R&I”).

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose. Where the counterparty is not rated, the corresponding exposure is mapped as “unrated” and the appropriate risk weight for unrated exposures is assigned.

6.0 CREDIT RISK (CONTINUED)

6.7 Use of External Ratings (Continued)

The following tables show the Bank's credit exposures to Sovereigns and Central Banks, Corporates and Banking Institutions as at 31 December 2013 compared with 31 December 2012 position, according to the ratings by ECAIs:

Table 10a: Rated Exposures According to Rating by ECAIs as at 31 December 2013

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)		**2,536,244**	**788,432**	**-**	**-**	**4,629,100**

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)		**-**	**8,361,466**	**-**	**-**	**-**	**-**

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)		**1,534,197**	**107,866**	**-**	**-**	**-**	**-**

6.0 CREDIT RISK (CONTINUED)

6.7 Use of External Ratings (Continued)

Table 10b: Rated Exposures According to Rating by ECAIs as at 31 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)

6.8 Credit Risk Monitoring and Control

Credit Risk Mitigation

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

The main types of collaterals obtained by the Bank to mitigate credit risk are as follows:

- Commodity Murabahah Deposits, Mudharabah General Investment Account, Negotiable Instrument of Deposits, and Cash Deposits/ Cash Margins
- Land/Land and Buildings
- Vessels and Automobiles
- Quoted Shares, Unit Trusts, Government Sukuks and Securities, and Private Debt Securities
- Endowment Life Policies with Cash Surrender Value
- Other tangible business assets, such as inventory and equipment

Collateral is valued in accordance with the Bank's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically; analysed and updated concurrently with the annual/periodic renewal of facilities, as well as updated into the Bank's collateral system.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Bank does not use on-balance sheet netting to mitigate its credit exposures.

Equity securities or collaterals acquired arising from debt conversions are accounted for as disposal of the financing and acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as impairment of the relevant asset or business rather than as impairment of the original instrument.

6.0 CREDIT RISK (CONTINUED)

6.8 Credit Risk Monitoring and Control (Continued)

Credit Risk Mitigation (Continued)

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2013

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	8,361,466	3,313,818	-
Banks, Development Financial Institutions and MDBs	1,534,521	9,786	-
Corporates	7,276,141	649,702	32,843
Regulatory Retail	9,925,538	71	55,710
Residential Mortgages	-	-	-
Higher Risk Assets	200,619	-	-
Other Assets	80,129	-	-
Equity Exposures	-	-	-
Defaulted Exposures	262,245	411	5,185
Total On-Balance Sheet Exposures	**27,640,659**	**3,973,788**	**93,738**
Off-Balance Sheet Exposures			
OTC Derivatives	-	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	2,586,040	-	-
Defaulted Exposures	-	-	-
Total for Off-Balance Sheet Exposures	**2,586,040**	**-**	**-**
Total On and Off-Balance Sheet Exposures	**30,226,699**	**3,973,788**	**93,738**

6.0 CREDIT RISK (CONTINUED)

6.8 Credit Risk Monitoring and Control (Continued)

Credit Risk Mitigation (Continued)

Table 11b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 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 and MDBs	1,808,374	50,421	-
Corporates	5,812,123	448,513	92,895
Regulatory Retail	7,556,249	501	54,966
Residential Mortgages	-	-	-
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 Derivatives	-	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	2,163,346	-	-
Defaulted Exposures	-	-	-
Total for 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)

Credit Concentration Risk

The Bank manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in financing to single customer groups, borrowers engaged in similar activities, or diverse groups of borrowers that could be affected by similar economic or other factors. To manage this concentration risk, exposure limits are established for single customer groups and industry segments. Analysis of large customer group exposures is regularly conducted and the financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sector-specific analysis are also incorporated within the overall credit risk management regiment. In this respect, the Bank seeks to continually update financing guideline based on periodic reviews and updates of industry and sector risk factors and economic outlook. This facilitates better management of credit concentration risk.

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for Senior Management, IRMC and GRMC, 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 ongoing qualitative assessment by the Account Relationship Managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct.

Group Internal Audit conducts independent post-approval reviews on sampling basis to ensure that the quality of credit appraisals and approval standards are in accordance with the credit standards and financing policies established by the Bank's Management, and relevant 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") in November 2011. The principles in this revised guideline 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.
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.

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (Continued)

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 allowance is required after impairment assessment.

Mandatory Status Triggers ("MST") are:

- Ageing 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 financing 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 financing 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.
  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.

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (Continued)

Individual Impairment Allowances

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 allowances 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 Allowances

Collective impairment applies to all other accounts (impaired and non-impaired) that do not fall within the threshold of individual assessment. The impairment allowances for accounts under collective assessment are as follows:

- Segmentation is applied to group of financing, both impaired and non-impaired, based on similar credit risk characteristics, for the purpose of assessing impairment and computing historical default rates and loss rates.
- 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.

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 render 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 allowance(s) can only 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, maybe 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 Allowances for Impairment by Industry Sector as at 31 December 2013

Industry Sector	Impaired and Advances Financing (RM'000)	Past Due Financing (RM'000)	Individual Impairment Allowances (RM'000)	Collective Impairment Allowances (RM'000)
Agriculture	4,546	670	-	2,858
Mining and Quarrying	-	237	-	67
Manufacturing	48,782	12,402	10,947	14,178
Electricity, Gas and Water Supply	-	-	-	1,436
Construction	49,357	7,326	22,266	8,372
Wholesale, Retail Trade, Restaurants and Hotels	36,891	9,074	7,262	10,812
Transport, Storage and Communication	1,296	6,741	-	4,468
Finance, Insurance, Real Estate and Business	115,685	4,457	70,384	18,427
Education, Health and Others	10,116	1,459	844	3,947
Household	163,447	485,992	-	73,889
Others	1,147	-	-	7,315
Total	**431,267**	**528,358**	**111,703**	**145,769**

Table 12b: Impaired, Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2012

Industry Sector	Impaired and Advances Financing (RM'000)	Past Due Financing (RM'000)	Individual Impairment Allowances (RM'000)	Collective Impairment Allowances (RM'000)
Agriculture	4,514	504	-	3,685
Mining and Quarrying	25,504	500	3,518	32
Manufacturing	63,914	13,173	9,890	19,764
Electricity, Gas and Water Supply	-	-	-	5,587
Construction	43,305	7,983	17,324	13,651
Wholesale, Retail Trade, Restaurants and Hotels	17,315	425	5,163	9,177
Transport, Storage and Communication	5,093	14,155	-	9,703
Finance, Insurance, Real Estate and Business	82,452	2,554	53,118	15,726
Education, Health and Others	339	11,344	-	2,394
Household	166,332	468,111	-	97,247
Others	296	-	-	808
Total	**409,064**	**518,749**	**89,013**	**177,774**

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (Continued)

Write-Off of Impaired Financing (Continued)

Table 13: Charges/(Write-back) and Write-Offs for Impairment by Industry Sector

Industry Sector	Twelve Months Period Ended 31.12.2013	
	Charges/(Write-back) (RM'000)	Write-Offs (RM'000)
Agriculture	-	-
Mining & Quarrying	-	-
Manufacturing	2,836	4,774
Electricity, Gas & Water Supply	-	-
Construction	6,245	2,106
Wholesale, Retail Trade, Restaurants & Hotels	1,205	2,703
Transport, Storage & Communication	-	-
Finance, Insurance, Real Estate & Business	15,585	-
Education, Health & Others	(1,194)	-
Household	-	30,596
Others	-	334
Total	**24,677**	**40,513**

Industry Sector	Twelve Months Period Ended 31.12.2012	
	Charges/(Write-back) (RM'000)	Write-Offs (RM'000)
Agriculture	2,697	2,697
Mining & Quarrying	(2,934)	-
Manufacturing	7,045	32,328
Electricity, Gas & Water Supply	-	-
Construction	10,219	42
Wholesale, Retail Trade, Restaurants & Hotels	8,100	3,825
Transport, Storage & Communication	-	-
Finance, Insurance, Real Estate & Business	43,835	70,426
Education, Health & Others	(1,042)	-
Household	-	17,031
Others	-	1,457
Total	**67,920**	**127,806**

6.0 CREDIT RISK (CONTINUED)

6.9 Impairment Allowances for Financing (Continued)

Write-Off of Impaired Financing (Continued)

Table 14a: Reconciliation of Changes to Financing Impairment Allowances as at 31 December 2013

Impairment Allowances Details	Individual Impairment Allowances (RM'000)	Collective Impairment Allowances (RM'000)
Balance as at the beginning of financial period/year	**89,013**	**177,774**
Net Allowance made during the period/year	24,677	6,521
Amount Written-Off	(6,637)	(33,876)
Reclassification from Individual/Collective Impairment	4,650	(4,650)
Balance as at the end of financial period/year	**111,703**	**145,769**

Table 14b: Reconciliation of Changes to Financing Impairment Allowances as at 31 December 2012

Impairment Allowances Details	Individual Impairment Allowances (RM'000)	Collective Impairment Allowances (RM'000)
Balance as at the beginning of financial period/year	**130,724**	**190,768**
Effect on full adoption of MFRS 139	-	5,668
Net Allowance made during the period/year	67,920	(487)
Amount Written-Off	(108,708)	(19,098)
Reclassification from Individual/Collective Impairment	(923)	923
Balance as at the end of financial period/year	**89,013**	**177,774**

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 Sukuks 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 its banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, 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 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 to 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 Policy that prescribes the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

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 31 December 2013 and 31 December 2012 are shown in the tables below:

Table 15a: Market Risk-Weighted Assets and Capital Requirement as at 31 December 2013

	Long Position (RM'000)	Short Position (RM'000)	RWA (RM'000)	Capital Charge (RM'000)
Market Risk (Standardised Approach)				
Benchmark Rate Risk	1,593,416	800,000	118,997	9,520
Foreign Currency Risk	41,841	14	41,841	3,347
Total			**160,838**	**12,867**

Table 15b: Market Risk-Weighted Assets and Capital Requirement as at 31 December 2012

	Long Position (RM'000)	Short Position (RM'000)	RWA (RM'000)	Capital Charge (RM'000)
Market Risk (Standardised Approach)				
Benchmark 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**

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.

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 and/or the inability to meet contractual commitments when due. Market liquidity risk is the risk that the Bank will be unable to sell assets quickly, close 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 long term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risk.

Through the Group's Liquidity 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 objective that underpins the Group's Liquidity Practices Guide includes maintaining financial market confidence at all times, protecting key stakeholders' interests and meeting regulatory liquidity requirements.

The Group ALCO supports the Group Risk Management Committee by performing the critical role in the management of liquidity risk, and is responsible in establishing strategies that assist in controlling and reducing any potential exposures to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Bank's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO meetings which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets profit rates for liabilities products as well as reference rates for financing products and services.

The Bank has adopted the BNM's New Liquidity Framework as one of the liquidity measurement methods. In addition to ensuring compliance with the New Liquidity Framework, the Bank also maintains a liquidity compliance buffer to meet any unexpected cash outflow.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources and contingency funding lines.

The Bank has commenced the Basel III observation period reporting to BNM on the 2 key liquidity ratios, namely the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

The Group's Liquidity Incident Management Master Plan 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 Incident Management Master Plan identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Rate of return risk or profit rate risk in the banking book refers to any opportunity loss to the Bank's income and/ or economic value due 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 in the banking book. They are computed based on the re-pricing gap profile of the banking book. Assets and liabilities are bucketed based on their remaining tenor to maturity or next re-price dates. For indefinite maturity products, the re-pricing behaviour will be reflected in the gapping profile. The measurement of EaR and EVE are conducted on 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 the earning and economic value as at 31 December 2013 and 31 December 2012 are shown in the tables below:

Table 16a: Profit Rate Risk/Rate of Return Risk in the Banking Book as at 31 December 2013

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	(34,321)	34,321	(246,164)	246,164
Total	**(34,321)**	**34,321**	**(246,164)**	**246,164**

Note :
As at 31 December 2013
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.

Table 16b: Profit Rate Risk/Rate of Return Risk in the Banking Book as at 31 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**

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 loss resulting from inadequate or failed internal processes, people and systems and external events, which also includes IT and legal risks as well as Shariah non-compliance risk. Operational risk is inherent in the Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and 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 improve risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence against operational losses.
- Monitoring and Intervention – This is where the principal head office risk control units, including the operations management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences, as well as 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 operational risk policy, framework 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 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 and Shariah non-compliance events. Such reporting facilitates Senior Management to identify adverse operational lapses, take prompt corrective actions, 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 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 failures in control by flagging up 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 to avoid further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

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, amongst others, are as follows:

- **Business Continuity Management ("BCM")**
  To mitigate the impact of unforeseen operational risk events, the Bank has ongoing and actively managed Business Continuity Planning ("BCP") programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management ("BCM") Department.

  The Board of Directors has an oversight function through the GRMC and Group Management Committee ("GMC"). The Group Business Continuity Management Steering Committee ("GBCMSC") is the committee that oversees the Bank'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 Group's operations and services ensures that the risk arising from outsourcing activities is adequately identified, assessed and managed prior to entering into any new arrangements and on an ongoing basis.

- **Insurance / Takaful Management**
  The Bank considers risk transfer by means of insurance/Takaful to mitigate operational risk. The Bank has a programme of insurance designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance/Takaful 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/Takaful providers 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 of Products & Services Lifecycle" which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risks for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts, lawsuits or claims, developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Bank's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

Treatment for Operational Risk Capital Charge

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital charge. The Bank's operational risk-weighted assets and the corresponding risk capital charge for position as at 31 December 2013 and 31 December 2012 are shown below:

Table 17: Operational Risk-Weighted Assets and Capital Requirement

Operational Risk	(RM'000)	
	2013	2012
Risk-Weighted Assets	783,884	689,105
Risk Capital Charge	62,711	55,128

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, 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 Bank's interests, 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 and legal compliance;
- Continuous monitoring of threats to reputation;
- Ensuring ethical practices throughout the Group; and
- Establishing crisis management plans and ensuring these are continuously updated.

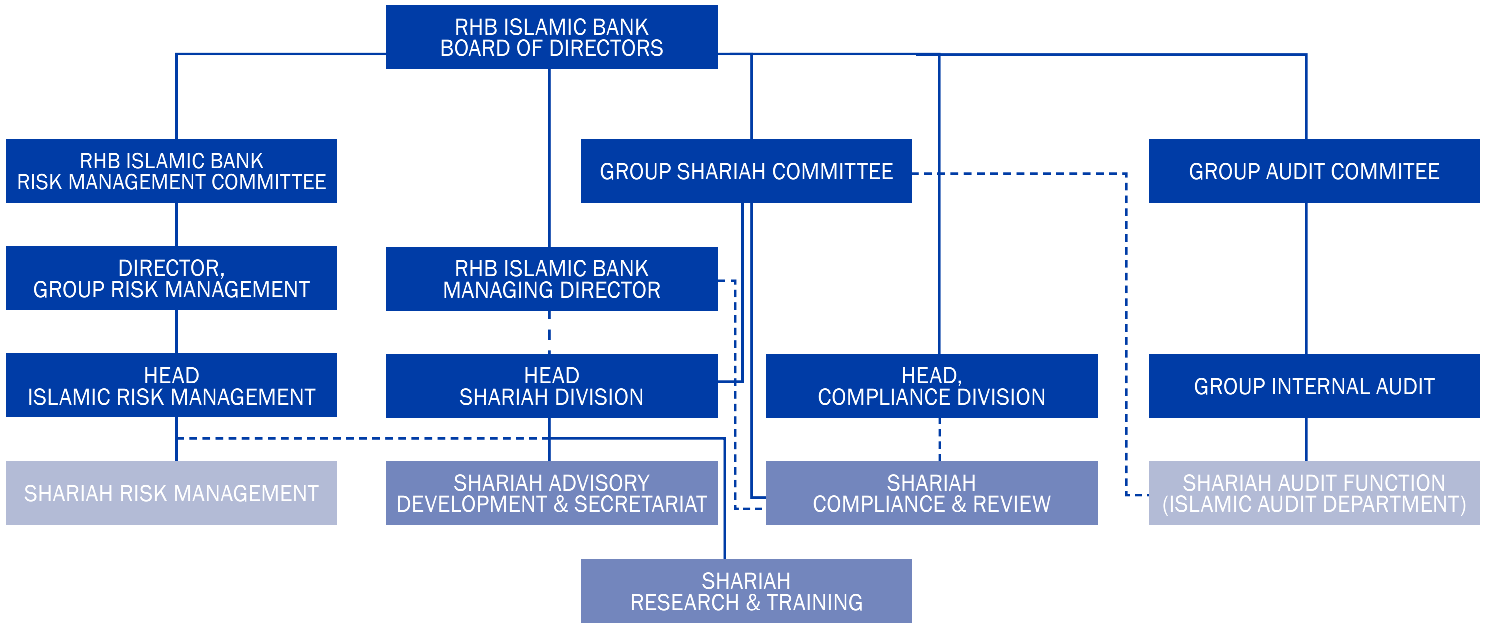
13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

Shariah non-compliance risk may arise from RHB Islamic Bank's failure to comply with the Shariah rules and principles as determined by the Shariah Committee of the 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 Islamic Bank's products, services and conduct of business are in accordance with Shariah principles;
- ensure that the Bank's operations do not contravene any of the Shariah requirements and authorities' regulations related to the Shariah; and
- act as a guide on the Bank's expectations to all personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



The Group Shariah Committee ("GSC") of the Bank was established under BNM's Shariah Governance Framework to advise the 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, RHB Islamic 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 the Islamic Bank's 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 Islamic Bank. The key functions of the Shariah Divsion are undertaken by two sub-units, i.e. "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 Islamic Bank's 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 main duties and responsibilities of Shariah Compliance and Review functions covers the regular assessment on Shariah compliance in the activities and operations of the Islamic Bank with the objective of ensuring that the activities and operations carried out by Islamic Bank do not contravene with Shariah. The scope shall covers the Islamic Bank's overall business operations, including the end-to-end product development process starting from product structuring to product offering and recovery.

Any incidences of Shariah non-compliance are reported to the GSC, the Islamic Bank's Risk Management Committee, the Board of Directors of the Islamic Bank and BNM. Remedial actions may include the immediate termination of the Shariah non–compliant products or services and de-recognition of Shariah non-compliant income.

There is no major Shariah non-compliant event or income arising from the Bank's products or services during the financial year 2013.

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 18	**Glossary of Terms**
BIA	Basic Indicator Approach
BCM	Business Continuity Management
BCP	Business Continuity Planning
BNM	Bank Negara Malaysia
Board/BOD	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
GCSC	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
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody’s	Moody’s Investors Service
NIFs	Notes Issuing Facilities
NSFR	Net Stable Funding Ratio
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
SBUs	Strategic Business Units
SFUs	Strategic Functional Units
S&P	Standard & Poor’s
SMEs	Small-and medium-sized enterprises
VaR	Value-at-Risk

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