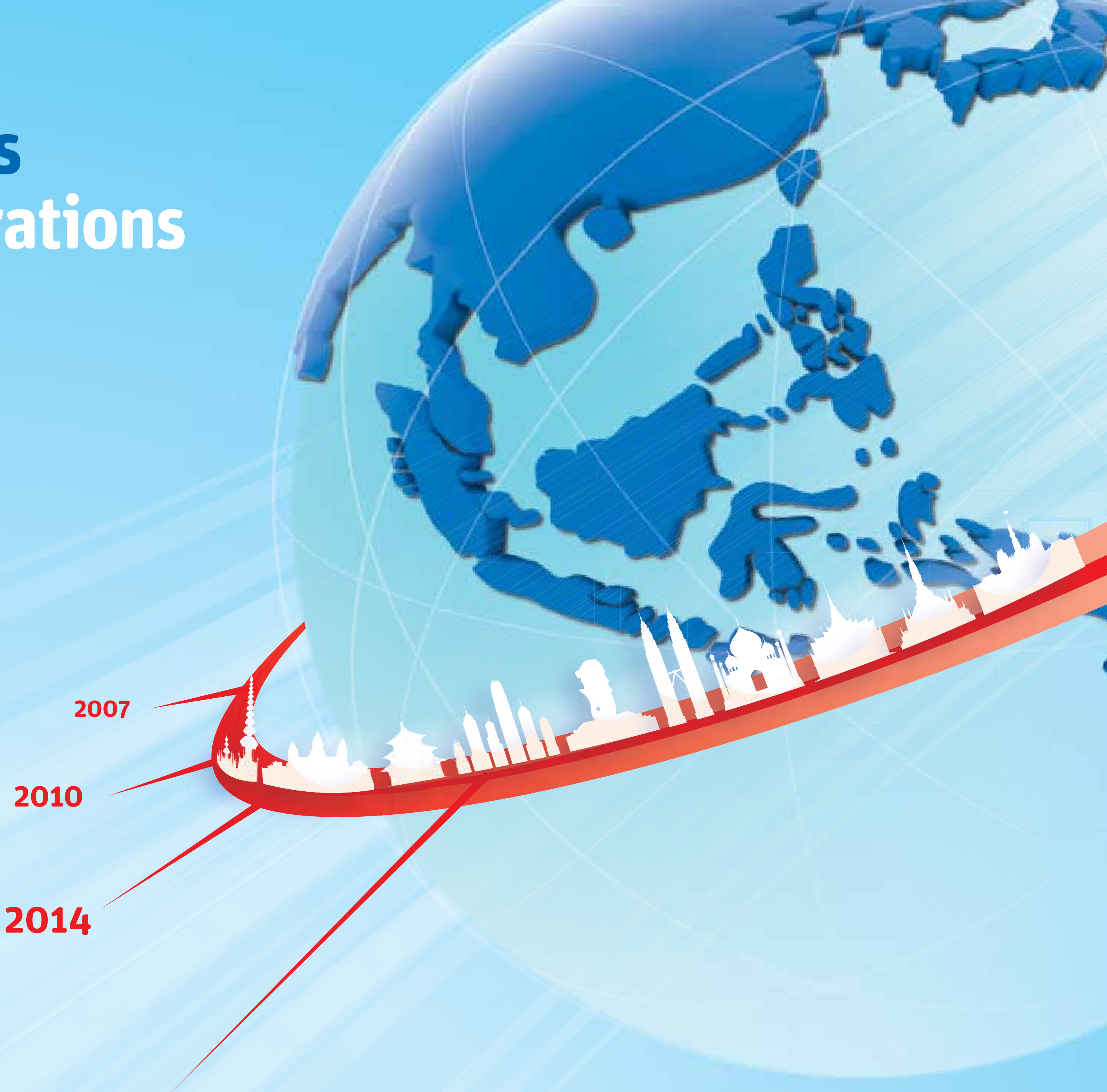
RHB Islamic Bank Berhad

TOGETHER WE PROGRESS

ANNUAL REPORT 2014

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

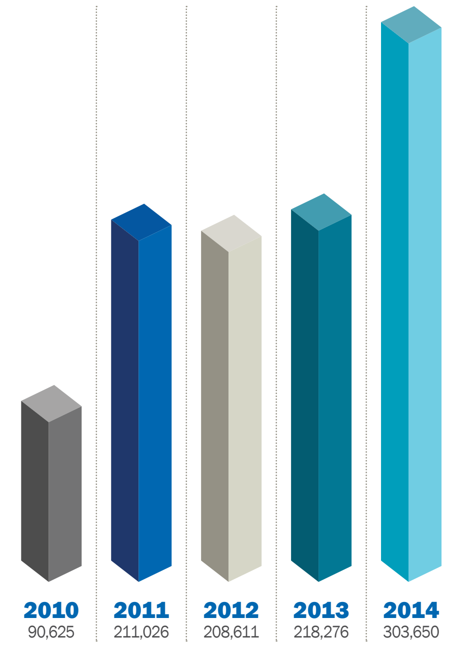
FIVE-YEAR FINANCIAL SUMMARY

	2014 (RM'000)	2013 (RM'000)	2012 (RM'000)	2011 (RM'000)	2010 (RM'000)
RESULTS					
Operating revenue	**1,455,197**	1,211,922	1,136,990	792,691	548,746
Net income	**530,971**	446,496	398,955	366,808	236,055
Profit before zakat and taxation	**303,650**	218,276	208,611	211,026	90,625
STATEMENTS OF FINANCIAL POSITION					
Shareholders' equity	**2,252,397**	2,027,132	1,693,673	1,341,141	984,665
Total assets	**36,113,786**	29,131,089	25,609,662	22,650,317	13,111,820
Financing and advances	**25,265,443**	18,436,792	16,002,714	12,732,595	8,713,761
Total deposits	**31,770,545**	25,461,734	21,889,173	20,811,963	12,013,575
RATIOS					
Return on average equity (%)	**10.48**	8.95	10.30	11.40	7.18
Return on average assets (%)	**0.69**	0.61	0.65	0.90	0.56
Risk Weighted Capital Ratio (%)	**16.336**	14.424	14.699*	13.93	13.56
Core Capital Ratio (%)	**12.875**	13.864	13.971*	12.88	12.23

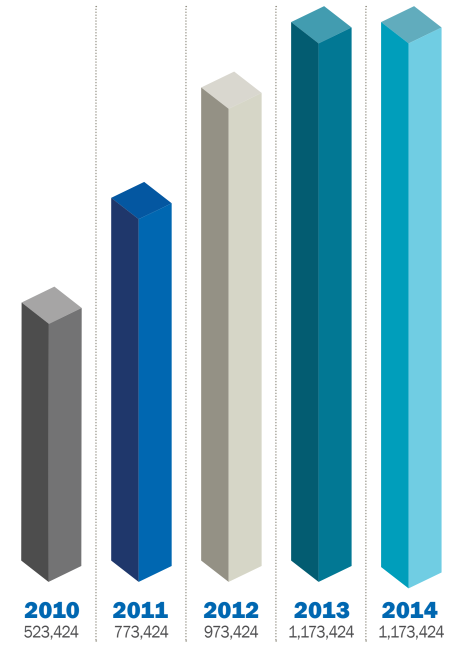
* Restated in accordance with BNM's Capital Adequacy Framework for Islamic Banks (capital components).

FIVE-YEAR FINANCIAL HIGHLIGHTS

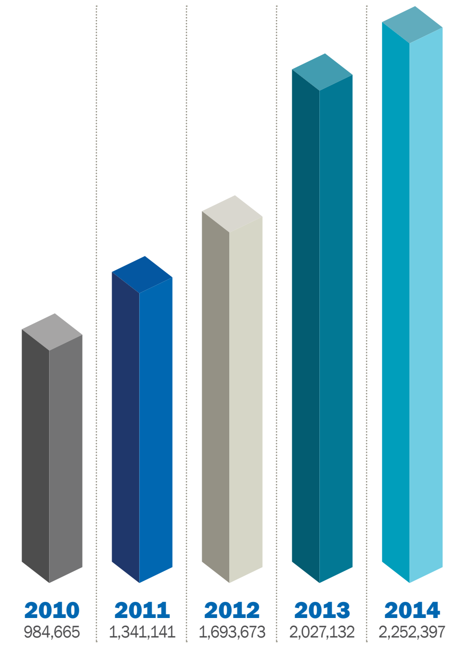
PROFIT BEFORE ZAKAT AND TAXATION (RM'000)



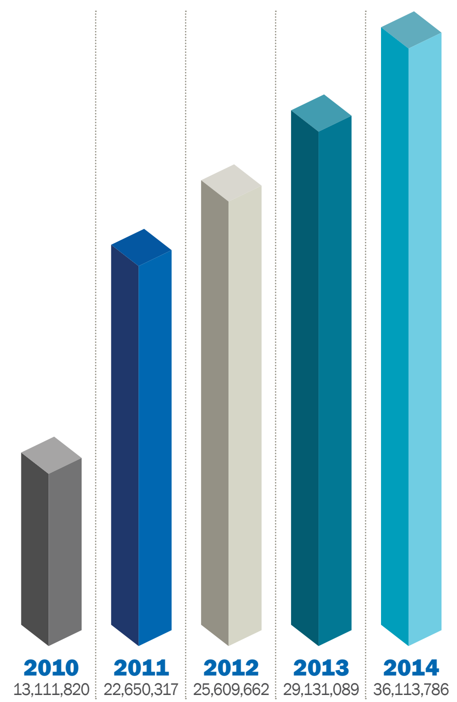
SHARE CAPITAL (RM'000)



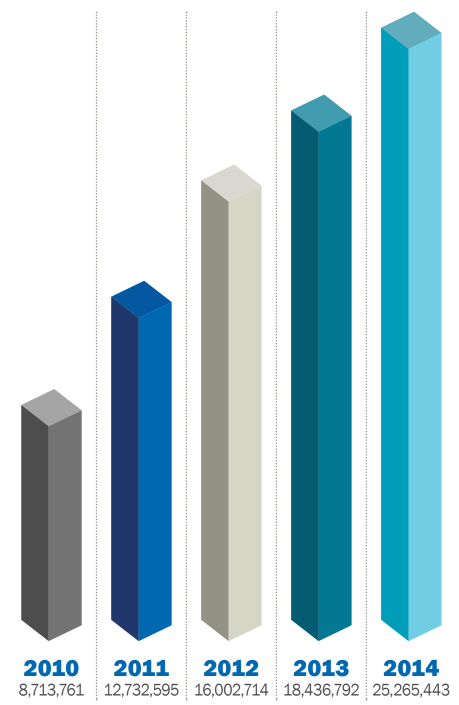
SHAREHOLDERS' EQUITY (RM'000)



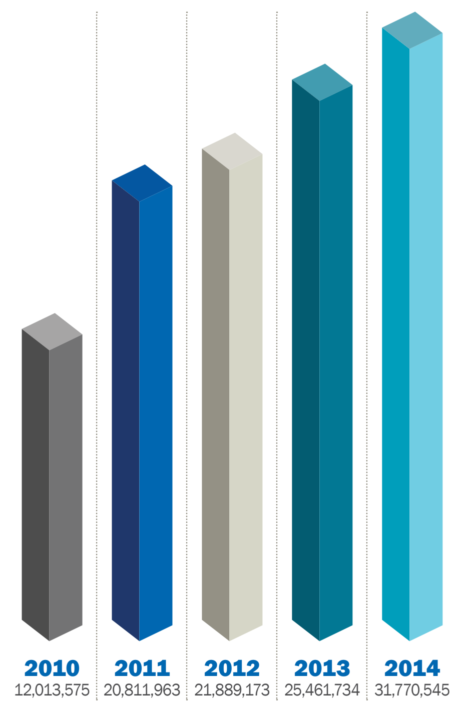
TOTAL ASSETS (RM'000)



FINANCING AND ADVANCES (RM'000)



TOTAL DEPOSITS (RM'000)



CORPORATE INFORMATION

AS AT 25 FEBRUARY 2015

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 AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Datuk Seri 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

Datuk Seri Saw Choo Boon

BOARD NOMINATING AND REMUNERATION COMMITTEE#

Datuk Haji Faisal Siraj
Chairman

Datuk Seri 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

CORPORATE INFORMATION
AS AT 25 FEBRUARY 2015

GROUP SHARIAH COMMITTEE

Dr Ghazali Jaapar
Chairman

Professor Dr. Joni Tamkin Borhan

Assoc. Prof. Dr. Amir Shaharuddin

Wan Abdul Rahim Kamil Bin Wan Mohamed Ali

Mohd Fadhly Md Yusoff

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
Head, Group Retail Banking

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 9, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603 - 9280 8888 Fax : 603 - 9280 2996

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

DR. GHAZALI JAAPAR (CHAIRMAN)

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

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

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

PROFESSOR DR. JONI TAMKIN BORHAN

Prof. Dr. Joni Tamkin is currently serving as 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, and University of Malaya from September 2006 until August 2007.

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

ASSOC. PROF. DR. AMIR SHAHARUDDIN

Assoc. Prof. Dr. Amir is currently Dean Faculty of Economic & Muamalat, Islamic Science University of Malaysia (USIM) since December 2013. He was the first recipient of Scholar of Residence in Islamic Finance award, jointly initiated by Malaysia Securities Commission and Oxford Centre for Islamic Studies (OCIS).

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

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

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

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

MEMBERS OF RHB ISLAMIC BANK'S SHARIAH COMMITTEE

WAN ABDUL RAHIM KAMIL BIN WAN MOHAMED ALI

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 as "Outstanding Leadership in Islamic Finance" by London Sukuk 2011 organized by ICG Events and UK Trade and Industry Ministry in London, United Kingdom.

He is also a regular trainer and speaker for various seminars and in-house training workshops organized by Bank Negara Malaysia (BNM), Securities Industries Development Corporation (SIDC), Islamic Banking and Finance Institute Malaysia (IBFIM) and other event organizers, 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 under 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 (ITM) 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 Securitization.

MOHD FADHLY MD YUSOFF

Mohd Fadhly has more than 13 years of experience in Islamic Capital Market during his tenure as 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. In addition, 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 Sun Life Malaysia Takaful Bhd as well as an external Shariah adviser for University Tenaga Nasional.

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

He obtained his Bachelor of Syariah (1st Class Honours) from University of Malaya, Malaysia in 1995.

RHB CAPITAL BERHAD GROUP CORPORATE STRUCTURE

AS AT 25 FEBRUARY 2015

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
    - **100%** RHB OSK Indochina Securities Limited
  - **100%** RHB Bank Lao Limited (7)

INVESTMENT BANKING GROUP

- **100%** RHB Investment Bank Berhad
  - **100%** RHB OSK International Investments Pte Ltd
    - **100%** RHB OSK Asset Management Pte Ltd
      - **40%** RHB OSK GC-Millennium Capital Pte Ltd (5)
  - **100%** RHB Holdings Hong Kong Limited
    - **100%** RHB OSK Securities Hong Kong Limited
      - **100%** RHB OSK Nominees Hong Kong Limited
    - **100%** RHB OSK Futures Hong Kong Limited
    - **100%** RHB OSK Finance Hong Kong Limited
    - **100%** RHB OSK Capital Hong Kong Limited
    - **100%** RHB Fundamental Capital Hong Kong Limited
    - **100%** RHB OSK Asset Management Limited
      - **51%** RHB-OSK Fideus Asia and Emerging Markets Value Fund Ltd
    - **100%** RHB OSK Wealth Management Hong Kong Limited
    - **100%** RHB OSK (China) Investment Advisory Co Ltd
  - **99%** PT RHB OSK Securities Indonesia
    - **99.62%** PT RHB OSK Asset Management
  - **100%** 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) PCL

RHB CAPITAL BERHAD GROUP CORPORATE STRUCTURE
AS AT 25 FEBRUARY 2015

◆ **100%** OSK Investment Bank (Labuan) Limited *

- **100%** OSK Futures and Options Sdn Bhd *
- **100%** OSK Research Sdn Bhd *
- **100%** RHB 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%**
- **80%** Malaysian Trustees Berhad (6) **20%**
- **100%** OSK Investment Management Berhad *
- **100%** RHB Asset Management Sdn Bhd
  - **100%** RHB Islamic International Asset 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 Bhd (4)
- **100%** RHB Private Equity Holdings Sdn Bhd
  - **100%** RHB Private Equity Management Ltd
  - **100%** RHB Private Equity Fund Ltd (Cayman Islands)

◆ **94.70%** RHB Insurance Berhad

- **40.05%** RHB Finexasia.Com Sdn Bhd **59.95%**
  - **100%** RHB OSK Stock 188.Com Sdn Bhd *
- **49%** Vietnam Securities Corporation (5)

OTHERS

- **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%** RHB Venture Capital Sdn Bhd *
- **100%** RHB Kawal Sdn Bhd
- **100%** OSKIB Sdn Bhd *

Notes:
* Dormant Company
# Inactive

(1) With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.
(2) The company has ceased operations from the close of business on 10 December 2001.
(3) The company has commenced members' voluntary winding-up on 16 February 2011.
(4) The company has commenced members' voluntary winding-up on 28 March 2012.
(5) Jointly controlled entity
(6) Held by: (i) RHB Investment Bank Berhad; (ii) RHB Nominees (Tempatan) Sdn Bhd; (iii) RHB Nominees (Asing) Sdn Bhd; and (iv) OSK Futures and Options Sdn Bhd with direct shareholdings of 20% each.
(7) The company is incorporated on 30 May 2014 and commenced business on 6 June 2014.

PROFILES OF THE BOARD OF DIRECTORS

TUAN HAJI MD JA'FAR ABDUL CARRIM

(59 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 and 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 also sits on the Board of Employees Provident Fund, Malaysia.

Haji Ja'far's other directorship in a public company includes RHB Insurance Berhad.

PROFILES OF THE BOARD OF DIRECTORS

DATUK HAJI FAISAL SIRAJ

(69 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, Group Board Audit Committee of RHB Capital Berhad 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 Capital Berhad, RHB Insurance Berhad, RHB Trustees Berhad and Malaysian Trustees Berhad.

PROFILES OF THE BOARD OF DIRECTORS

CHARLES LEW FOON KEONG

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

Charles Lew Foon Keong ("Mr Charles 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 Charles 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 Charles Lew has more than 30 years of investment banking experience. He started his career in 1983 in London with Wardley James Capel (the then merchant banking and stockbroking operations of the Hong Kong Bank Group) and subsequently worked for a British merchant bank, Robert Fleming, prior to joining Credit Commercial de France in 1989. In 1990, he returned to Asia to join Hoare Govett Asia in Singapore, where he was responsible for the regional corporate finance business. In 1997, following the sale of Hoare Govett Asia to ABN AMRO Bank, Mr Charles Lew was appointed as the Managing Director of ABN AMRO's investment banking operations in Singapore. In 1999, Mr Charles Lew founded Equator Capital, an investment management and advisory company primarily active in the 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, equity placements, takeovers and mergers, debt/equity restructuring and venture capital and private equity financing.

Mr Charles Lew's other directorships in public companies include RHB Investment Bank Berhad and Hastings Rare Metals Ltd, a company listed on Australian Securities Exchange.

PROFILES OF THE BOARD OF DIRECTORS

CHOONG TUCK OON

(56 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 the Board Technology Committee and Member of the 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) in Mathematics from University of Malaya, a Masters of Science in Computer Applications 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-bank collaborative initiatives. He also has experiences in the 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 Director of FIDE Forum and a Non-Executive Director in NTUC Income Insurance Cooperative Singapore.

PROFILES OF THE BOARD OF DIRECTORS

DATO' MOHD ALI MOHD TAHIR

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

Dato' Mohd Ali Mohd Tahir ("Dato' Mohd Ali") was appointed as an Independent Non-Executive ("INED") of RHB Bank Berhad and RHB Islamic Bank Berhad on 1 January 2011.

He remains as an INED of RHB Islamic Bank and is the Chairman of the Islamic Risk Management Committee and a Member of Board Technology Committee.

A career banker with a leading global bank with a service record of 36 years, Dato' Mohd Ali has extensive experience in banking and has held key positions at senior management level. He attended the industry highly acclaimed ICLIF Global Leadership Development Program, under the auspices of Bank Negara Malaysia, and completed the Financial Institution Directors' Education program.

PROFILES OF THE BOARD OF DIRECTORS

TUAN HAJI IBRAHIM HASSAN

(59 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.

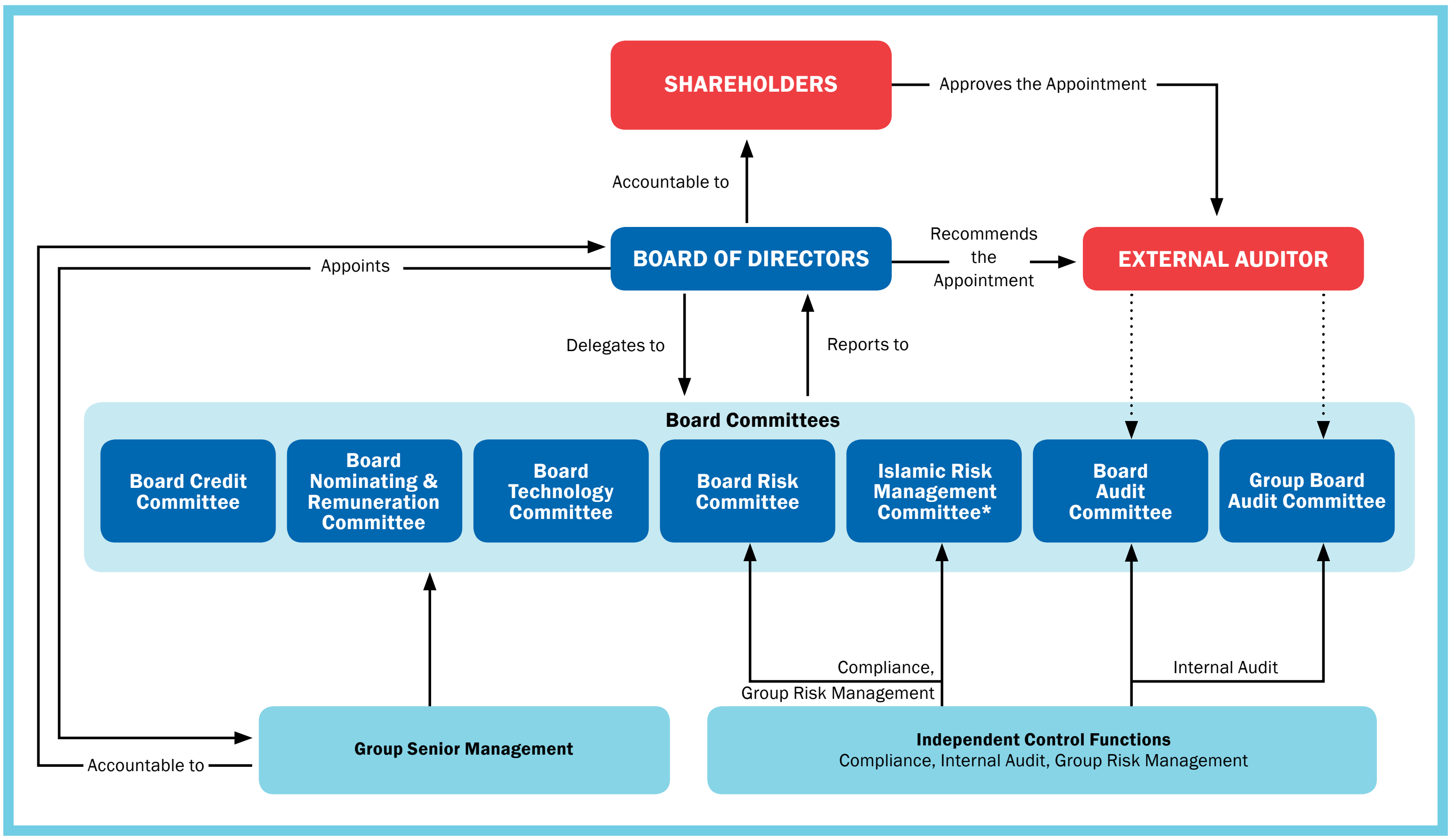
CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("Board") of RHB Islamic Bank Berhad ("RHB Islamic Bank" or "Company") recognises that good corporate governance is the keystone to RHB Banking Group's ("the Group") long-term success and in delivering value to its shareholders and all its other stakeholders. The Board strives to ensure that the Company's integrity and professional conduct are beyond reproach. In line with the Group's IGNITE 2017 transformation programme to become a leading multinational financial services group by 2020, the Board is fully committed to fostering a corporate culture with high standards of governance, integrity, transparency and accountability.

Throughout the years, the Board has made concerted efforts to support the Group's position as a whole and its reputation as a leading financial holding company are held in good stead. The Group has thus implemented a corporate governance structure 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. Hence, these governance processes are also cascaded and adopted by the subsidiaries including the Company.

The Board believes there are always opportunities for improvement and continuously explores enhancements to the Company's governance processes. In line with the restructuring of the Group's organisation in 2014 as outlined in the IGNITE 2017 Statement, the Group also reviewed its corporate governance structure to ensure it remains robust even as it continues to expand.

GOVERNANCE MODEL



* This Board Committee is a dedicated Board Committee to address all risk management issues that relate specifically to Islamic Finance and the intricacies thereof.

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

Board Charter

The Group has developed Board Charters for each of its major entities. The Board Charters set out the key corporate governance principles adopted by the Boards of the Group and clearly define the responsibilities of Boards, Chairperson, Senior Independent Director and the Group Managing Director ("Group MD")/Managing Director ("MD")/Chief Executive Officer. The role of each party is also stipulated to ensure checks and balances in the day-to-day management of the Group's businesses and operations.

Within these boundaries, the Board of RHB Islamic Bank also discusses, sets and agrees with Management the annual balanced scorecard and key performance indicators that are to be executed and achieved by Management. The performance and progress of Management is then reviewed by the Board at specified intervals.

The Board Charter is reviewed periodically by the Board to ensure corporate governance principles are in line with changes in regulations and best practices.

Roles and Responsibilities of the Board

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

The Board conducts a monthly review on 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 Company has embarked on various measures to ensure that its market share and profitability are not significantly impacted.

The Board in collaboration with Management has also looked at various strategies which include enhancing Shariah capacity and capabilities, introducing new equity based products, leverage business model, product innovation and differentiation as well as strengthening of delivery and distribution channels. The Company will continue to strengthen its brand value and expand beyond the domestic market business opportunities with the Group.

The Board assumes the following key roles and responsibilities:

(a) Strategy setting

The Board plays an active role in reviewing the Company's strategy, business plans, financial objectives, major capital and operating budgets as well as policies proposed by the Management. The Board monitors the Management's performance in implementing the adopted strategies and plans whilst providing direction and advice to ensure the realisation of the objectives.

(b) Governing the Company's business conduct and operations

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

The Board also governs the Company's risk management, internal controls and human resource ("HR") management through the delegation of certain decision making and/or oversight responsibilities to various Board Committees, namely the Board Audit Committee, Board Risk Committee, Board Credit Committee, Board Nominating & Remuneration Committee and Islamic Risk Management Committee.

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

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

CORPORATE GOVERNANCE STATEMENT

(c) Risk Management

The Board is responsible for identifying the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board Risk Committee ("BRC") has been entrusted with providing oversight and governance of risks for the Group. The BRC comprises four Independent Non-Executive Directors ("INEDs") and one Non-Independent Non-Executive Director ("NINED") representing the Group's respective entities including the Company. Besides the BRC, the Islamic Risk Management Committee ("IRMC") supports the Board in providing oversight and governance of risk management in relation to Islamic finance. The IRMC comprises of directors of the Company representing three INEDs and one NINED. Two of the IRMC members are common with the BRC, in ensuring alignment and consistency with the Group's risk dynamics matters deliberated at BRC and IRMC are presented to the Board in a monthly basis.

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

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

The Company maintains and reviews its internal control procedures to ensure, as far as possible, the protection of its assets and liabilities as well as its shareholders' investments. The Board considers that the Company's risk management framework and system of internal control, which are in place throughout the financial year, up to and as of the date of this report, are operating adequately and effectively. An overview of the Company's systems of risk management is contained in the Risk Management Statement set out on pages 30 to 33 of this Annual Report.

(d) Talent Development and Succession Planning

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

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

In line with IGNITE 2017, the Group has made a concerted effort to enhance and realign its HR and talent management to attract and retain regional talent and build a high-performing regional workforce. During the year, this saw the BNRC considering the renewal of service contracts and new appointments for key management positions based on their profiles, professional achievements and personal assessments. This included successfully identifying and attracting suitable candidates for all senior positions. The BNRC also considered their remuneration packages in finalising the terms and conditions of their service contracts.

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

(e) Internal Control

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

Board Composition and Balance

The Board of RHB Islamic Bank is currently represented by six Members, comprising a Non-Independent Non-Executive Chairman, four INEDs and the MD. The structure and composition of the Board comply with Bank Negara Malaysia's ("BNM") Guidelines on Corporate Governance ("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

CORPORATE GOVERNANCE STATEMENT

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.

Boardroom Diversity Policy

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

Assessment of Independence

The independence of the Directors is reviewed annually and benchmarked against best practices and regulatory provisions. The BNRC assesses the independence of INEDs via the Board Effectiveness Evaluation ("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 results, the Board is generally satisfied with the level of independence demonstrated by all the INEDs and their ability to act in the best interest of the Company.

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 BNM's CG Guidelines for Licensed Institutions and BNM's CG Guidelines on for Licensed Islamic Banks, respectively. All the Independent Directors are independent from the substantial shareholders of the Company, not being substantial shareholders themselves nor directly associated with any substantial shareholders.

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

Tenure of Independent Directors

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

Role of the Chairman and Managing Director

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

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

Additionally, the Chairman ensures that general meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965.

The MD, Tuan Haji Ibrahim Hassan ("Tuan Haji Ibrahim"), 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.

Directors' Appointment and Assessment

(a) Appointment of Directors

The Group leverages on the industry's talent pool and the Group's Independent Directors' network to source for new candidates for Board appointments, as overseen by the BNRC, and the same applies to the Company.

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

CORPORATE GOVERNANCE STATEMENT

NOMINATION FRAMEWORK

Review of optimal size and mix of skills	Identification of candidates with the required skills	Selection of candidates through evaluation of suitability	Conduct the Fit and Proper assessment	Interaction with candidates	Deliberation by BNRC	Recommendation to Board for approval

New Director nominees are assessed by the BNRC in accordance with RHB Banking Group's Policy and Guidelines on Fit and Proper for Key Responsible Persons ("Fit and Proper Policy"). The assessment takes into account the nominees' background, skills, knowledge and experience, and is part of a transparent nomination process before a recommendation is made for the Board's approval.

These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, the completion of declarations by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy and regulatory disqualification. These assessments are reviewed on an annual basis. The Fit and Proper Policy outlines the following criteria in assessing the suitability of the candidate:

- 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.

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

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

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

(b) Board Effectiveness Evaluation

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

The BEE is based on a combination of self and peer assessment performed via a customised questionnaire. To ensure integrity and independence of the appraisal process, Messrs PricewaterhouseCoopers Advisory Services Sdn Bhd ("PwCAS") is engaged to collate and tabulate the results of the evaluation. 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.

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

CORPORATE GOVERNANCE STATEMENT

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

In December 2014, each Director and Board Committee member was required to perform an online self and peer assessment for the year in review. Upon completion, individual results together with a peer average rating on each area of assessment will be provided to each Director and Board Committee member for their information and further improvement. A summarised report will also be presented to the BNRC and the Board to identify and address areas for improvement.

MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

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

For the financial year ended 31 December 2014, the Board is satisfied with the 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 BNM's revised guidelines as adopted by the Company.

The Board convened 17 meetings for the financial year ended 31 December 2014. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Directors	No. of Meetings Attended	Total Percentage of Attendance (%)
Tuan Haji Md Ja'far Abdul Carrim	16/17	94
YBhg Datuk Haji Faisal Siraj	17/17	100
Mr Charles Lew Foon Keong	16/17	94
Mr Choong Tuck Oon	15/17	88
YBhg Dato' Mohd Ali Mohd Tahir	17/17	100
Tuan Haji Ibrahim Hassan	17/17	100

For the Directors' convenience, an annual meeting schedule for Board and Board Committee meetings and the AGM is circulated to the Directors before the beginning of every year.

In 2014, the Group embarked on the use of a meeting management solution system (in place of eBooks which were used since 2011), allowing Directors/Board Committee Members to access the online portal directly in a secured and organised manner on their iPads. This initiative has significantly enhanced mobility, movement of documents, cost and time savings, as well as created greater convenience, better security and a positive impact on the environment. Directors who are unable to attend the Board/Board Committee meetings physically are also encouraged to participate via telephone or video-conferencing.

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

In addition, notices on the closed period for trading in RHB Capital securities based on the targeted date of announcement of the Group's quarterly results are circulated in advance to Directors and principal officers who are deemed privy to any price sensitive information and knowledge, whenever the closed period is applicable.

CORPORATE GOVERNANCE STATEMENT

Information and Advice

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

Dedicated Company Secretary

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

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

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

REMUNERATION STRATEGIES

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

The Group has also established a common reference (incorporating the Non-Executive Directors' ("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 align with the market and remaining competitive.

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.

The shareholders of the Company had, at the last AGM held on 30 April 2014, approved an increase of Directors' fee to RM150,000 per annum for the Non-Executive Chairman and RM120,000 per annum for NEDs retrospective from 1 January 2013.

(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.

(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 Company.

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 is proven to have acted negligently, fraudulently or dishonestly, or in breach of his duty of care. The Directors are required to contribute jointly towards the premium of the said policy.

CORPORATE GOVERNANCE STATEMENT

DIRECTORS' ORIENTATION, CONTINUING EDUCATION AND TRAINING

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

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

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

- Bursa Malaysia – Nominating Committee Programme 2: Effective Board Evaluations
- FIDE Forum Event – A Comprehensive Talent based Approach to Board Recruitment

(b) Banking and Finance

- ICAAP Training No. 5 – Supervisory Review Preparation For Board Of Directors
- Talk, How To Be Innovative In The Way We Think, Operate And Execute
- The Briefing On Cross Border Financing Between Malaysia And Indonesia
- Breakfast Talk – Singapore National ICT Masterplan

(c) Risk Management And Legal

- KPMG Training – Managing Risks In Islamic Banks
- Advanced Risk Governance And Risk Management
- The Inverse Risk Logic Approach To Risk Governance Programme
- Sweating The Right Stuff – Risk For Profitable Growth

BOARD COMMITTEES

To ensure effectiveness in discharging its roles and responsibilities, the Board also delegates specific authorities to Islamic Risk Management Committee, Shariah Committee and other relevant Board Committees which are established centrally at RHB Capital Berhad and RHB Bank Berhad and serve the other entities of the Group, namely Board Nominating & Remuneration Committee, Board Risk Committee, Board Audit Committee and Board Technology Committee. The delegation of authority is expressly stipulated in the Terms of References ("TORs") of the respective Board Committees. The TORs are reviewed periodically to ensure effective and efficient decision making in the Group. The Board Committees also act as oversight committees, evaluating and recommending matters under their purview for the Board to consider and approve.

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

CORPORATE GOVERNANCE STATEMENT

Islamic Risk Management Committee

The Board is supported by the IRMC which provides oversight and governance and risk management to Islamic finance. The IRMC comprises four NEDs of RHB Islamic Bank, of whom three are INEDs and one is NINED. IRMC met 16 times during the financial year 2014. The composition of IRMC and the attendance of the members at Meetings held in 2014 are as follows:

Name of Directors	Attendance at Meetings
YBhg Dato' Mohd Ali Mohd Tahir (INED/Chairman)	16/16 (100%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	16/16 (100%)
YBhg Datuk Haji Faisal Siraj (INED)	15/16 (94%)
Mr Choong Tuck Oon (INED)	13/16 (81%)

The salient TOR of the IRMC is as follows:

- To provide risk oversight and guidance to ensure that the management of risk exposures in the RHB Islamic Bank are aligned to the principles of Islamic Banking as guided by the relevant regulatory authority.
- To provide risk oversight and guidance to ensure core risk policies are consistent with the RHB Group by ensuring timely development and review of the Risk Appetite Statement, setting tolerance level within prudent risk limits, ensuring adequacy and accuracy of stress testing results, facilitate the implementation of BNM Capital Adequacy Framework for Islamic Banks, implementation of Basel III, Internal Capital Adequacy Assessment Process (Pillar 2), and Islamic Financial Services Board (IFSB) Standards and any other applicable legislations and regulations.
- To oversee execution of risk policies and related decisions of the Board of Directors, as is appropriate.
- To provide oversight for major risk categories which are unique to Islamic finance such as :
  - a) Displaced Commercial Risk;
  - b) Withdrawal Risk;
  - c) Rate of Return Risk;
  - d) Fiduciary Risk; and
  - e) Shariah Non-Compliance Risk.
- To provide risk oversight and guidance to ensure prior to the launching of any product, all risks are identified and risk mitigation measures are in place.

Group Shariah Committee

The Group Shariah Committee is established at RHB Islamic Bank Berhad and comprises of five (5) qualified Shariah scholars. The assortment of knowledge, experience and approach from these mixed Shariah scholars are to position the Company's operations and products to be globally accepted.

The main duties and responsibilities of the Group Shariah Committee are as follows:

- To advise the Group on all Shariah matters to ensure its business operations comply with Shariah Principles, where applicable.
- Where relevant, to advise the Group to consult BNM's Shariah Advisory Council ("SAC") on any Shariah matters which have not been resolved or endorsed by the SAC.

There were 14 meetings held during the financial year ended 31 December 2014. The details of attendance of each member at the Group Shariah Committee Meetings are as follows:

Name of Group Shariah Committee Members	Attendance at Meetings
Dr. Ghazali Jaapar (Chairman)	14/14 (100%)
Professor Dr. Joni Tamkin Borhan	12/14 (86%)
Assoc. Prof. Dr. Amir Shaharudin	12/14 (86%)
Wan Abdul Rahim Kamil Wan Mohamed Ali	14/14 (100%)
Mohd Fadhly Md. Yusoff	14/14 (100%)

Board Committees That Are Established at RHB Capital Berhad and RHB Bank Berhad

In addition to the above, the following centralised Board Committees (which are established at RHB Capital and RHB Bank Berhad) assist the Boards and Management in governing the business activities and operations of RHB Capital's major operating subsidiaries including RHB Islamic Bank.

Board Nominating & Remuneration Committee

The BNRC comprises five NEDs, of whom four are INEDs and one NINED, representing the respective entities within the Group including RHB Islamic Bank. The BNRC is chaired by YBhg Datuk Haji Faisal Siraj, the Senior INED of RHB Capital. The BNRC met 11 times during the financial year 2014. The composition of the BNRC and

CORPORATE GOVERNANCE STATEMENT

the attendance of the members at meetings held in 2014 are as follows:-

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (INED/Chairman)	11/11 (100%)
YBhg Dato' Mohamed Khadar Merican (INED)*	6/8 (75%)
YBhg Datuk Seri Saw Choo Boon (INED)	11/11 (100%)
YBhg Dato' Teo Chiang Liang (INED)	9/11 (82%)
Mr Choong Tuck Oon (INED)	9/11 (82%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	11/11 (100%)

Note:
* YBhg Dato' Mohamed Khadar Merican resigned as a member of BNRC with effect from 18 September 2014.

The salient TOR of the BNRC is 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 programs for closure of skill gaps and keeping abreast with latest developments.
- 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, options and benefits-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.
- Approve changes to Group HR policies, in line with HR strategy and direction set by the Board.

Board Risk Committee

The Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and safeguard shareholders' investments as well as the Company's and the Group's assets. The Board Risk Committee ("BRC") provides oversight and governance of risks for the Group, and reviews the Management's risk management activities and policies, except for those relating to Islamic finance.

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

CORPORATE GOVERNANCE STATEMENT

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

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

The BRC comprises five NEDs, of whom four are INEDs and one NINED, representing the respective entities within the Group. The BRC met 20 times during the financial year 2014. The composition of the BRC and the attendance of the members at meetings held in 2014 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (INED/Chairman)	20/20 (100%)
Mr Patrick Chin Yoke Chung (INED)	17/20 (85%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	20/20 (100%)
Mr Choong Tuck Oon (INED)	18/20 (90%)
YBhg Datuk Seri Saw Choo Boon (INED)	16/20 (80%)

Pursuant to the Group's current governance framework, RHB Islamic Bank has adopted the BRC while maintaining a dedicated IRMC to manage Shariah risk and its associated intricacies.

Board Audit Committee

The Board Audit Committee ("BAC") comprises four INEDs representing the Group's operating entities including RHB Islamic Bank. The BAC provides independent oversight of RHB Banking Group's financial reporting and internal control system, ensuring checks and balances for entities within the Group, excluding RHB Capital (which establishes its own Group Board Audit Committee (GBAC) as required under Main Market Listing Requirements ("MMLR")). The BAC continuously reinforces the independence of the external auditors and provides a line of communication between the Board and the external auditors.

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

Board Credit Committee

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

The BCC met 38 times during the financial year 2014. The composition of the BCC and the attendance of the members at meetings held in 2014 are as follows:-

Name of Members	Attendance at Meetings
YBhg Dato' Mohamed Khadar Merican (INED/ Chairman)*	30/38 (79%)
Tuan Haji Khairuddin Ahmad (INED)*	37/38 (97%)
Mr Patrick Chin Yoke Chung (INED)*	33/38 (87%)
Encik Abdul Aziz Peru Mohamed (INED)*	37/38 (97%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	38/38 (100%)

Note:

* INED within RHB Banking Group

CORPORATE GOVERNANCE STATEMENT

The salient TOR of the BCC is as follows:

- To affirm, veto or impose additional conditions on all types of credit applications (including under stock/futures broking) and all types of underwriting applications for amounts above the defined thresholds of the Central Credit Committee ("CCC") and/or the Investment & Underwriting Committee ("IUC").
- To oversee the management of impaired loans/assets as well as monitor the recovery of impaired loans/assets to enhance the Committee's oversight of the loan/asset recovery functions.
- To oversee the performance of rescheduled and restructured accounts to minimize credit loss and maximize the recovery of such accounts.
- To endorse and recommend write-offs to the respective Boards for approval.
- To endorse all policy loans/financing and loans/financing required by Bank Negara Malaysia to be referred to the respective Boards for approval.

Board Technology Committee

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

The BTC met 8 times during the financial year 2014. The composition of the BTC and the attendance of the members at meetings held in 2014 are as follows:-

Name of Members	Attendance at Meetings
Mr Choong Tuck Oon (INED/Chairman)	8/8 (100%)
Mr Ong Seng Pheow (INED)*	6/8 (75%)
YBhg Dato' Mohd Ali Mohd Tahir (INED)	8/8 (100%)
Mr Charles Lew Foon Keong (INED)	7/8 (87%)
Mr Kellee Kam Chee Khiong (Group MD)	7/8 (87%)
YBhg Dato' Khairussaleh Ramli (Deputy Group MD)	7/8 (87%)

Note:

* INED within RHB Banking Group

The salient TOR of the BTC is as follows:

- To review and recommend to the Board of Directors (BOD), the Group's overall technology strategies and policies.
- To review and recommend to the BOD, strategic and major technology investments and projects above management's limits set by the BOD.
  [Note : For IT capital expenditure, the Group Approving Authority Matrix ("GAAM") limits set by the BOD as at 1 January 2014 are RM20 million (budgeted) and RM3 million (unbudgeted)]
- To receive from management, updates on emerging digital technology and ecommerce trends affecting the Group.
- To perform any other activities as delegated by the BOD.

INVESTOR RELATIONS AND STAKEHOLDER COMMUNICATIONS

Corporate Disclosure

The Company and the Group, guided by the Bursa Securities' Corporate Disclosure Guide, MMLR and Financial Services Act 2013 and Islamic Financial Services Act 2013, place strong emphasis on clear, comprehensive, timely and equitable dissemination of information to the public on its business activities, milestones achieved, latest developments and financial performance. In 2013, the Group adopted a media communication plan which defined the roles and responsibilities of the Chairman and Senior Management 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 with the secrecy requirement of the Financial Services Act 2013, the Islamic Financial Services Act 2013 or other regulatory requirements in respect of information which they may acquire through the business of the Company and the Group.

Corporate Website

Recognising the importance of a high quality corporate website in promoting the Group's branding and image, the Group revamped and launched its new corporate website in February 2015 to meet the evolving expectations of customers and other stakeholders.

Information on RHB Islamic Bank's range of products is available on the corporate website (www.rhbgroup.com) under 'Products & Services'.

CORPORATE GOVERNANCE STATEMENT

UPHOLDING INTEGRITY

Compliance with Financial Reporting Standards

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

Relationship with Internal and External Auditors

Internal audit

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

Follow-up actions and a review of the status of actions taken as per the auditors' recommendations are carried out by the Management via the various Management Audit Committees established within the Group. The Group internal auditors also work closely with the external auditors to resolve any control issues as raised by them to ensure that all issues are duly acted on by the Management. Further details of the activities of the GIA function are set out in the Statement on Risk Management & Internal Control of this Annual Report.

In October 2014, the Group's current Internal Audit Charter was reviewed. Upon the BAC's recommendation, the Board approved relevant updates to the charter in line with the latest regulatory requirements as well as the International Standards for the Professional Practice of Internal Auditing.

Assessment of external auditors

The BAC undertakes an assessment of the suitability and independence of the external auditors, Messrs PricewaterhouseCoopers, based on qualifying criteria for the appointment of auditors and terms of audit engagements in accordance with BNM's Guidelines – "External Auditor" dated 29 August 2014. In addition, the performance of the external auditors is assessed through a survey issued to management personnel requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the financial reporting year.

The survey covers areas such as quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness, relationship management and staff continuity. Having satisfied itself with their performance and fulfilment of criteria as set out in BNM's Guidelines, the BAC will recommend the re-appointment of the external auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC review the non-audit services rendered by the external auditors and the related fees prior to the approval of the services. A report on non-audit fees is also presented to the BAC quarterly. This is to ensure the independence of the external auditors and its compliance with the Policy and terms of all relevant professional and regulatory requirements when rendering its audit and non-audit services. The external auditors are also required to declare/confirm their independence for all non-audit engagements undertaken.

Group Whistle Blower Policy

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

For the current year under review, three complaints pursuant to the Group Whistle Blower Policy were received, investigated and pursued. All reports or complaints are filed with the Designated Recipient as specified in the Group Whistle Blower Policy. The Group Whistle Blower Policy is available on the Group's internal portal for the reference of the Group's staff.

Code of Ethics

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

CORPORATE GOVERNANCE STATEMENT

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

Group Gifts & Hospitality Guidelines

The Group had, in November 2014, established Group Gifts & Hospitality Guidelines to promote integrity and transparency. The Guidelines complement the existing Group Code of Ethics and Conduct for Employees and are benchmarked against best practices for giving and receiving gifts as well as transparency and openness about gifting.

CORPORATE RESPONSIBILITY

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

The policy will ensure that ESG issues are integrated into the Group's daily business practices to promote its sustainability. Sustainability is defined as conducting business responsibly and ethically by factoring in 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 the Group operates. As such, the Group embarks on activities that conserve the environment, enrich the lives of communities, promote a culture of respect and care for its workforce and the public, all of which, appropriately implements good governance.

The Board also acknowledges that a sustainable approach to investing is vital to the interests of long-term investor and positively impacts the value of investments. The Board further recognises that the Group's ability to prosper hinges substantially on its ability to make business decisions that uphold economic, social and environmental responsibilities by which the stakeholders and society can hold the Group accountable. The Board of RHB Islamic Bank recognises and supports the importance of ESG issues in its decision making to maintain responsible corporate citizenship.

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

The Board is satisfied that the Company is generally in compliance with principles and recommendations of the MCCG.

ADDITIONAL COMPLIANCE INFORMATION

Related Party Transactions

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

Details of these transactions are set out under Notes 31 to the Financial Statements on pages 91 to 94 of this Annual Report.

Sanctions and penalties

For the financial year 2014, no public reprimands, sanctions and/or penalties were imposed on the Company, Directors or Management by the relevant regulatory bodies.

Material contracts involving Directors' and major shareholders' interest

RHB Islamic Bank did not have any material contracts involving Directors' and major shareholders' interests in the 12-month financial period from 1 January 2014 to 31 December 2014. The material contracts in this case do not include financing to parties connected to Directors which are conducted in accordance with the relevant BNM's guidelines.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

RESPONSIBILITY

The Board of Directors ("Board") acknowledges its overall responsibility for RHB Islamic Bank Berhad (the "Bank")'s risk management and internal control system and its adequacy and effectiveness in safeguarding shareholders' investments and the Bank's assets.

The system of risk management and internal control that is in place is designed to manage risks according to the risk appetite approved by the Board rather than total elimination of risks to achieve the Bank's goals and objectives. The system can therefore only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The system of risk management and internal control includes an established and on-going process for identifying, evaluating, managing and reporting significant risks that may affect the achievement of the Bank's business objectives and strategies.

Management assists the Board in implementing Board policies and processes for identifying, evaluating, monitoring and reporting of risks and internal control, taking timely corrective actions as required, and providing assurance to the Board that the processes have been carried out. In this regard, the Board has received assurance from the Managing Director and Group Chief Financial Officer as well as the Group Chief Risk Officer that the Bank's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Bank.

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 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 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 Islamic Risk Management Committee ("IRMC") 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 IRMC, maintains overall responsibility for risk oversight within the Bank. In discharging its overall duties and responsibilities, the IRMC is supported by the Group Capital and Risk Committee and Group Risk & Credit Management function, including Group Shariah Risk Management which monitors and evaluates the effectiveness of the Group's risk management system and operations on an ongoing basis.

In terms of Shariah risk governance, a Shariah Committee, has been set-up and established to handle matters relating to Shariah principles and rulings. In accordance of BNM's Shariah Governance Framework, the Bank is supported by Shariah Division, Shariah Risk Management, Shariah Compliance and Shariah Audit on functional basis.

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 and Board Technology 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 in business and functional units within the Group as part of the risk management process. These business and functional units are required to identify and document the controls and processes for managing the risks arising from their business activities, 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 Bank's current and projected demand for capital under existing and stressed conditions.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Internal Audit Function

Group Internal Audit ("GIA") performs regular reviews of the Group'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. Annual audit plans are reviewed and approved by the Board Audit Committees ("BAC").

The results of the audits conducted by GIA are reported to the BAC. Follow-up action and 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.

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

The BAC hold 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 while the highlights of the BAC meetings are presented to the Board by the independent non-executive director who is also a member of the BAC.

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 is reported to 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.

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

To enable business and operating units to comply with various laws and regulations, Group Compliance 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 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 Management is responsible for observing and implementing the respective Shariah rulings and decisions.

The Shariah Framework 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.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

Board Committees

The Board has delegated certain responsibilities to the Board committees established in the Group, namely Board Nominating & Remuneration Committee, Board Risk Committee, Board Credit Committee, Board Technology Committee, Board Audit Committee and Islamic Risk Management Committee.

These committees have oversight authority to examine and/or consider all matters within their scope of responsibility as defined in their respective formalised terms of references and to report to the Board with their recommendations.

Group Management Committee

The Group Management Committee ("GMC") comprises the Group Managing Director as the Chairman, the Chief Executive Officers / Managing Directors of the relevant key operating subsidiaries and the key Senior Management of the Group. The GMC provides a forum for the Group's Senior Management to discuss and deliberate strategic matters that impact the Group's vision, strategic direction, business synergies and brand value as well as to chart its strategic roadmap. The GMC meets regularly and the minutes of meetings are tabled to the Board of RHB Capital Berhad for notation.

Information Technology (IT) Security

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

IT security protects information from a wide range of threats as well as safeguards the confidentiality, integrity and availability of information. IT security in the Group is achieved through the implementation of a suitable set of controls which includes policies, standards, procedures, guidelines, organisational structures and software control functions.

It is the policy of the Group that while information assets of various forms and computer equipment should be provided to enable employees of the Group and relevant third parties to satisfactorily complete their duties, these assets should be subjected to adequate controls to protect them from accidental or intentional loss, unauthorised access, unauthorised modification, unauthorised manipulation or unauthorised disclosure. Controls implemented should be appropriate to the value of the asset and its risk exposure.

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.

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 the risk appetite, were deliberated at the Board where the group budget was presented.

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 its performance against the strategic 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 GMC and the Board receive and review the Group's financial performance against set targets and measures that are being put in place to meet such targets.

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 risks inherent to the business and operations.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

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, compensation and reward as well as policies and procedures that govern discipline, termination and dismissal.

The Group places emphasis on human capital development and talent management. To enhance staff competencies, we provide technical training as well as management and leadership skills training.

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.

During the year, the Group has established Gifts and Hospitability Guidelines which set the standards of conduct that are associated with ethical business practice and are designed to help the Group and its employees understand respective parties' obligation in upholding corporate integrity.

Group Whistle Blower Policy

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All staff are accorded the opportunity to report via the whistle-blowing mechanism with the assurance that the report will be dealt with 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 Reporting

To complement the Group's system of internal control, a comprehensive incident management reporting system has been implemented to ensure proper escalation and management of incidents. The incident management reporting system also ensures that 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 2014

Activities of the Board Audit Committee

During the financial year ended 31 December 2014 ("year"), a total of eighteen (18) 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 Committee	Attendance at Meetings
1. Ong Seng Pheow (Chairman / Independent Non-Executive Director)	18/18 (100%)
2. Dato' Othman Jusoh (Member / Independent Non-Executive Director)	17/18 (94%)
3. Datuk Seri Saw Choo Boon (Member / Independent Non-Executive Director)	16/18 (89%)
4. Datuk Haji Faisal Siraj (Member / Independent Non-Executive Director) - Appointed as a member on 28 January 2014	16/16 (100%)*
5. Dato' Mohd Ali Mohd Tahir (Member / Independent Non-Executive Director) - Resigned as a member on 28 January 2014	2/2 (100%)*

* 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 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 Board 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 to discuss issues of concern to the auditors arising from the annual statutory audit;
- 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 the timely 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 Bank Berhad and its subsidiaries;
- Reviewed the proposed changes to the Group Internal Audit Charter ("Audit Charter") prior to recommending the updated Audit Charter for approval by the Board;
- Reviewed the proposed changes to the Terms of Reference ("TOR") of the BAC for approval by the Board;
- 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 had 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:

- Managing Risks in Islamic Banks
- Training Session No. 5 of Internal Capital Adequacy Assessment Process - Supervisory Review Preparation for Board of Directors
- Breakfast Talk - Singapore National ICT Masterplan
- The Inverse Risk Logic Approach to Risk Governance Programme

BOARD AUDIT COMMITTEE REPORT

- Talk on Board Strategic Leadership in Managing Cybersecurity Risk in Financial Institutions
- Opening of Legal Year 2014
- Malaysian Anti-Corruption Commission - Corporate Liability Provision
- Corruption in Malaysia : The Making of an Unequal Society
- National Economic Summit and Dialogue with The Prime Minister
- World Bank: Study on Achieving a System of Competitive Cities
- Federation of Malaysian Manufacturers Energy Conference
- Training on Economic Outlook, Consumer Insight, Market Trends, Goods and Services Tax and Social Media Crisis Management
- Ministry of International Trade & Industry : ASEAN Economic Initiatives Workshop
- Ministry-Industry Dialogue: Generating Green Wealth in Spurring the Nation's Prosperity
- Commonwealth Association for Public Administration and Management Conference : Public Service Transformation
- Academy of Science Malaysia General Assembly: Malaysia Beyond 2020
- Good Regulatory Practice Workshop
- Workshop on Network, Spectrum, Branding.

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 prior to the start 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.

All audit reports on the results of work undertaken by Group Internal Audit are reported to the BAC. Follow-up action and review of the status of action taken as per the auditors' recommendations are carried out by Management via the Management Audit Committee of RHB Bank Berhad. The minutes of meetings of the Management Audit Committee are tabled to the BAC for notation.

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 via the respective Management Audit committees of RHB Banking Group.

TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

Objective

1. Provide independent oversight of RHB Banking Group ("the Group")'s financial reporting and internal control system, and ensuring checks and balances for entities within the Group.

2. Review the quality of the audits conducted by internal and external auditors.

3. Provide a line of communication between Board and external auditors.

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

5. Provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide a forum for discussion that is, among others, independent of the management.

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

Authority

The BAC shall, within its terms of reference:

1. The Chairman of the BAC should engage on a continuous basis with senior management, such as the Managing Director / Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

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

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

BOARD AUDIT COMMITTEE REPORT

4. The BAC 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.

5. The BAC is authorised by the respective Boards to provide a written confirmation to Bank Negara Malaysia (BNM) that the banking entities comply with BNM's requirements on financial reporting.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the BAC are as follows:

1. **The BAC 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. **Internal Audit**

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

   - 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.

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

   - To review and approve the internal audit plan and to review the results of the internal audit programme or investigation undertaken and whether appropriate action is taken by Management on the recommendations of the internal auditors.

   - To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgment 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.

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

   - 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.

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

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

3. **External Audit**

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

   - 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.

   - 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.

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

   - To review the non-audit services rendered by the external auditors together with the related fees for recommendation to the respective Boards for approval in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.

   - To review the co-ordination of audit approach where more than one audit firm of external auditors is involved.

BOARD AUDIT COMMITTEE REPORT

4. Financial Reporting

- To review the quarterly results and year-end financial statements of the respective entities for recommendation to the respective Boards for approval, focusing particularly on:-

  (i) Changes in or implementation of new accounting policies and practices;

  (ii) Significant and unusual events; and

  (iii) Compliance with applicable financial reporting standards and other legal and regulatory requirements.

5. Related Party Transactions

- 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.

6. Other Matters

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

- To review the Group's Islamic-based business and operations comply with the Shariah Governance Framework for Islamic Financial Institutions.

- 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.

- 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.

- 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 therefrom are being appropriately addressed by these other board audit committees.

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

REPORTING

The BAC reporting line is to the respective Boards of entities that adopt the BAC.

COMPOSITION OF BAC

1. The membership of the BAC, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Board Nominating and Remuneration Committee.

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

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

4. No BAC 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 BAC. In addition, members of the BAC 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 BAC.

6. Collectively, the BAC 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.

BOARD AUDIT COMMITTEE REPORT

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

8. The term of office and performance of the BAC and each of its members must be reviewed by the respective Boards annually.

9. If a member of the BAC 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.

FREQUENCY OF MEETINGS

1. The BAC shall meet at least once a month or when necessary.

2. Quorum: Two-thirds of the members (majority of the members present shall be independent non-executive directors).

3. Permanent Invitees: Group Chief Financial Officer (Chairman, Group Audit Committee) and the Group Chief Internal Auditor. Other invitees:

   (i) The BAC should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.

   (ii) The BAC may invite the external auditors, the Managing Director / Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, any other directors or members of the Management and employees of the Group to be in attendance during meetings to assist in its deliberations.

   (iii) At least twice a year, the BAC 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 BAC 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.

SECRETARIAT

1. Company Secretary or representative from Group Secretariat.

2. Minutes of each meeting shall be kept and distributed to all members of the BAC and shall be tabled to the Board.

3. Details of the activities of the BAC, 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.

DISCLOSURE

The activities of the BAC should be briefly disclosed in the relevant entity's annual report as follows:

1. Membership of the BAC.

2. Responsibilities and terms of reference of the BAC.

3. Number of the BAC meetings as well as attendance of meetings by BAC members.

In this Report

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 2014 and of the financial results and cash flows of the Bank for the financial year ended 31 December 2014.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, appropriate accounting policies are applied on a consistent basis and accounting estimates made 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 134 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 2014.

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	224,315

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

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

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 and finances or the amount of allowance for non-performing financing and advances in the financial statements of the Bank inadequate to any substantial extent.

DIRECTORS' REPORT

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' REPORT

DIRECTORS OF THE BANK

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

Haji Md Ja'far Abdul Carrim
Datuk Haji Faisal Siraj
Charles Lew Foon Keong
Choong Tuck Oon
Dato' Mohd Ali Mohd Tahir
Haji Ibrahim Hassan

Pursuant to Article 68 of the Bank's Articles of Association, Choong Tuck Oon and Dato' Mohd Ali Mohd Tahir retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves 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 27 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 1.1.2014	DRP	Sold	As at 31.12.2014
Ultimate Holding Company				
RHB Capital Berhad				
Choong Tuck Oon				
- direct	1,092	15	-	1,107

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

DIRECTORS' REPORT

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.

HAJI MD JA'FAR ABDUL CARRIM
CHAIRMAN

HAJI IBRAHIM HASSAN
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur
5 March 2015

REPORT OF THE GROUP SHARIAH COMMITTEE

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

We, Dr. Ghazali Jaapar, Professor Dr. Joni Tamkin Borhan, Assoc. Prof. Dr. Amir Shaharuddin, Wan Abdul Rahim Kamil Wan Mohamed Ali and Mohd Fadhly Md. Yusoff, being five of members of 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 2014.

We have also conducted our review to form an opinion as to whether the Bank has complied with Islamic Shariah rules and 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 2014 that we have reviewed are in compliance with the Islamic Shariah rules and principles;
b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Islamic 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 Islamic 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 Islamic Shariah rules and principles; and
f) the calculation of zakat is in compliance with Islamic Shariah rules and 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
5 March 2015

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
ASSETS			
Cash and short-term funds	2	**4,025,661**	3,331,680
Deposits and placements with banks and other financial institutions	3	**893,146**	704,325
Financial assets held-for-trading	4	**351,888**	793,559
Financial investments available-for-sale	5	**2,389,447**	2,379,701
Financial investments held-to-maturity	6	**1,965,362**	2,586,660
Financing and advances	7	**25,265,443**	18,436,792
Other assets	8	**82,195**	48,131
Derivative assets	9	**47,990**	23,457
Statutory deposits with Bank Negara Malaysia	10	**1,063,700**	790,000
Deferred tax assets	11	**9,942**	12,146
Property, plant and equipment	12	**12,339**	13,923
Intangible assets	13	**6,673**	10,715
TOTAL ASSETS		**36,113,786**	29,131,089
LIABILITIES AND EQUITY			
Deposits from customers	14	**24,370,954**	21,034,100
Deposits and placements of banks and other financial institutions	15	**7,399,591**	4,427,634
Bills and acceptances payable		**8,836**	15,092
Derivative liabilities	9	**24,901**	7,240
Recourse obligations on financing sold to Cagamas Berhad ('Cagamas')	16	**1,147,677**	1,308,332
Subordinated obligations	17	**503,051**	-
Other liabilities	18	**395,965**	297,760
Provision for tax and zakat		**10,414**	13,799
TOTAL LIABILITIES		**33,861,389**	27,103,957
Ordinary share capital	19	**1,173,424**	1,173,424
Reserves	20	**1,078,973**	853,708
TOTAL EQUITY		**2,252,397**	2,027,132
TOTAL LIABILITIES AND EQUITY		**36,113,786**	29,131,089
COMMITMENTS AND CONTINGENCIES	32	**9,420,224**	8,839,469

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

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
Income derived from investment of depositors' funds	21	**1,325,425**	1,100,857
Income derived from investment of shareholders' funds	22	**129,772**	111,065
Allowance for impairment on financing and advances	23	**(22,313)**	(32,089)
Impairment losses on other assets		**(576)**	(701)
Total distributable income		**1,432,308**	1,179,132
Income attributable to depositors	24	**(901,337)**	(732,636)
		530,971	446,496
Personnel expenses	25	**(54,953)**	(79,213)
Other overheads and expenditures	26	**(172,368)**	(149,007)
Profit before zakat and taxation		**303,650**	218,276
Zakat		**(2,000)**	(1,641)
Profit after zakat before taxation		**301,650**	216,635
Taxation	28	**(77,335)**	(50,135)
Net profit for the financial year		**224,315**	166,500
Basic earnings per share (sen)	29	**19.12**	14.73

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 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
Net profit for the financial year		**224,315**	166,500
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss			
Financial investments available-for-sale			
- Unrealised net gain/(loss) on revaluation		**3,613**	(45,501)
- Net transfer to income statement on disposal or impairment		**(2,346)**	1,447
Income tax relating to components of other comprehensive income	30	**(317)**	11,013
Other comprehensive loss for the financial year		**950**	(33,041)
Total comprehensive income for the financial year		**225,265**	133,459

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 2014

			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 2014		**1,173,424**	**441,609**	**(29,302)**	**441,401**	**2,027,132**
Net profit for the financial year		-	-	-	224,315	224,315
Other comprehensive income/(loss):						
Financial investments available-for-sale						
- Unrealised net loss on revaluation		-	-	3,613	-	3,613
- Net transfer to income statement on disposal or impairment		-	-	(2,346)	-	(2,346)
Income tax relating to components of other comprehensive loss		-	-	(317)	-	(317)
Total comprehensive income		-	-	950	224,315	225,265
Transfer to statutory reserve		-	112,156	-	(112,156)	-
Balance as at 31 December 2014		**1,173,424**	**553,765**	**(28,352)**	**553,560**	**2,252,397**

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 2014

			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 shares	19	200,000	-	-	-	200,000
Transfer to statutory reserve-		-	83,250	-	(83,250)	-
Balance as at 31 December 2013		1,173,424	441,609	(29,302)	441,401	2,027,132

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 2014

	31.12.2014 RM'000	31.12.2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	**303,650**	218,276
Adjustments for:		
Depreciation of property, plant and equipment	**3,969**	3,907
Amortisation of computer software licenses	**4,248**	523
Income from:		
- Investment on financial assets held-for-trading	**(7,545)**	(7,123)
- Investment on financial investments available-for-sale	**(92,803)**	(74,821)
- Investment on financial investments held-to-maturity	**(101,122)**	(89,884)
Net (gain)/ loss on sale of financial investment available-for-sale	**(2,346)**	1,447
Net gain on sale of financial assets held-for-trading	**(6,239)**	(9,895)
Net gain on redemption of financial assets held-to-maturity	**(862)**	-
Unrealised loss from revaluation of derivative	**4,372**	9,720
Unrealised loss/ (gain) from financial assets held-for-trading	**2,941**	(1,495)
Allowance for impairment on financing and advances	**65,112**	68,359
Intangible asset impairment losses	**1,199**	-
Operating profit before working capital changes	**174,574**	119,014
Increase/(decrease) in operating assets:		
Deposits and placements with banks and other financial institutions	**(188,821)**	1,284,310
Financing and advances	**(6,893,763)**	(2,502,437)
Financial assets held-for-trading	**452,514**	(335,664)
Other assets	**(34,064)**	18,870
Statutory deposits with Bank Negara Malaysia	**(273,700)**	(117,245)
	(6,763,260)	(1,533,152)
Increase/(decrease) in operating liabilities:		
Deposits from customers	**3,336,854**	3,707,419
Deposits and placements of banks and other financial institutions	**2,971,957**	(134,858)
Bills and acceptances payable	**(6,256)**	(6,521)
Amount due to holding company	**(5,946)**	(177,551)
Other liabilities	**92,907**	(67,432)
Recourse obligation on financing sold to Cagamas	**(160,655)**	(154,189)
Subordinated sukuk	**3,051**	-
Cash generated (used in)/from operations	**(531,348)**	1,633,716
Taxation and zakat paid	**(80,833)**	(61,782)
Net cash generated (used in)/from operating activities	**(612,181)**	1,571,934

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 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial instruments available-for-sale and held-to-maturity:			
- Purchase		**(2,436,662)**	(6,964,013)
- Proceeds from disposal		**3,065,945**	5,501,346
Purchase of property, plant and equipment		**(2,376)**	(3,482)
Purchase of intangible assets		**(1,414)**	(4,630)
Proceeds from disposal of property, plant and equipment		**-**	168
Financial assets held-for-trading, financial investments available-for-sale and held-to-maturity:			
- profit income received		**95,980**	69,505
- investment income received		**84,689**	79,717
Net cash generated from/(used in) investing activities		**806,162**	(1,321,389)
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from issuance of ordinary shares		**-**	200,000
Proceeds from issuance of subordinated sukuk		**500,000**	-
Net cash generated from financing activity		**500,000**	200,000
Net increase in cash and cash equivalents		**693,981**	450,545
Cash and cash equivalents at beginning of the financial year		**3,331,680**	2,881,135
Cash and cash equivalents at end of the financial year	2	**4,025,661**	3,331,680

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 2014

(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 2014 are as follows:

• Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities
• Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities
• Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting
• IC Interpretation 21	Levies

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.

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

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2017) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) replaces the parts of MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.

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

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

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

The Bank is in the process of reviewing the requirements of MFRS 15 and MFRS 9, especially for MFRS 9, to identify critical issues and to design robust methodologies arising from the adoption of this standard. The Bank expects this process to be completed prior to the effective date on 1 January 2017 and 1 January 2018 respectively.

(2) Financial Assets

(a) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing, financial investments held-to-maturity, advances and receivables and financial investments available-for-sale. 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 are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of financial investments held-to-maturity, the whole category would be tainted and reclassified as available-for-sale.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Financial Assets (Continued)

(a) Classification (Continued)

(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.

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

(iv) Financial investments available-for-sale

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

(b) Recognition and initial measurement

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

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

(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 other operating 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 other operating income in profit or loss when the Bank's right to receive payments is established.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(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 realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(3) Repurchase Agreements

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

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

The difference between sale and repurchase price as well as purchase and resale price are amortised as profit 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(a) Fair value hedge

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is 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	10%
Office equipment, furniture and fixtures	20%
Computer equipment	20% to 33 1/3%
Motor vehicles	20%

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Financial Liabilities (Continued)

(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.

Borrowings measured at amortised cost are subordinated obligations.

(8) Recourse Obligation on Financing Sold to Cagamas

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

(9) Operating Lease

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

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

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

(10) Provisions

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 amortization recognized in accordance with MFRS 118 'Revenue'.

(13) Share Capital

(a) Classification

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

(b) Share issue cost

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

(c) Dividend distribution

Distributions to holders of an equity instrument 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 financial period from operating activities and investing activities. The cash flows from operating activities are determined by using the indirect method. 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 flows 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.

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

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

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

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

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

(b) 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) Revenue Recognition (Continued)

(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.

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

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Impairment of Financial Assets (Continued)

(a) Assets carried at amortised cost (Continued)

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.

(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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 financial 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.

(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 flows/ 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 financial 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) Current and Deferred Income Taxes (Continued)

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.

(21) Segment Reporting

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Allowance for impairment of financial assets

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

The Bank makes allowance for losses based on assessment of recoverability. Management's judgment is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flows 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 2014

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 products 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 9, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur.

2 CASH AND SHORT-TERM FUNDS

	31.12.2014 RM'000	31.12.2013 RM'000
Cash and balances with banks and other financial institutions	**321,213**	131,684
Money at call and deposit placements maturing within one month	**3,704,448**	3,199,996
	4,025,661	3,331,680

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2014 RM'000	31.12.2013 RM'000
Licensed Islamic banks	**340,892**	90,339
Other financial institutions	**552,254**	613,986
	893,146	704,325

4 FINANCIAL ASSETS HELD-FOR-TRADING

	31.12.2014 RM'000	31.12.2013 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	**351,888**	23,077
BNM monetary notes	**-**	546,351
Negotiable Islamic debts certificates	**-**	198,686
Unquoted securities:		
Private debt securities	**-**	25,445
	351,888	793,559

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2014 RM'000	31.12.2013 RM'000
At fair value		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Investment Issues	**584,009**	524,168
Negotiable Islamic debts certificates	**-**	99,488
Wakala global sukuk	**11,853**	28,159
Khazanah bonds	**8,285**	15,929
Cagamas bonds	**59,914**	59,958
QUOTED SECURITIES:		
In Malaysia		
Shares	**-**	701
Unquoted securities:		
In Malaysia		
Private debt securities	**1,524,257**	1,450,104
Perpetual sukuk	**200,554**	200,619
	2,388,872	2,379,126
At cost		
UNQUOTED SECURITIES:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	**575**	575
	2,389,447	2,379,701

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	31.12.2014 RM'000	31.12.2013 RM'000
At amortised cost		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Investment Issues	**625,481**	843,915
Sukuk Perumahan Kerajaan	**9,944**	9,932
Khazanah bonds	**28,447**	8,981
Cagamas bonds	**198,376**	223,901
Islamic acceptance bills	**-**	33,634
Negotiable Islamic debts certificates	**-**	645,860
UNQUOTED SECURITIES:		
In Malaysia		
Private debt securities	**1,103,114**	820,437
	1,965,362	2,586,660

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

7 FINANCING AND ADVANCES

2014	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah RM'000	Murabahah RM'000	Musyarakah RM'000	Bai'Inah RM'000	Others RM'000	Total RM'000
At amortised cost							
Cashline	-	-	249,395	-	3,904	1,816	255,115
Term financing:							
- housing financing	669,941	-	-	5,581,220	-	1,979	6,253,140
- syndicated term financing	-	86,230	-	-	-	19,522	105,752
- hire purchase receivables	-	5,835,603	-	-	-	47,424	5,883,027
- other term financing	18,527	637,714	6,366,471	-	3,313,854	3,830	10,340,396
Bills receivables	-	-	467,238	-	-	2,358	469,596
Trust receipts	-	-	20,411	-	-	448	20,859
Staff financing	5,279	-	-	-	-	-	5,279
Credit/charge cards receivables	-	-	-	-	-	223,916	223,916
Revolving financing	-	-	1,946,151	-	-	-	1,946,151
Gross financing and advances	693,747	6,559,547	9,049,666	5,581,220	3,317,758	301,293	25,503,231
Fair value changes arising from fair value hedge							(25,192)
							25,478,039
Allowance for impaired financing and advances:							
- individual impairment allowance							(25,289)
- collective impairment allowance							(187,307)
Net financing and advances							25,265,443

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

7 FINANCING AND ADVANCES (CONTINUED)

2013	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah RM'000	Murabahah RM'000	Musyarakah RM'000	Bai'Inah RM'000	Others RM'000	Total RM'000
At amortised cost							
Cashline	-	-	170,899	-	4,634	(1,989)	173,544
Term financing:							
- housing financing	787,586	-	-	3,761,123	-	6,731	4,555,440
- syndicated term financing	-	175,718	178,420	-	-	85,693	439,831
- hire purchase receivables	-	4,889,474	-	-	-	31,921	4,921,395
- other term financing	34,271	753,667	2,134,225	-	3,313,818	18,261	6,254,242
Bills receivables	-	-	667,633	-	-	-	667,633
Trust receipts	-	-	35,765	-	-	329	36,094
Staff financing	5,717	-	-	-	-	-	5,717
Credit/charge cards receivables	-	-	-	-	-	199,631	199,631
Revolving financing	-	-	1,467,748	-	-	(57)	1,467,691
Gross financing and advances	827,574	5,818,859	4,654,690	3,761,123	3,318,452	340,520	18,721,218
Fair value changes arising from fair value hedge							(26,954)
							18,694,264
Allowance for impaired financing and advances:							
- individual impairment allowance							(111,703)
- collective impairment allowance							(145,769)
Net financing and advances							18,436,792

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

7 FINANCING AND ADVANCES (CONTINUED)

(a) Included in financing and advances are exposures to Restricted Profit Sharing Investment Accounts ('RPSIA') as part of arrangement between RHB Islamic and its immediate holding company, RHB Bank Berhad ("RHB Bank"). RHB Bank is exposed to risks and rewards on RPSIA financing and will account for all the allowances for impairment losses for impaired financing and advances arising thereon.

As at 31 December 2014, the gross exposures to RPSIA financing are RM4,750 million (2013: RM1,800 million) and the portfolio allowance for impairment losses for financing and advances relating to RPSIA amounting to RM36.6 million (2013: RM11.7 million) is recognised in the financial statements of RHB Bank. There was no individual impairment being made for such RPSIA financing.

(b) Included in term financing are hire purchase receivable sold to Cagamas amounting to RM1,141 million (2013: RM1,247 million).

	31.12.2014 RM'000	31.12.2013 RM'000
(i) By remaining maturities		
Maturing within one year	**3,246,425**	2,877,518
One to three years	**1,736,497**	1,187,452
Three to five years	**3,190,928**	3,115,704
Over five years	**17,329,381**	11,540,544
	25,503,231	18,721,218

	31.12.2014 RM'000	31.12.2013 RM'000
(ii) By type of customer		
Domestic non-bank financial institutions		
- Others	**1,018,648**	1,328,956
Domestic business enterprises		
- Small medium enterprises	**1,198,829**	742,141
- Others	**6,373,182**	2,598,087
Government and statutory bodies	**3,316,207**	3,316,244
Individuals	**13,335,086**	10,389,160
Other domestic entities	**111,414**	114,954
Foreign entities	**149,865**	231,676
	25,503,231	18,721,218

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

7 FINANCING AND ADVANCES (CONTINUED)

	31.12.2014 RM'000	31.12.2013 RM'000
(iii) By profit rate sensitivity		
Fixed rate		
- Housing financing	**670,868**	790,063
- Hire purchase receivables	**5,883,027**	4,921,395
- Other fixed rate financing	**7,345,106**	6,325,235
Variable rate		
- BFR-plus	**11,113,775**	5,980,798
- Cost-plus	**490,455**	703,727
Gross financing and advances	**25,503,231**	18,721,218

	31.12.2014 RM'000	31.12.2013 RM'000
(iv) By purpose		
Purchase of transport vehicles	**5,854,963**	4,895,270
Purchase of landed property:		
- Residential	**5,989,031**	4,369,790
- Non-residential	**1,233,755**	557,030
Purchase of property, plant and equipment other than land and building	**683,524**	378,810
Personal use	**1,378,997**	1,087,020
Credit card	**223,915**	199,631
Purchase of consumer durables	**6**	10
Construction	**27,415**	166,600
Working capital	**5,758,155**	2,767,620
Other purposes	**4,353,470**	4,299,437
Gross financing and advances	**25,503,231**	18,721,218

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.

	31.12.2014 RM'000	31.12.2013 RM'000
(v) By geographical		
In Malaysia	**25,503,231**	18,721,218

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

7 FINANCING AND ADVANCES (CONTINUED)

	31.12.2014 RM'000	31.12.2013 RM'000
(vi) Impaired financing advances		
(i) Movement in impaired financing and advances		
Balance as at the beginning of the financial year	**431,267**	409,064
Classified as impaired during the financial year	**480,870**	474,197
Reclassified as non-impaired	**(360,795)**	(308,232)
Amount recovered	**(111,964)**	(85,391)
Amount written off	**(109,706)**	(58,371)
Exchange differences	**1,029**	-
Balance as at the end of the financial year	**330,701**	431,267
Gross impaired financing and advances ratio	**1.30%**	2.30%

	31.12.2014 RM'000	31.12.2013 RM'000
(ii) By purpose		
Purchase of transport vehicles	**60,397**	44,201
Purchase of landed property:		
- Residential	**131,979**	124,804
- Non-residential	**17,573**	27,295
Purchase of property, plant and equipment other than land and building	**9,124**	8,373
Personal use	**3,275**	2,843
Credit card	**5,208**	4,778
Construction	**-**	963
Working capital	**76,539**	154,027
Other purposes	**26,606**	63,983
Gross financing and advances	**330,701**	431,267

	31.12.2014 RM'000	31.12.2013 RM'000
(iii) By geographical		
In Malaysia	**330,701**	431,267

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

7 FINANCING AND ADVANCES (CONTINUED)

	31.12.2014 RM'000	31.12.2013 RM'000
(vii) Movement in allowance for impaired financing and advances		
Individual impairment allowance		
Balance as at the beginning of the financial year	**111,703**	89,013
Net allowance (write-back)/made	**(21,538)**	24,677
Amount written off	**(63,135)**	(6,637)
Transfer (to)/from collective impairment allowance	**(1,741)**	4,650
Balance as at end of the financial year	**25,289**	111,703
Collective impairment allowance		
Balance as at the beginning of the financial year	**145,769**	177,774
Allowance made	**69,650**	6,522
Amount written off	**(29,853)**	(33,877)
Transfer from/(to) individual impairment allowance	**1,741**	(4,650)
Balance as at end of the financial year	**187,307**	145,769
Collective impairment allowance as % of gross financing and advances (excluding RPSIA financing) less individual impairment allowance	**0.90%**	0.87%

8 OTHER ASSETS

	31.12.2014 RM'000	31.12.2013 RM'000
Prepayments	**3,349**	1,005
Deposits	**1,221**	1,213
Other debtors	**77,625**	45,913
	82,195	48,131

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.

9 DERIVATIVES ASSETS/(LIABILITIES) (CONTINUED)

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.

	31.12.2014 RM'000	31.12.2013 RM'000
Derivative assets		
- Trading derivatives	**34,363**	24
- Fair value hedging derivatives	**13,627**	23,433
	47,990	23,457
Derivative liabilities		
- Trading derivatives	**(24,901)**	(1,884)
- Fair value hedging derivatives	**-**	(5,356)
	(24,901)	(7,240)
	23,089	16,217

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 as well as portfolio homogenous pools of financing and advances. Included in the other operating income (Note 22) is the net gains and losses arising from fair value hedges during the financial year as follows:

	31.12.2014 RM'000	31.12.2013 RM'000
Gain on hedging instruments	**1,924**	32,022
Gain/(loss) on hedged items attributable to the hedging risk	**244**	(32,814)
	2,168	(792)

	Contract for underlying principal amount RM'000	Year end positive value RM'000	Year end negative value RM'000
31.12.2014			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	**863,979**	**26,237**	**24,875**
Profit rate related contracts:			
- Swaps	**1,500,000**	**8,126**	**26**
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	**1,475,000**	**13,627**	**-**
		47,990	**24,901**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

9 DERIVATIVES ASSETS/(LIABILITIES) (CONTINUED)

	Contract for underlying principal amount RM'000	Year end positive value RM'000	Year end negative value RM'000
31.12.2013			
Trading derivatives:			
Foreign exchange related contracts:			
- Forwards	662,085	-	-
Profit rate related contracts:			
- Swaps	800,000	24	1,884
Fair value hedging derivatives:			
Profit rate related contracts:			
- Swaps	2,625,000	23,433	5,356
		23,457	7,240

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	31.12.2014 RM'000	31.12.2013 RM'000
Balance as at end of the financial year	**1,063,700**	790,000

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:

	31.12.2014 RM'000	31.12.2013 RM'000
Deferred tax assets	**9,942**	12,146
Deferred tax assets		
- Settled more than 12 months	**9,884**	10,294
- Settled within 12 months	**5,613**	6,987
Deferred tax liabilities		
- Settled within 12 months	**(5,555)**	(5,135)
Total	**9,942**	12,146

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

11 DEFERRED TAXATION (CONTINUED)

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	Other liabilities RM'000	Total RM'000
31.12.2014					
Balance as at the beginning of the financial year	**(5,135)**	**660**	**9,765**	**6,856**	**12,146**
Transfer to income statement	**(420)**	**(117)**	**-**	**(1,350)**	**(1,887)**
Transfer to equity	**-**	**-**	**(317)**	**-**	**(317)**
Balance as at the end of the financial year	**(5,555)**	**543**	**9,448**	**5,506**	**9,942**
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

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
31.12.2014					
Cost					
Balance as at the beginning of the financial year	**18,192**	**7,813**	**11,674**	**2,073**	**39,752**
Additions	**913**	**295**	**795**	**373**	**2,376**
Written off	**-**	**-**	**(68)**	**-**	**(68)**
Reclassification from intangible assets	**(135)**	**135**	**9**	**-**	**9**
Balance as at the end of the financial year	**18,970**	**8,243**	**12,410**	**2,446**	**42,069**
Accumulated depreciation					
Balance as at the beginning of the financial year	**7,378**	**6,475**	**10,208**	**1,768**	**25,829**
Charge for the financial year	**1,915**	**578**	**1,323**	**153**	**3,969**
Written off	**-**	**-**	**(68)**	**-**	**(68)**
Balance as at the end of the financial year	**9,293**	**7,053**	**11,463**	**1,921**	**29,730**
Net book value as at the end of the financial year	**9,677**	**1,190**	**947**	**525**	**12,339**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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

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

	31.12.2014 RM'000	31.12.2013 RM'000
Cost		
Renovations	286	1,635

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

13 INTANGIBLE ASSETS

	31.12.2014 RM'000	31.12.2013 RM'000
Computer software licenses		
At cost		
Balance as at the beginning of the financial year	**12,002**	14,670
Additions	**1,414**	4,630
Reclassification to property, plant and equipment	**(9)**	(7,298)
Balance as at the end of the financial year	**13,407**	12,002
Accumulated amortisation		
Balance as at the beginning of the financial year	**1,287**	6,747
Amortisation	**4,248**	523
Reclassification to property, plant and equipment	**-**	(5,983)
Balance as at the end of the financial year	**5,535**	1,287
Impairment losses		
Balance as at the beginning of the financial year	**-**	-
Impairment losses	**1,199**	-
Balance as at the end of the financial year	**1,199**	-
Net book value as at the end of the financial year	**6,673**	10,715

14 DEPOSITS FROM CUSTOMERS

	31.12.2014 RM'000	31.12.2013 RM'000
Savings Deposit		
Wadiah	**1,054,313**	779,844
Mudharabah	**-**	156,497
Demand Deposit		
Wadiah	**2,813,680**	2,090,485
Mudharabah	**-**	537,782
Term Deposits		
Commodity Murabahah	**5,421,399**	3,835,079
Specific Investment Account		
Murabahah	**3,149,148**	11,033
Wadiah Corporate Deposit	**11,573,684**	-
Mudharabah	**51,577**	12,722,742
Wakalah	**-**	3,867
General Investment Account		
Mudharabah	**307,153**	896,771
	24,370,954	21,034,100

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

14 DEPOSITS FROM CUSTOMERS (CONTINUED)

(a) The maturity structure of investment accounts, Commodity Murabahah, Wadiah Corporate Deposit and Wakalah Money Market Deposit are as follows:

	31.12.2014 RM'000	31.12.2013 RM'000
Due within six months	**17,767,829**	16,123,680
Six months to one year	**2,418,870**	1,327,556
One year to three years	**315,505**	9,328
Three years to five years	**757**	8,927
	20,502,961	17,469,491

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

	31.12.2014 RM'000	31.12.2013 RM'000
Government and statutory bodies	**3,647,864**	5,153,207
Business enterprises	**16,929,349**	12,930,945
Individuals	**3,092,089**	2,534,266
Others	**701,652**	415,682
	24,370,954	21,034,100

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2014 RM'000	31.12.2013 RM'000
Non-Mudharabah funds:		
Licensed Islamic banks	**221,130**	349,464
Licensed banks	**720,751**	1,307,594
Licensed investment banks	**744,472**	-
Bank Negara Malaysia	**775**	604
	1,687,128	1,657,662
Mudharabah funds:		
Licensed Islamic banks	**-**	260,150
Licensed banks	**4,957,940**	1,895,835
Other financial institutions	**754,523**	613,987
	7,399,591	4,427,634

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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 undertakes 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 SUBORDINATED OBLIGATIONS

	31.12.2014 RM'000	31.12.2013 RM'000
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	**503,051**	-

On 15 May 2014, the Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah, being part of RM1.0 billion in nominal value of Subordinated Sukuk Murabahah under a Subordinated Sukuk Murabahah Programme. The details of the RM500 million in nominal value are as follows:

Tranche	Principal RM'million	Maturity date	Profit rate	Profit payment
2014/2024	500	15 May 2024	4.95% per annum chargeable to 15 May 2024	Accrued and payable semi-annually in arrears

18 OTHER LIABILITIES

	31.12.2014 RM'000	31.12.2013 RM'000
Sundry creditors	**17,585**	8,665
Amount due to ultimate holding company	**126**	99
Amount due to immediate holding company	**198,971**	204,944
Short-term employee benefits	**10,850**	13,090
Accruals for operational expenses	**14,460**	16,338
Other accruals and payables	**20,690**	16,565
Interbranch clearing account	**133,283**	38,059
	395,965	297,760

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

19 SHARE CAPITAL

	31.12.2014 RM'000	31.12.2013 RM'000
Ordinary shares of RM1.00 each:		
Authorised:		
Balances as at the beginning of financial year	**3,000,000**	1,000,000
Issued during the financial year	**-**	2,000,000
Balances as at the end of financial year	**3,000,000**	3,000,000
Issued and fully paid:		
Balances as at the beginning of financial year	**1,173,424**	973,424
Issued during the financial year	**-**	200,000
Balances as at the end of financial year	**1,173,424**	1,173,424

The new ordinary shares issued during the previous financial year ended 31 December 2013 ranked *pari passu* in all respects with the existing ordinary shares of the Bank.

20 RESERVES

	Note	31.12.2014 RM'000	31.12.2013 RM'000
Statutory reserve	(a)	**553,765**	441,609
AFS reserve	(b)	**(28,352)**	(29,302)
Retained profits	(c)	**553,560**	441,401
		1,078,973	853,708

(a) 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.

(b) 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 the unrealised losses on available-for-sale securities at the end of the financial year is RM27,163,152 (2013: RM27,953,331).

(c) 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'). As at 31 December 2014, the Company has sufficient tax exempt account balances to pay tax exempt dividends out of its retained earnings.

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 retained profits as at 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

21 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	31.12.2014 RM'000	31.12.2013 RM'000
Income derived from investment of:		
(i) General investment deposits	**33,365**	42,272
(ii) Other deposits	**1,292,060**	1,058,585
	1,325,425	1,100,857

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

	31.12.2014 RM'000	31.12.2013 RM'000
Finance income and hibah:		
Financing and advances	**25,681**	32,122
Financial assets held-for-trading	**182**	265
Financial investments available-for-sale	**2,238**	2,740
Financial investments held-to-maturity	**2,439**	3,285
Money at call and deposit with financial institutions	**2,525**	3,266
Total finance income and hibah	**33,065**	41,678
Other operating income (note a)	**300**	594
	33,365	42,272
Of which:		
Financing income earned on impaired financing	**337**	641
(a) Other operating income/(loss) comprise of:		
Commission	**97**	176
Guarantee fees	**46**	49
Net gain on revaluation and disposal of financial assets held-for-trading	**79**	403
Net gain/(loss) on disposal of financial investments available-for-sale	**57**	(34)
Net gain on early redemption of held-to-maturity	**21**	-
	300	594

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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

(ii) Income derived from investment of other deposits:

	31.12.2014 RM'000	31.12.2013 RM'000
Finance income and hibah:		
Financing and advances	**994,521**	804,007
Financial assets held-for-trading	**7,047**	6,519
Financial investments available-for-sale	**86,677**	68,551
Financial investments held-to-maturity	**94,446**	82,369
Money at call and deposit with financial institutions	**97,784**	82,415
Total finance income and hibah	**1,280,475**	1,043,861
Other operating income (note a)	**11,585**	14,724
	1,292,060	1,058,585
Of which:		
Financing income earned on impaired financing	**13,071**	15,497
(a) Other operating income/(loss) comprise of:		
Commission	**3,738**	4,402
Guarantee fees	**1,770**	1,214
Net gain on revaluation and disposal of financial assets held-for-trading	**3,081**	10,473
Net gain/(loss) on disposal of financial investments available-for-sale	**2,191**	(1,365)
Net gain on early redemption of held-to-maturity	**805**	-
	11,585	14,724

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

22 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	Note	31.12.2014 RM'000	31.12.2013 RM'000
Finance income and hibah:			
Financing and advances		**44,616**	41,350
Financial assets held-for-trading		**316**	339
Financial investments available-for-sale		**3,888**	3,530
Financial investments held-to-maturity		**4,237**	4,230
Money at call and deposit with financial institutions		**4,387**	4,174
Total finance income and hibah		**57,444**	53,623
Other operating income (note a)		**72,328**	57,442
		129,772	111,065
Of which:			
Financing income earned on impaired financing		**586**	833
(a) Other operating income/(loss) comprise of:			
Commission		**7,186**	12,810
Service charges and fees		**51,960**	44,698
Guarantee and underwriting fees		**1,974**	1,494
Foreign Exhange Profit		**11,114**	5,672
Net gain on revaluation and disposal of financial assets held-for-trading		**138**	514
Net gain/(loss) on revaluation and disposal of financial assets available-for-sale		**98**	(49)
Net gain on early redemption of held-to-maturity		**36**	-
Net gain /(loss) on fair value hedges	9	**2,168**	(792)
Net loss revaluation of derivative		**(4,372)**	(9,720)
Other income		**2,026**	2,815
		72,328	57,442

23 ALLOWANCES FOR IMPAIRMENT ON FINANCING AND ADVANCES

	31.12.2014 RM'000	31.12.2013 RM'000
Allowance for impairment on financing and advances:		
- Individual assessment (write-back)/allowance	**(21,538)**	24,677
- Collective assessment allowance	**69,650**	6,522
- Impaired financing recovered	**(42,799)**	(36,270)
- Impaired financing written off	**17,000**	37,160
	22,313	32,089

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

24 INCOME ATTRIBUTABLE TO DEPOSITORS

	31.12.2014 RM'000	31.12.2013 RM'000
Deposits from customers:		
- Mudharabah funds	**177,147**	389,274
- Non-Mudharabah funds	**441,936**	126,652
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	**163,335**	104,802
- Non-Mudharabah funds	**41,572**	41,800
Subordinated obligations	**15,664**	-
Recourse obligations on financing sold to Cagamas	**61,683**	70,108
	901,337	732,636

25 PERSONNEL EXPENSES

	31.12.2014 RM'000	31.12.2013 RM'000
Salaries, allowance and bonuses	**44,571**	63,474
Contribution to Employees' Provident Fund	**5,570**	11,815
Other staff related cost	**4,812**	3,924
	54,953	79,213

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

26 OTHER OVERHEADS AND EXPENDITURES

	31.12.2014 RM'000	31.12.2013 RM'000
Establishment costs		
Property, plant and equipment:		
- depreciation	**3,969**	3,907
Amortisation of computer software licenses	**4,248**	523
Information technology expenses	**2,898**	2,614
Repair and maintenance	**709**	830
Rental of premises	**5,347**	5,366
Water and electricity	**904**	913
Rental of equipment	**134**	68
Printing and stationeries	**3,438**	3,471
Insurance	**3,362**	2,450
Others	**3,119**	3,277
	28,128	23,419
Marketing expenses		
Advertisement and publicity	**5,479**	9,436
Sales commission	**7,266**	11,949
Travelling expenses	**1,294**	1,734
Motor vehicle expenses	**310**	466
Others	**4,626**	3,896
	18,975	27,481
Administration and general expenses		
Auditors' remuneration:		
- statutory audit	**164**	147
- limited review	**55**	55
- other audit related	**100**	180
- non-audit	**16**	96
Communication expenses	**3,647**	3,711
Legal and professional fee	**2,245**	3,297
Management fee	**112,075**	85,387
Others	**6,963**	5,234
	125,265	98,107
	172,368	149,007

Included in the administration and general expenses of the Bank are other Director's remuneration (excluding benefits-in-kind) totaling RM1,280,000 (2013: RM1,297,000) as disclosed in Note 27.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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

31.12.2014

	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Haji Ibrahim Hassan	953	8	960	1,921

	Fees RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Others* RM'000	Total RM'000
Non-Executive Directors				
Haji Md Ja'far Abdul Carrim	150	31	220	401
Datuk Haji Faisal Siraj	120	-	118	238
Charles Lew Foon Keong	120	-	44	164
Choong Tuck Oon	120	-	142	262
Dato' Mohd Ali Mohd Tahir	120	-	126	246
	630	31	650	1,311

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	80
Professor Dr. Joni Tamkin Borhan	66
Assoc Prof. Dr. Amir Shaharuddin	66
Wan Abdul Rahim Kamil Wan Mohamed Ali	86
Mohd Fadhly Md.Yusoff	86
Total	384

* Others comprise Directors' committee allowance and meeting allowance.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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

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				
Haji Ibrahim Hassan (appointed on 2 September 2013)	278	-	-	278
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				
Haji Md Ja'far Abdul Carrim	137	-	206	343
Datuk Haji Faisal Siraj	120	-	93	213
Charles Lew Foon Keong	120	-	23	143
Choong Tuck Oon	120	-	134	254
Dato' Mohd Ali Mohd Tahir	120	-	125	245
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
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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

28 TAXATION

	31.12.2014 RM'000	31.12.2013 RM'000
Malaysian income tax:		
- Current tax	**74,175**	51,808
- Under/(over) provision in prior financial years	**1,273**	(1,467)
Deferred taxation (Note 11)	**1,887**	(206)
	77,335	50,135
Current tax		
Current year	**74,175**	51,808
Under/(over) provision in prior financial years	**1,273**	(1,467)
	75,448	50,341
Deferred tax		
Origination and reversal of temporary differences	**1,887**	(2,379)
Reversal of previously recognised deferred tax assets	**-**	2,173
	77,335	50,135

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

	31.12.2014 %	31.12.2013 %
Malaysian tax rate of 25% (2013: 25%)	**25.0**	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.2**	0.2
Under/(over) provision in respect of prior years	**0.4**	(0.7)
Temporary differences not recognised in prior financial years	**0.2**	(0.2)
Non-taxable income	**(0.3)**	(1.4)
Effective tax rate	**25.5**	22.9

29 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.

	31.12.2014 RM'000	31.12.2013 RM'000
Net profit for the financial year	**224,315**	166,500
Weighted average number of ordinary shares in issue	**1,173,424**	1,130,684
Basic earnings per share (sen)	**19.12**	14.73

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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

	31.12.2014			31.12.2013		
	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	**1,267**	**(317)**	**950**	(44,054)	11,013	(33,041)

31 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
Employees 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 and - Member of the Group Management Committee ('GMC')
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 line with the Group's re-alignment of the Group's structure, the authority and responsibility for planning, directing and controlling the activities of the Group is now under the purview of the GMC. In the past, the same purview resided in the respective entities' management committees. Hence, the Group now considers the members of GMC of the Group as key management personnel.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

31 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
31.12.2014					
Income					
Commission	-	-	-	-	199
Income derived from investment of depositor's funds	-	-	23,079	-	-
Other income	-	4,112	-	-	-
	-	4,112	23,079	-	199
Expenditure					
Profit expense on deposits and placements	-	178,741	524	2	902
Other expenses	-	4,375	-	-	2,178
Reimbursement of operating expenses to holding company	-	112,075	-	-	-
	-	295,191	524	2	3,080
Amount due from					
Cash and short term funds	-	3,195	-	-	-
Financing and advances	-	-	597,683	-	-
Derivative assets	-	21,823	-	-	-
Other assets	-	780	-	-	21
	-	25,798	597,683	-	21
Amount due to					
Derivative liabilities	-	24,855	-	-	-
Savings deposits	-	-	-	-	-
Current account and investment deposits	-	-	140,532	315	358
Deposits and placements of banks and other financial institutions	-	5,678,691	-	-	16,822
Other liabilities	126	198,971	-	-	412
	126	5,902,517	140,532	315	17,592

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

31 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 placements	-	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

31 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	31.12.2014 RM'000	31.12.2013 RM'000
Short-term employee benefits:		
- Fees	**630**	-
- Salary and other remuneration	**2,333**	4,435
- Benefits-in-kind (based on an estimated monetary value)	**39**	2
Post-employment benefits:		
- Defined contribution plan	**230**	760
	3,232	5,197

The above remuneration includes Directors' remuneration as disclosed in Note 27.

(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:

	31.12.2014 RM'000	31.12.2013 RM'000
Outstanding credit exposures with connected parties	**520,210**	252,754
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**1.85%**	0.84%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	**-**	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

32 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
31.12.2014			
Transaction-related contingent items	**188,764**	**94,382**	**67,238**
Short-term self-liquidating trade- related contingencies	**55,547**	**11,109**	**2,264**
Obligations under underwriting agreements	**-**	**-**	**-**
Irrevocable commitments to extend credit:			
- maturity more than one year	**3,545,835**	**1,772,918**	**1,407,888**
- maturity less than one year	**-**	**-**	**-**
Foreign exchange related contracts*:			
- less than one year	**775,709**	**39,216**	**35,496**
- one year to less than five years	**88,270**	**80,021**	**50,180**
Profit rate related contracts*:			
- less than one year	**650,000**	**2,307**	**1,154**
- one year to less than five years	**2,235,000**	**71,770**	**35,885**
- more than five years	**90,000**	**4,951**	**2,475**
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**1,791,099**	**90,410**	**67,807**
Total	**9,420,224**	**2,167,084**	**1,670,387**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

32 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	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	2,381,882	1,190,941	927,183
- 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
- one year to less than five years	-	-	-
Profit rate related contracts*:			
- less than one year	-	-	-
- one year to less than five years	3,425,000	105,607	52,803
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	402,904	80,581	60,436
Total	8,839,469	1,827,474	1,452,533

Included in transaction-related contingent items and short-term self-liquidating trade-related contingencies are financial guarantee contracts of RM244,311,000 (2013: RM206,162,000), 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).

33 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:

	31.12.2014 RM'000	31.12.2013 RM'000
Within one year	**784**	3,637
Between one to five years	**12,542**	1,709
	13,326	5,346

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

34 CAPITAL COMMITMENTS

	31.12.2014 RM'000	31.12.2013 RM'000
Capital expenditure for property, plant and equipment:		
Authorised but not contracted for	**42,913**	66,842

35 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objective and policies

RHB Islamic Bank Berhad ('the Bank') operates within clearly defined set of principles and guidelines based on best practices that have been approved by the Board. Various working committees have been formed to ensure that all identifiable risks are addressed and managed adequately.

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, RHB Islamic Bank Berhad ('the Bank') and RHB Banking Group ('the Group') are exposed to a range of other risk types such as market, liquidity, operational, legal, shariah 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 Bank's Risk Management Framework governs the management of risks in the Bank as follows:

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

(2) It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

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

(1) Risk governance from the Boards of Directors of the Bank

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

The Board Risk Committee ('BRC') is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, risk management framework, risk management policy and risk management models. An Islamic Risk Management Committee ('IRMC') has also been established to assist the Board of Directors of the Bank on issues relevant and unique to Islamic finance.

The responsibility for the supervision of the day to day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising Senior Management of the Group and which reports directly to the BRC and the GMC. There are other committees set up to manage specific areas of risks in the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(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 Bank. The Strategic Business Units (SBUs) and Strategic Functional Units (SFUs) of the respective operating entities in the Bank are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.

(3) Institutionalisation of a risk-focused organisation

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

(4) Alignment of risk management to business strategies

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

Risk appetite is set by the Board and reported through various metrics that enable the 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 are prepared to accept in delivering its strategy.

(5) Optimisation of risk-adjusted return

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Bank. 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 Bank is to intensify the integration of capital management within the Bank. The Bank is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

The main areas of financial risks faced by the Bank and the policies to address these financial risks, are set out below:

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate 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 loss arising from adverse movements in market indicators, such as interest/profit rate, credit spreads, equity prices, currency exchange rates and commodity prices.

(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 that arises as a results of customer's or counterparties' in ability to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the banking subsidiaries direct lending/financing obligations, trade finance and its funding, investment and trading activities.

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major Areas of Risk (Continued)

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but exclude strategic and reputation/risk.

To mitigate the various business risks of the banking subsidiaries, the following has been put in place:

Market risk

- A framework of risk policies, measurement methodologies and limits, as approved by the Board, which controls the banking subsidiaries' financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Assets and Liabilities Committee ('ALCO') performs a critical role in the oversight of the management of market risk and supports the BRC in the overall market risk management.
- The Group Risk Management function forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.
- The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.
- Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, Value-at-Risk, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.
- Periodic stress testing are applied to the banking subsidiaries to ascertain market risk under abnormal market conditions.

Liquidity risk

- The ALCO plays a fundamental role in the asset and liability management of the Bank, and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.
- The liquidity 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.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored.
- The liquidity framework is subject to periodic stress tests and the results are reviewed to ensure 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Credit risk

- The Bank abides to the Board approved credit policy which supports the development of a strong credit culture and with the objective of maintaining a well diversified portfolio that addresses credit risk, and mitigates concern for unexpected losses. International best practices are incorporated into this policy.

- Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC also approves and renews financing facilities and submits to the Board Credit Committee ('BCC') for affirmation or veto if the financing facilities exceed a pre-defined threshold.

- The Bank also ensures that internal processes and credit underwriting standards are adhered to before credit proposal are approved. All credit proposals are first evaluated by the originating business units before evaluated prior to submission to the relevant committees for approval. For financing applications submitted for joint approvals, there is proper check and control as the joint approval is between business units and Group Credit Management.

- Internal credit rating models are an integral part of the Bank's credit risk management, decision- making process, and regulatory capital calculations. Client's accounts are reviewed at regular intervals and weakening credit are transferred to Loan Recovery for more effective management.

- Counterparty, industry and product exposure limits/directions are set and risk reward relationship are mapped with the aim of maintaining a diverse credit profile and track the changing risk concentrations in response to market changes and external events.

- The Bank has obtained BNM's approval to apply the Internal Ratings-Based ('IRB') approach for credit risk, whereby more advanced Basel II approaches and key program components are implemented, which includes (i) enhancing the returns of the Bank using established credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit grading models for business loans/financing, and (iii) designing and implementing modelling of expected and unexpected losses.

- Plans are underway to migrate other material portfolios to the IRB approach for credit risk.

Operational risk

- The Group Risk Management function is responsible for the development of group-wide operational risk policies, framework and methodologies, and providing guidance and information to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the control tools used includes Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management.

- The Bank's operational risk management system which has integrated applications to support the entire operational risk management process. This system facilitates the banking subsidiaries' capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

- The Bank has Business Continuity Planning ('BCP') programmes for the major critical business operations and activities at the Head Office, data centre, and branch locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality.

- There is continuous refinement of existing policies, procedures and internal control measures; and regular internal review, compliance monitoring, and audits are performed to prevent and/or minimise unexpected losses.

- Regular operational risk reporting is made to senior management, relevant committees and board to facilitate the identification of adverse operational lapses, taking of prompt corrective actions, and ensuring appropriate risk mitigation decision making and action plans.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

35 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
31.12.2014					
ASSETS					
Cash and short-term funds	4,025,661	-	-	-	4,025,661
Deposits and placement with banks and other financial institutions	893,146	-	-	-	893,146
Financial assets held-for-trading	-	351,888	-	-	351,888
Financial investments available-for-sale	-	-	2,389,447	-	2,389,447
Financial investments held-to-maturity	-	-	-	1,965,362	1,965,362
Financing and advances	25,265,443	-	-	-	25,265,443
Derivative assets	-	47,990	-	-	47,990
Other financial assets	67,622	-	-	-	67,622
TOTAL	30,251,872	399,878	2,389,447	1,965,362	35,006,559

	Liabilities at FV through profit and loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
LIABILITIES			
Deposits from customers	-	24,370,954	24,370,954
Deposits and placements of banks and other financial institutions	-	7,399,591	7,399,591
Bills and acceptances payable	-	8,836	8,836
Derivative liabilities	24,901	-	24,901
Recourse obligations on financing sold to Cagamas	-	1,147,677	1,147,677
Subordinated obligations	-	503,051	503,501
Other financial liabilities	-	259,101	259,101
TOTAL	24,901	33,689,210	33,714,111

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (Continued)

	Financing and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
31.12.2013					
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

	Liabilities at FV through profit and loss RM'000	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
Subordinated obligations	-	-	-
Other financial liabilities	-	253,744	253,744
TOTAL	7,240	27,038,902	27,046,142

(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 2014.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

35 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
31.12.2014		
+100 bps	**(43,053)**	**(68,495)**
-100 bps	**44,329**	**72,999**
31.12.2013		
+100 bps	(28,784)	(70,108)
-100 bps	28,963	74,930

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 2013) 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
31.12.2014	
+5%	**(115)**
-5%	**115**
31.12.2013	
+5%	1,569
-5%	(1,569)

Impact on the profit after taxation is estimated on the assumption that foreign exchange move by the same amount and all other variables are held constant and are based on a constant reporting date position.

35 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
31.12.2014									
ASSETS									
Cash and short-term funds	3,699,000	-	-	-	-	-	326,661	-	4,025,661
Deposits and placement with banks and other financial institutions	-	359,721	30,000	85,040	417,494	-	891	-	893,146
Financial assets held-for-trading	-	-	-	-	-	-	-	351,888	351,888
Financial investments available-for-sale	-	10,021	20,026	117,161	595,817	1,628,877	17,545	-	2,389,447
Financial investments held-to-maturity	100,000	110,029	233,913	217,934	313,286	970,368	19,832	-	1,965,362
Financing and advances:									
- performing	14,086,934	397,829	158,791	128,720	1,159,499	9,126,306	89,259	-	25,147,338
- impaired	-	-	-	-	-	-	118,105*	-	118,105
Other assets	-	-	-	-	-	-	82,195	-	82,195
Derivative assets	-	-	-	-	183	13,444	-	34,363	47,990
Statutory deposits with BNM	-	-	-	-	-	-	1,063,700	-	1,063,700
Deferred tax assets	-	-	-	-	-	-	9,942	-	9,942
Property, plant and equipment	-	-	-	-	-	-	12,339	-	12,339
Intangible assets	-	-	-	-	-	-	6,673	-	6,673
TOTAL ASSETS	17,885,934	877,600	442,730	548,855	2,486,279	11,738,995	1,747,142	386,251	36,113,786

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

35 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
31.12.2014									
LIABILITIES									
Deposits from customers	13,129,181	4,662,237	1,867,163	2,407,636	315,737	750	1,988,250	-	24,370,954
Deposits and placements of banks and other financial institutions	224,899	650,495	450,000	85,040	917,494	4,842,308	229,355	-	7,399,591
Bills and acceptances payable	-	-	-	-	-	-	8,836	-	8,836
Derivative liabilities	-	-	-	-	-	-	-	24,901	24,901
Recourse obligation on financing sold to Cagamas	-	-	-	-	1,141,443	-	6,234	-	1,147,677
Subordinated obligations	-	-	-	-	-	500,000	3,051	-	503,051
Other liabilities	-	-	-	-	-	-	395,965	-	395,965
Taxation and zakat	-	-	-	-	-	-	10,414	-	10,414
TOTAL LIABILITIES	13,354,080	5,312,732	2,317,163	2,492,676	2,374,674	5,343,058	2,642,105	24,901	33,861,389
Total equity	-	-	-	-	-	-	2,252,397	-	2,252,397
TOTAL LIABILITIES AND EQUITY	13,354,080	5,312,732	2,317,163	2,492,676	2,374,674	5,343,058	4,894,502	24,901	36,113,786
On-balance sheet profit sensitivity gap	4,531,854	(4,435,132)	(1,874,433)	(1,943,821)	111,605	6,395,937			
Off-balance sheet profit sensitivity gap	535,000	2,440,000	-	(650,000)	(1,075,000)	(1,250,000)			
TOTAL PROFIT SENSITIVITY GAP	5,066,854	(1,995,132)	(1,874,433)	(2,593,821)	(963,395)	5,145,937			

35 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									
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

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

35 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			

35 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 months 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
31.12.2014								
ASSETS								
Cash and short-term funds	2,323,620	1,702,041	-	-	-	-	-	4,025,661
Deposits and placement with banks and other financial institutions	-	-	360,606	30,007	85,040	417,493	-	893,146
Financial assets held-for-trading	-	-	1,437	1,090	-	349,361	-	351,888
Financial investments available-for-sale	807	4,073	15,729	26,136	117,161	2,024,412	201,129	2,389,447
Financial investments held-to-maturity	102,245	1,084	121,247	239,198	217,934	1,283,654	-	1,965,362
Financing and advances	1,475,949	867,040	559,805	255,885	249,175	21,857,589	-	25,265,443
Other assets	62,293	-	-	-	-	-	19,902	82,195
Derivative assets	3	5,412	1,295	11,824	7,309	22,147	-	47,990
Statutory deposits with BNM	-	-	-	-	-	-	1,063,700	1,063,700
Deferred tax assets	-	-	-	-	-	-	9,942	9,942
Property, plant and equipment	-	-	-	-	-	-	12,339	12,339
Intangible assets	-	-	-	-	-	-	6,673	6,673
TOTAL ASSETS	3,964,917	2,579,650	1,060,119	564,140	676,619	25,954,656	1,313,685	36,113,786

35 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 months 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
31.12.2014								
LIABILITIES								
Deposits from customers	7,986,519	7,067,629	4,694,881	1,886,792	2,418,869	316,264	-	24,370,954
Deposits and placements of banks and other financial institutions	-	225,342	650,522	444,422	85,040	5,994,265	-	7,399,591
Bills and acceptances payable	8,836	-	-	-	-	-	-	8,836
Derivative liabilities	7	5,411	-	11,813	6,627	1,043	-	24,901
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	1,147,677	-	1,147,677
Subordinated obligations	-	-	-	3,051	-	500,000	-	503,051
Other liabilities	144,358	10,850	26,205	-	77,688	-	136,864	395,965
Taxation and zakat	-	-	-	-	-	-	10,414	10,414
TOTAL LIABILITIES	8,139,720	7,309,232	5,371,608	2,346,078	2,588,224	7,959,249	147,278	33,861,389
Total equity	-	-	-	-	-	-	2,252,397	2,252,397
TOTAL LIABILITIES AND EQUITY	8,139,720	7,309,232	5,371,608	2,346,078	2,588,224	7,959,249	2,399,675	36,113,786

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

35 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 months 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

35 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 months 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

35 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
31.12.2014							
LIABILITIES							
Deposits from customers	15,093,571	6,688,864	2,508,757	334,723	904	-	24,626,819
Deposits and placements of banks and other financial institutions	224,637	1,093,673	93,745	1,097,424	915,290	5,718,349	9,143,118
Bills and acceptances payable	8,836	-	-	-	-	-	8,836
Derivative liabilities							
Gross settles derivatives							
- Inflow	(89,188)	(202,360)	(83,731)	(43,739)	-	-	(419,018)
- Outflow	94,418	211,512	87,757	45,450	-	-	439,137
Net settled	-	1,176	45	23	-	-	1,244
Recourse obligation on financing sold to Cagamas	23,363	80,894	105,320	1,031,031	-	-	1,240,608
Subordinated obligations	-	12,375	512,375	-	-	-	524,750
Other liabilities	155,208	26,205	77,688	-	-	-	259,101
TOTAL FINANCIAL LIABILITIES	15,510,845	7,912,339	3,301,956	2,464,912	916,194	5,718,349	35,824,595

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
31.12.2014			
Transaction-related contingent items	188,764	-	188,764
Short-term self-liquidating trade-related contingencies	55,547	-	55,547
Irrevocable commitments to extend credit	-	3,545,835	3,545,835
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,791,099	-	1,791,099
TOTAL COMMITMENTS AND CONTINGENCIES	2,035,410	3,545,835	5,581,245

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.

35 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
31.12.2013							
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	2,381,882	4,067,318
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	402,904	-	402,904
TOTAL COMMITMENTS AND CONTINGENCIES	2,370,502	2,381,882	4,752,384

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35 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:

	31.12.2014 RM'000	31.12.2013 RM'000
Credit risk exposure relating to:		
Short-term funds (exclude cash in hand)	**4,014,324**	3,323,096
Deposits and placements with banks and other financial institutions	**893,146**	704,325
Financial assets and investments portfolios (exclude shares and perpetual sukuk)		
- Held-for-trading	**351,888**	793,559
- Available-for-sale	**2,188,318**	2,177,231
- Held-to-maturity	**1,965,362**	2,586,660
Financing and advances	**25,265,443**	18,436,792
Other financial assets	**67,622**	45,028
Derivative assets	**47,990**	23,457
	34,794,093	28,090,148
Commitment and contingencies	**5,581,245**	4,752,384
Total maximum credit risk exposure	**40,375,338**	32,842,532

(ii) Collaterals

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

(a) Fixed deposits, Mudharabah General Investment Account, Commodity Murabahah Deposit-i, negotiable instrument of deposits, Islamic 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 2014 is 55.4% (2013: 65.4%) The financial effect of collateral held for the other financial asset is insignificant.

35 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 judgment.

Internal ratings	Description
- Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Bank
- Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying degreed of concern to the Bank
- No rating	Counterparties which do not satisfy the criteria to be rated based on internal credit grading system

The credit quality of financial assets other than 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:

	31.12.2014 RM'000	31.12.2013 RM'000
Neither past due nor impaired	**24,401,277**	17,734,639
Past due but not impaired	**746,061**	528,358
Individually impaired	**330,701**	431,267
Gross financing and advances	**25,478,039**	18,694,264
Less: Individual impairment allowance	**(25,289)**	(111,703)
Collective impairment allowance	**(187,307)**	(145,769)
Net financing and advances	**25,265,443**	18,436,792

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35 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:

	31.12.2014 RM'000	31.12.2013 RM'000
Good	**11,399,134**	7,403,224
Fair	**88,153**	187,061
No rating	**12,913,990**	10,144,354
	24,401,277	17,734,639

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:

	31.12.2014 RM'000	31.12.2013 RM'000
Past due up to 30 days	**35,440**	25,019
Past due 31 to 60 days	**547,508**	373,630
Past due 61 to 90 days	**163,113**	129,709
Past due but not impaired	**746,061**	528,358

(iii) Financing and advances that are determined to be individually impaired as at 31 December 2014:

	31.12.2014 RM'000	31.12.2013 RM'000
Individually impaired financing	**330,701**	431,267

35 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
31.12.2014							
Neither past due nor impaired	**4,014,324**	**893,146**	**351,888**	**2,188,318**	**1,965,362**	**67,622**	**47,990**
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

35 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	Derivatives assets RM'000
31.12.2014							
AAA to AA3	-	552,255	-	1,141,398	371,065	-	21,825
A1 to A3	-	210,097	-	11,853	-	-	-
P1 to P3	771,548	-	-	-	-	-	-
Non-rated of which:	3,242,776	130,794	351,888	1,035,067	1,594,297	67,622	26,165
- Malaysian Government Investment Issues	-	-	351,888	584,009	625,481	-	-
- Bank Negara Malaysia	2,872,884	-	-	-	-	-	
- Private debt securities	-	-	-	442,773	350,541	-	-
- Khazanah bonds	-	-	-	8,285	28,447	-	-
- Negotiable Islamic Debt Certificates	-	-	-	-	-	-	-
- Others	369,892	130,794	-	-	589,828	67,622	26,165
	4,014,324	893,146	351,888	2,188,318	1,965,362	67,622	47,990

35 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: (Continued)

	Short-term funds RM'000	Deposits and placement with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Derivatives assets RM'000
31.12.2013							
AAA to AA3	220,664	613,986	25,445	1,087,774	348,877	-	23,457
A1 to A3	120,766	-	-	28,159	-	-	-
Non-rated of which:	2,981,666	90,339	768,114	1,061,298	2,237,783	45,028	-
- Malaysian Government Investment Issues	-	-	23,077	524,168	843,915	-	-
- Bank Negara Malaysia	2,567,664	-	546,351	-	-	-	
- Private debt securities	-	-	-	421,713	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	-
	3,323,096	704,325	793,559	2,177,231	2,586,660	45,028	23,457

(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.

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale@ RM'000	Financial investments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
31.12.2014								
Agriculture	-	-	149,731	-	213,798	-	363,529	646,535
Mining and quarrying	-	-	-	-	7,259	-	7,259	-
Manufacturing	-	-	-	-	537,893	-	537,893	322,360
Electricity, gas and water	-	-	290,222	153,525	135,295	-	579,042	1,589
Construction	-	-	15,043	183,506	1,037,302	-	1,235,851	219,544
Real estate	-	-	145,462	180,570	245,419	-	571,451	1,752
Purchase of landed property	-	-	-	-	6,229,296	-	6,229,296	2,176,660
General commerce	-	-	-	-	537,738	-	537,738	288,412
Transport, storage and communication	-	-	277,811	102,229	3,124,932	-	3,504,972	265,939
Finance, insurance and business services	1,482,331	-	444,257	128,214	2,520,090	47,990	4,622,882	625,592
Government and government agencies	3,425,139	351,888	707,850	923,153	3,294,428	-	8,702,458	-
Purchase of transport vehicle	-	-	-	-	-	-	-	78,212
Consumption credit	-	-	-	-	-	-	-	457,479
Others	-	-	157,942	294,165	7,569,301	67,622	8,089,030	497,171
	4,907,470	351,888	2,188,318	1,965,362	25,452,751	115,612	34,981,401	5,581,245

\# Excludes collective impairment allowance amounting to RM187,307,000.

@ Exclude equity instrument amounting RM201,129,000

* Other financial assets include other financial assets amounting to RM67,622,000 and derivative assets amounting to RM47,990,000.

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (Continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale@ RM'000	Financial investments held-to-maturity RM'000	Financing and advances# RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commitments and contingencies 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	-	357,731	127,778	2,113,945	-	3,445,225	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	2,177,231	2,586,660	18,582,561	68,485	28,235,917	4,752,384

\# Excludes collective impairment allowance amounting to RM145,769,000.
@ Exclude equity instrument amounting RM201,194,000
* Other financial assets include other financial assets amounting to RM45,028,000 and derivative assets amounting to RM23,457,000.

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35 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				
31.12.2014				
Financial assets				
Financial assets held-for-trading:				
- money market instruments	-	351,888	-	351,888
Financial investments available-for-sale:	-	2,188,318	201,129	2,389,447
- money market instruments	-	664,061	-	664,061
- unquoted securities	-	1,524,257	201,129	1,725,386
Derivative assets:				
- money market instruments	-	47,990	-	47,990
	-	2,588,196	201,129	2,789,325
Financial liability				
Derivative liabilities:				
- money market instruments	-	24,901	-	24,901

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy (Continued)

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

	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 liability				
Derivative liabilities:				
- money market instruments	-	7,240	-	7,240

There were no transfers between Level 1 and 2 during the financial 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 on-going basis. This would include quoted securities.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use 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 and non-transferrable and non-tradable perpetual sukuk. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies.

35 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy (Continued)

ii. Reconciliation of movements in Level 3 financial instruments:

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

Financial investments available-for-sale

	31.12.2014 RM'000	31.12.2013 RM'000
Balance as at the beginning of the financial year	**201,194**	575
Purchase	**-**	200,619
Profit	**(65)**	-
Balance as at the end of financial year	**201,129**	201,194

36 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
31.12.2014		
Financial assets		
Deposits and placements with banks and other financial institutions	**893,146**	**803,699**
Financial investments held-to-maturity	**1,965,362**	**1,940,456**
Financing and advances	**25,265,443**	**25,467,033**
Financial liabilities		
Deposit from customers	**24,370,954**	**24,343,653**
Deposits and placements of banks and other financial institutions	**7,399,591**	**7,109,761**
Recourse obligations on financing sold to Cagamas	**1,147,677**	**1,101,993**
Subordinated obligations	**503,051**	**506,846**
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

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36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2014 and 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
31.12.2014				
Financial assets				
Deposits and placements with banks and other financial institutions	**-**	**803,699**	**-**	**803,699**
Financial investments held-to-maturity	**-**	**1,360,573**	**579,883**	**1,940,456**
Financing and advances	**-**	**25,467,033**	**-**	**25,467,033**
Financial liabilities				
Deposits from customers	**-**	**24,343,653**	**-**	**24,343,653**
Deposits and placements of banks and other financial institutions	**-**	**7,109,761**	**-**	**7,109,761**
Recourse obligations on financing sold to Cagamas	**-**	**1,101,993**	**-**	**1,101,993**
Subordinated obligations	**-**	**506,846**	**-**	**506,846**

	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
Subordinated obligations	-	-	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(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.

(ix) Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statement of financial position.

37 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).

The capital adequacy ratios of RHB Islamic Bank are as follows:

	31.12.2014 RM'000	31.12.2013 RM'000
Tier I Capital		
Paid-up ordinary share capital	**1,173,424**	1,173,424
Retained profits	**553,560**	441,401
Statutory reserve	**553,765**	441,609
Unrealised losses on AFS financial instruments	**(28,352)**	(29,302)
	2,252,397	2,027,132
Less :		
Deferred tax assets	**(15,497)**	(17,281)
Other intangibles (include associated deferred tax liabilities)	**(1,119)**	(5,580)
Ageing Reserves and Liquidity Reserve*	**(551)**	(92)
Total Common Equity / Total Tier I capital	**2,235,230**	2,004,179
Tier II Capital		
Subordinated obligations	**500,000**	-
Collective impairment allowance^	**100,832**	81,059
Total Tier II capital	**600,832**	81,059
Total capital base	**2,836,062**	2,085,238
Capital Ratios		
CET 1 Capital Ratio	**12.875%**	13.864%
Tier 1 Capital Ratio	**12.875%**	13.864%
Risk-weighted capital ratio (inclusive of market risk)	**16.336%**	14.424%

NOTES TO THE FINANCIAL STATEMENTS
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37 CAPITAL ADEQUACY (CONTINUED)

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

	31.12.2014 RM'000	31.12.2013 RM'000
Credit risk-weighted assets	**20,158,062**	14,818,230
Credit risk-weighted assets absorbed by PSIA	**(3,841,305)**	(1,307,029)
Market risk-weighted assets	**124,357**	160,838
Operational risk-weighted assets	**918,886**	783,884
Total risk-weighted assets	**17,360,000**	14,455,923

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 RM3,841million (2013: RM1,307 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.

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

	Risk weighted 31.12.2014 RM'000	Risk weighted 31.12.2013 RM'000
(i) Credit Risk		
0%	**-**	-
20%	**906,597**	815,364
35%	**378,441**	-
50%	**469,891**	457,900
75%	**8,397,351**	8,250,269
100%	**9,426,517**	4,755,287
150%	**579,265**	539,410
	20,158,062	14,818,230
Less: Credit risk weighted assets absorbed by PSIA	**(3,841,305)**	(1,307,029)
(ii) Market Risk Capital Adequacy Framework	**124,357**	160,838
(iii) Basic Indicator Operational Risk Capital Charge	**918,886**	783,884
	17,360,000	14,455,923

38 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined RHB Capital Group's 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 Banks' customers. The division also provides solutions to serve investment needs of the Bank and the Bank's customers.

Transaction banking

Transaction banking establishes, retains and grows relationship with Federal and State Governments including their respective agencies and business corporations in order to retain sources of deposits and earn fee-based income. The division also provides cash management, collection and payment services to customers. For the financial year ended 31 December 2014, this business segment has been incorporated to Corporate and Investment Banking and Business Banking. The Bank has restated the corresponding segment information retrospectively.

International Currency Business Unit ('ICBU')

ICBU conducts Islamic banking business activities, which includes deposits, financing and related activities, in international currency. For the financial year ended 30 December 2014, this business segment has been incorporated in Corporate and Investment Banking. The Bank has restated the corresponding segment information retrospectively.

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38 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Total RM'000
31.12.2014					
External revenue	434,949	52,823	700,354	267,071	1,455,197
Inter-segment (expense)/revenue	(68,652)	31,396	(227,003)	264,259	-
Total revenue	366,297	84,219	473,351	531,330	1,455,197
Depositors' payout	(232,781)	(24,659)	(175,579)	(468,318)	(901,337)
Net income	133,516	59,560	297,772	63,012	553,860
Operating overheads	(36,633)	(26,718)	(133,662)	(22,091)	(219,104)
Depreciation of property, plant and equipment	(693)	(603)	(2,084)	(589)	(3,969)
Amortisation of computer software	(412)	(147)	(2,968)	(721)	(4,248)
Allowance for impairment on financing	41,836	(276)	(63,873)	-	(22,313)
Impairment losses on other assets	(240)	384	(480)	(240)	(576)
Segmental results	137,374	32,200	94,705	39,371	303,650
Profit before taxation and zakat					303,650
Zakat					(2,000)
Profit after zakat before taxation					301,650
Taxation					(77,335)
Net Profit for the financial year					224,315

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

38 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Elimination RM'000	Total RM'000
31.12.2014						
Segment assets	**11,930,253**	**1,894,516**	**13,780,294**	**18,186,669**	**(10,169,980)**	**35,621,752**
Unallocated assets	**-**	**-**	**-**	**-**	**-**	**482,092**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**9,942**
Total assets						**36,113,786**
Segmental liabilities	**11,256,074**	**1,800,167**	**12,873,550**	**17,743,987**	**(10,166,080)**	**33,507,698**
Unallocated liabilities	**-**	**-**	**-**	**-**	**-**	**353,691**
Total liabilities						**33,861,389**
Other segment items:						
Capital expenditure	**122**	**98**	**1,283**	**873**	**-**	**2,376**

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Total RM'000
31.12.2013					
External revenue	316,585	47,658	583,387	264,292	1,211,922
Inter-segment (expense)/revenue	(57,565)	22,833	(160,322)	195,054	-
Total revenue	259,020	70,491	423,065	459,346	1,211,922
Depositors' payout	(134,118)	(21,898)	(155,140)	(421,480)	(732,636)
Net income	124,902	48,593	267,925	37,866	479,286
Operating overheads	(35,968)	(27,195)	(137,410)	(23,217)	(223,790)
Depreciation of property, plant and equipment	(755)	(714)	(1,787)	(651)	(3,907)
Amortisation of computer software	(17)	(29)	(303)	(174)	(523)
Allowance for impairment on financing	11,460	(9,080)	(34,469)	-	(32,089)
Impairment losses on other assets	-	(701)	-	-	(701)
Segmental results	99,622	10,874	93,956	13,824	218,276
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.

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38 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Elimination RM'000	Total RM'000
31.12.2013						
Segment assets	7,766,638	1,472,832	10,825,915	15,492,633	(6,498,593)	29,059,425
Unallocated assets	-	-	-	-	-	59,518
Deferred tax assets	-	-	-	-	-	12,146
Total assets						29,131,089
Segmental liabilities	7,211,529	1,426,789	9,908,413	15,082,811	(6,617,895)	27,011,647
Unallocated liabilities	-	-	-	-	-	92,310
Total liabilities						27,103,957
Other segment items:						
Capital expenditure	420	1,852	230	980	-	3,482

39 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Proposal to commence negotiation for a merger of business and undertakings

As announced by RHB Capital Berhad ("RHB Capital") on 10 July 2014, BNM had vide its letter dated on even date stated that it has no objection for the Company to commence negotiations with CIMB Group Holdings Berhad ('CIMB Group') and Malaysia Building Society Berhad ('MBSB') for a possible merger of the businesses and undertakings of CIMB Group and RHB Capital, and the merger of Islamic banking businesses with MBSB ('Proposed Merger'). The approval is valid for a period of six months from the date of BNM's letter.

(RHB Capital, CIMB Group and MBSB collectively defined as the 'Parties')

Pursuant to BNM's approval, the Parties have on the same day, entered into an exclusivity agreement to negotiate and finalise pricing, structure, and other relevant terms and conditions for the Proposed Merger for a period of ninety (90) days (unless otherwise agreed by the Parties) ('Exclusivity Period'). There will be an automatic extension of the Exclusivity Period upon a submission being made to BNM by the Parties on the Proposed Merger, until the date of execution of the relevant definitive agreement(s) to effect the Proposed Merger.

On 14 January 2015, RHB Capital has been notified by CIMB Group vide its letter of even date that its board of directors have, after further deliberation, arrived at a decision to abort the Proposed Merger in light of current economic conditions. CIMB Group and RHB Capital, as well as their relevant subsidiaries have withdrawn their joint application to BNM to seek approval from BNM and/or Minister of Finance through BNM for, amongst others, the Proposed Merger. With that, the Exclusivity Period pursuant to the exclusivity agreement between the Parties dated 10 July 2014 has expired.

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 5 March 2015.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT 1965

We, Haji Md Ja'far Abdul Carrim and 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 46 to 133 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2014 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.

HAJI MD JA'FAR ABDUL CARRIM
CHAIRMAN

HAJI IBRAHIM HASSAN
CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

Kuala Lumpur
5 March 2015

STATUTORY DECLARATION

PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Khairulanwar Bin Rifaie, 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 46 to 133 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.

KHAIRULANWAR BIN RIFAIE

Subscribed and solemnly declared by the above named Khairulanwar Bin Rifaie at Kuala Lumpur in Wilayah Persekutuan on 5 March 2015.

Before me:

COMMISIONER FOR OATHS
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS 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 on pages 46 to 133, which comprise the statement of financial position as at 31 December 2014, and the income statement, statement 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 notes 1 to 40.

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 judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2014 and of its financial performance and cash flows for the financial 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. 3032/01/17 (J))
Chartered Accountant

Kuala Lumpur
5 March 2015

Basel II Pillar 3 Disclosures

31 December 2014

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STATEMENT BY MANAGING DIRECTOR

In accordance with the requirements of Bank Negara Malaysia's Guideline on Capital Adequacy Framework For Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), and on behalf of the Board 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 2014 are accurate and complete.

IBRAHIM BIN HASSAN
Managing Director

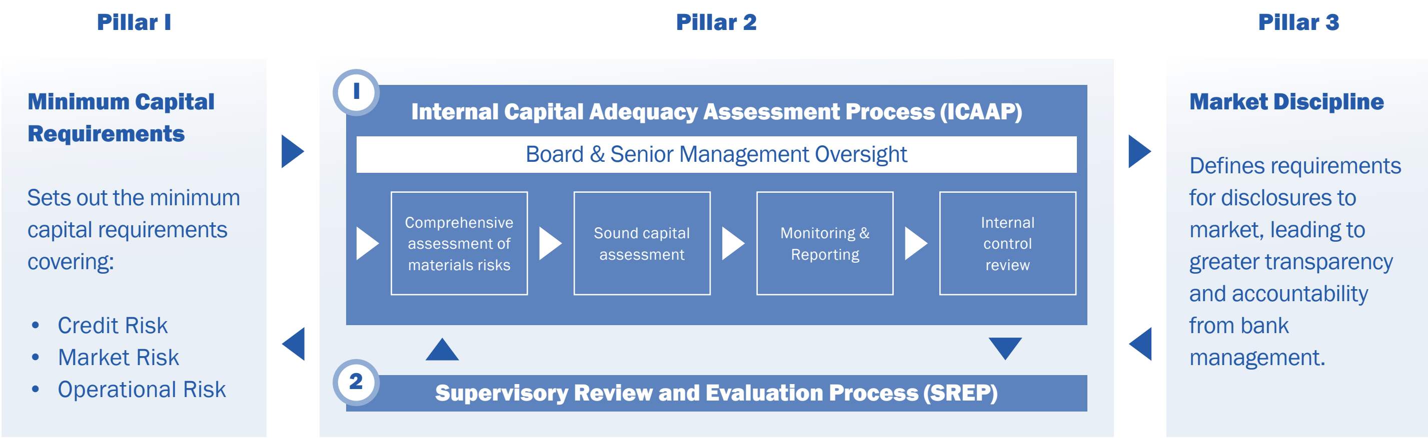
1.0 INTRODUCTION

This document discloses RHB Islamic Bank Berhad's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3) issued by Bank Negara Malaysia (BNM).

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

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

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



Pillar 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.

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 purposes of complying with regulatory requirements under Basel II Pillar I, the approaches adopted by the Bank are summarised as follows:

Entity	Credit Risk	Market Risk	Operational Risk
RHB Islamic Bank Berhad	SA	SA	BIA

1.0 INTRODUCTION (CONTINUED)

Pillar 2 comprises two components as follows:

1. Placing obligations on banks to develop an Internal Capital Adequacy Assessment Process, and setting capital targets that commensurate with the banking institution's risk profile and control environment; and
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 a set of disclosure requirements that will allow market participants to assess information on banking institutions' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

The annual Pillar 3 disclosure report is published in accordance with the Pillar 3 Guideline issued by BNM. This disclosure report has been verified and approved internally in line with the RHB Banking Group Pillar 3 Disclosure Policy.

This document covers the qualitative and quantitative information for financial year ended 31 December 2014 with comparative quantitative information of the preceding financial year 2013.

The Bank's Pillar 3 disclosure report is 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 2014, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Islamic Bank Berhad's information is presented at entity level. The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31 December 2014. 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 manage capital prudently to maintain a strong capital position to drive sustainable business growth and seek strategic opportunities to enhance shareholders' value, and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting 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 stressed market conditions and considers the business risk and strategic objectives, external credit ratings, and capital adequacy requirements. A comprehensive capital adequacy assessment is conducted at least annually to ensure that the target capital level is appropriate.

- **Capital Planning**
  Based on strategic direction and regulatory requirements, the Bank formulates a 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 stressed conditions as assumed in the stress scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Bank maintains adequate capital on a forward-looking basis. The Bank also establishes a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer and deliberated at the Group Capital and Risk Committee (GCRC) for endorsement, and submitted to Board Risk Committee (BRC) and the Board for approval.

3.0 CAPITAL MANAGEMENT (CONTINUED)

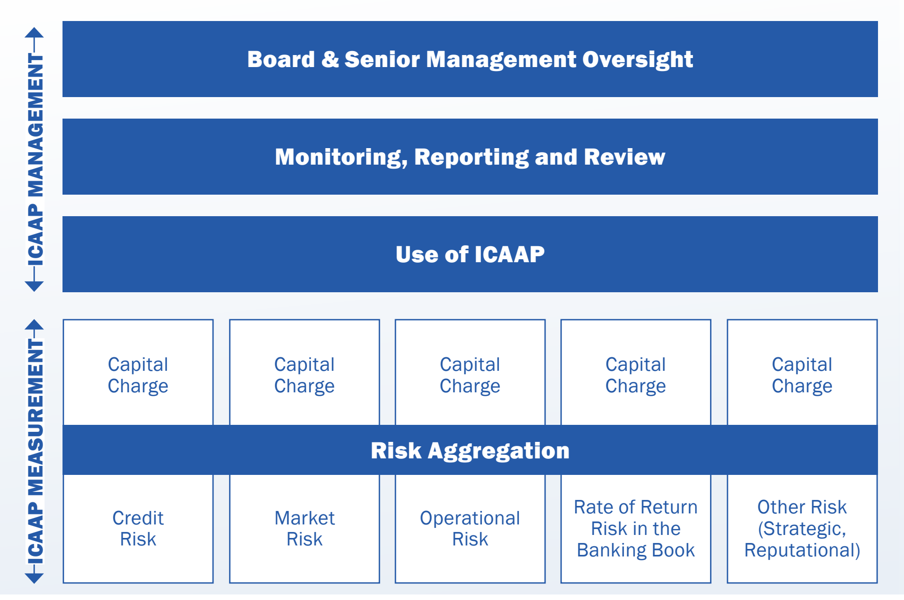
- **Capital Structuring**
  Capital structuring affects the Bank through its impact on cash flow and cost of capital. The Bank adopts capital structuring that maximises value and minimises overall cost of capital. In order to achieve optimum capital structure, the Bank determines the levels, mix and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

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

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

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

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



Key Requirements

- Establish rigorous corporate governance and Senior Management oversight.
- Establish risk-based strategy including defining and setting the Bank's appetite and tolerance for risk.
- Assess and measure all material risks inherent in the 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.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.2 Basel III Implementation

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

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. The result produced during the observation period facilitates the Bank's strategy in managing the appropriate funding sources for achieving optimal LCR and NSFR. The Bank is taking steps to review and refine assumptions applied in producing a more prudent LCR and NSFR. The Bank is currently considering a revision to the standards in respond to BNM's latest issuance of the Basel III Concept Paper, in which it was decided that the implementation for LCR will take effect from 1 June 2015.

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Capital Components) sets out the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital. Banking institutions are required to maintain, at all times, the following minimum capital adequacy ratios:

Calendar Year	Common Equity Tier 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%

The capital ratios of RHB Islamic Bank as at 31 December 2014 and 31 December 2013 are as follows:

Table 1: Capital Adequacy Ratios

	2014	2013
Common Equity Tier I Capital Ratio	12.875%	13.864%
Tier I Capital Ratio	12.875%	13.864%
Total Capital Ratio	16.336%	14.424%

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 by Risk Types

	(RM'000)	
Risk Types	**2014**	**2013**
Credit RWA	20,158,062	14,818,230
Credit RWA Absorbed by PSIA	(3,841,305)	(1,307,029)
Market RWA	124,357	160,838
Operational RWA	918,886	783,884
Total RWA	**17,360,000**	**14,455,923**

3.0 CAPITAL MANAGEMENT (CONTINUED)

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

The following table shows a breakdown of the Bank's RWA by risk types and the corresponding capital requirements as at 31 December 2014 and 31 December 2013:

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

	RWA		Minimum Capital Requirements	
	2014	2013	2014	2013
Risk Types	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
Credit Risk	**16,316,757**	**13,511,201**	**1,305,341**	**1,080,896**
Under Standardised Approach	20,158,062	14,818,230	1,612,645	1,185,458
Absorbed by PSIA under Standardised Approach	(3,841,305)	(1,307,029)	(307,304)	(104,562)
Market Risk				
Under Standardised Approach	124,357	160,838	9,948	12,867
Operational Risk				
Under Basic Indicator Approach	918,886	783,884	73,511	62,711
Total	**17,360,000**	**14,455,923**	**1,388,800**	**1,156,474**

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

The total RWA for 2014 registered an increase of 20% (RM2.9 billion) from 2013 mainly attributed by the increase in Credit RWA. Year-on-year comparison showed an overall increase in Credit RWA and Operational RWA by 21% (RM2.8 billion) and 17% (RM0.14 billion) respectively. The increase was offset by the lower Market RWA.

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

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 B and C. These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Bank. Tier I capital consists primarily of ordinary share capital, share premium, retained profits, other reserves and hybrid Tier I capital securities. Tier II capital consists of subordinated obligations and collective impairment allowance. Refer to Note 37 to the Financial Statements for the terms of these capital instruments.

4.0 CAPITAL STRUCTURE (CONTINUED)

The following table represents the Bank's capital position as at 31 December 2014 and 31 December 2013:

Table 4: Capital Structure

	(RM'000)	
	2014	**2013**
Common Equity Tier I/Tier I Capital		
Paid-up ordinary share capital	1,173,424	1,173,424
Retained profits	553,560	441,401
Other reserves	553,765	441,609
Unrealised gains and losses on AFS financial instruments	(28,352)	(29,302)
Less:		
Deferred tax assets	(15,497)	(17,281)
Other intangibles	(1,119)	(5,580)
Ageing Reserves and Liquidity Reserve	(551)	(92)
Total Common Equity Tier I Capital/Tier I Capital	**2,235,230**	**2,004,179**
Tier II Capital		
Subordinated sukuk	500,000	-
Collective impairment allowance^	100,832	81,059
Total Tier II Capital	**600,832**	**81,059**
Total Capital	**2,836,062**	**2,085,238**

Notes:

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

5.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, shariah 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 drive sustainable growth and shareholder value, while sustaining competitive advantage, and is thus a central part of the proactive risk management of the Bank.

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

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

5.0 RISK MANAGEMENT (CONTINUED)

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

OVERARCHING RISK MANAGEMENT PRINCIPLES

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

- Risk governance from the Boards of Directors of various operating entities within the Group;
- Clear understanding of risk management ownership;
- Institutionalisation of a risk-focused organisation;
- Alignment of risk management to business strategies; and
- Optimisation of risk-adjusted returns.

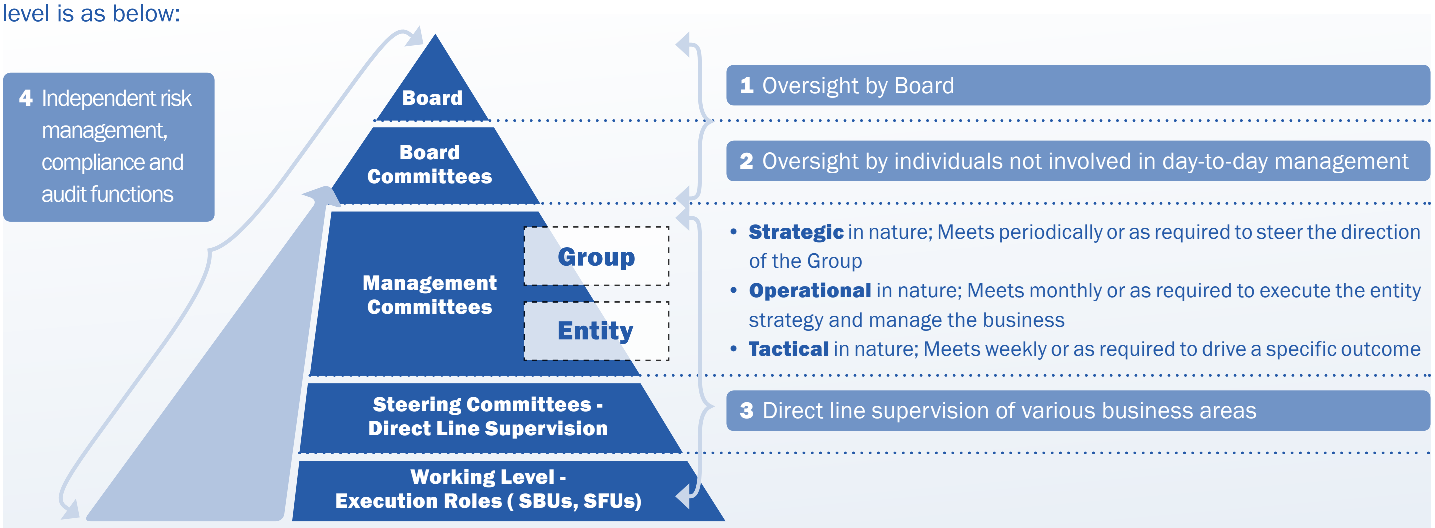
Principle 1: Risk Governance from the Boards of Directors of various operating entities in the Group

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 BRC/Islamic Risk Management Committee (IRMC), GCRC and the Group Risk & Credit Management function establishes the risk appetite and risk principles for the Group and its relevant entities. The BRC is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, risk management framework, risk management policy and risk management models. An IRMC has also been established to assist the Board of RHB Islamic Bank to focus on risk issues relevant and unique to RHB Islamic Bank.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports directly to the BRC and the Group Management Committee (GMC). There are other committees set up to manage specific areas of risks in the Group. An overview of this governance framework at Group level is as below:



Principle 2: Clear Understanding of Risk Management Ownership

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

5.0 RISK MANAGEMENT (CONTINUED)

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 Function

Group Risk & Credit Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer. The roles and responsibilities of the Group Chief Risk Officer include:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk underwriting models;
- Developing a pro-active, balanced and risk-attuned culture within the Group;
- Advising Senior Management, the GCRC, BRC/IRMC and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies; and
- Administering the delegation of discretionary powers to Management personnel within the Group.

Group Risk & Credit Management consists of Group Risk Management, Group Credit Management and Group Risk Operations, provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Key areas for which Group Risk Management is responsible include the Group's risk policy and framework, day-to-day risk measurement and monitoring, providing timely risk analysis to management, and ensuring compliance to regulatory risk reporting requirements.

Group Credit Management oversees the Group-wide credit evaluation and assessment, approval and credit monitoring functions by providing credit risk assessment assurance on credit proposals, highlighting and monitoring business units in rehabilitating potential problematic accounts, and improving credit process efficiency.

Group Risk Operations is responsible for strategising and implementing a comprehensive enterprise-wide risk governance framework, and managing the development of robust risk management infrastructure and tools, aligned with the Group's strategy for growth and keeping pace with the market requirements and competitive business environment. Group Risk Operations drives the operationalisation of the Group's risk transformation initiatives in establishing risk management as a valuable business partner.

Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

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

Principle 4: Alignment of Risk Management to Business Strategies

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

Risk appetite is set by the Board and reported through various metrics that enable the Bank and the Group to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Bank and the Group are prepared to accept in delivering its strategy.

5.0 RISK MANAGEMENT (CONTINUED)

Principle 5: Optimisation of Risk-Adjusted Returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

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 Group Credit Committee (GCC) 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. GCC also approves and renews financing facilities and submits to the Board Credit Committee (BCC) for affirmation or veto if the financing facilities exceed a pre-defined threshold.

The BCC's main functions are affirming, imposing additional covenants on or vetoing credits of the Group which are duly approved by the GCC, and overseeing the management of impaired and high risk accounts, as well as affirming, imposing additional covenants on or vetoing impaired financing from Credit Recovery for amounts above the defined thresholds of the GCC. In line with best practices, financing facilities applications are independently evaluated by Group Credit Management prior to submission to the relevant committees for approval. For financing applications submitted for joint approvals, there is proper check and control as the joint approval is between business units and Group Credit Management.

Within Group Risk Management, the Group Credit Risk Management 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 GCRC, 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.

6.2 Credit Risk Management Approach

The Group's credit risk management framework is founded upon BNM's Guideline on Best Practices for the Management of Credit Risk. The Bank abides by its Group Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Industry best practices are instilled in the continual updating of the policy.

The Bank ensures that internal processes and credit underwriting standards are adhered to 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.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (Continued)

The Bank's credit risk management process is documented in the Group Credit Procedures Manual (GCPM) and Group Credit Guidelines 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 Asset Based Financing and Hire Purchase business operations.

The GCPM and Group Credit Guidelines have been designed to ensure that:

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

Financing to Corporate and Institutional Customers

Financing to corporate and institutional customers are individually evaluated and risk-rated. Credit Officers identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment 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.

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 (or customer) rating obtained from the risk rating system to determine obligor's level of default risk. The risk rating of each obligor is regularly reviewed to ensure that it actually reflects the debtor's/customer's updated default risk. For retail financing, the default risk is measured via different credit scoring or behavioural scoring model.

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

3. **Exposure at Default (EAD)**
   Exposure at default is calculated from the current outstanding balance and availability of committed financing line. In this regard, the key factor is the Bank's obligation related to the available financing line. For corporate financing, the EAD is measured at an individual obligor exposure as per BNM's guideline on Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets). For retail financing, the principle of credit risk measurement is similar, but measured on a pooled basis, based on internal models.

6.0 CREDIT RISK (CONTINUED)

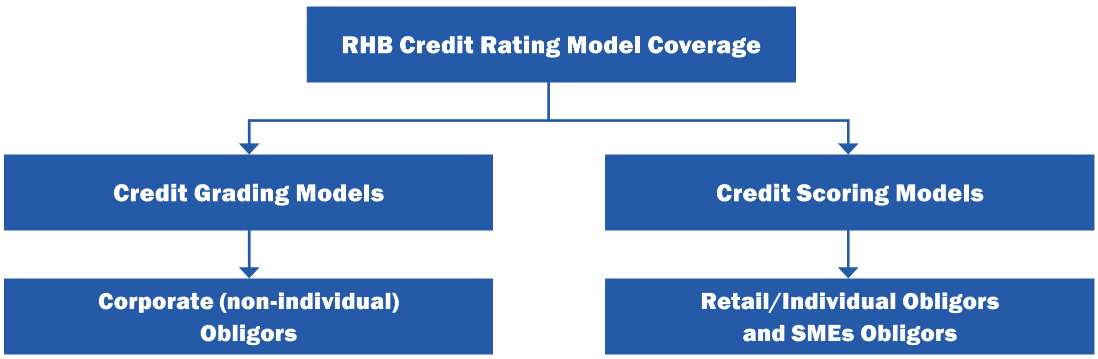
6.3 Internal Credit Rating Models

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 endorsed by GCRC, IRMC and approved by Board. All models are also subject to independent validation by the Model Validation Team before implementation, to ensure that all aspects of the model development process have been satisfied. In addition, the models are also subject to annual review and independent validation by the Model Validation Team to ensure that they are performing as expected.

Credit risk/rating models can be broadly classified into:
- Credit Grading Models
- Credit Scoring Models

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 obligors/guarantors/debt issuers based on their financial standing (such as gearing, expenses and profit) and qualitative aspects (such as management effectiveness and industry environment). Different rating models will be applied subject to the obligor's asset and sales volume, in order to create further risk differentiation.

The credit scoring models are for large volume of exposures that are managed on a portfolio basis, which includes program financing for small and medium-sized enterprises (SMEs). These models are developed through statistical modelling and applied onto the portfolio accordingly. For portfolios where data are readily available or when more granular segmentation is required to support business strategy, more models will be developed and deployed.

6.0 CREDIT RISK (CONTINUED)

6.3 Internal Credit Rating Models (Continued)

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 credit approval process in both retail and non-retail portfolios. In high-volume retail portfolios, application scorecard and behaviour scorecard are used as one of the risk management tools.
- Policy : The Bank has established policies which governs the use of internal rating models, its development, review and validation.
- Reporting : Reports are generated to Senior Management on a monthly basis on the performance of the rating models to show the distribution of the credit exposures by risk rating and monitoring of its performance.
- Capital Management : The capital management and allocation plan takes into consideration the projected RWA computed based on internal rating.
- Risk Limits : The internal ratings are used in establishing the Group's various internal limits such as country limits.
- 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.

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

The management of the following off-balance sheet exposures of the Bank is in accordance to the credit risk management approach as set out under Section 6.2 of this document:

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that its customer cannot meet its obligations to third-parties. These exposures carry the same credit risk as financing even though they are contingent in nature;
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of its customers. These exposures are usually collateralised by the underlying shipment of goods to which they relate;
- Commitments to extend financing, which includes the unutilised or undrawn portions of financing facilities;
- Unutilised credit card lines; and
- Principal or notional amount of derivative financial instruments.

Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk on derivative financial instruments is the risk that the Bank's counterparty in a foreign exchange, profit rate, commodity, equity, options or credit derivative contract defaults prior to the maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

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

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio

All credit exposures of the Bank are booked in Malaysia. The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2014 compared with 31 December 2013, segregated by:

- the various types of asset classes, showing details of the exposures, before and after credit risk mitigation (CRM), the corresponding RWA and capital requirements;
- disclosure on off -balance sheet and counterparty credit risk;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights.

Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

Table 5a: Summary of Credit Exposures with CRM by Asset Class and Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2014

Exposure Class	Gross Exposures/ EAD before CRM (RM'000)	Net Exposures/ EAD after CRM (RM'000)	RWA (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA After Effect of PSIA (RM'000)	Minimum Capital Requirements (RM'000)
Exposures under Standardised Approach						
On-Balance Sheet Exposures						
Sovereigns/Central Banks	6,516,640	6,516,640	2,371	-	2,371	190
Public Sector Entities	2,429,824	2,429,824	2,469	-	2,469	197
Banks, Development Financial Institutions & MDBs	1,235,115	1,235,115	265,259	-	265,259	21,221
Takaful Cos, Securities Firms & Fund Managers	103,771	103,771	103,771	-	103,771	8,302
Corporates	11,231,609	10,923,773	7,337,927	(2,930,924)	4,407,002	352,560
Regulatory Retail	11,318,045	11,221,595	8,737,333	(664,513)	8,072,820	645,826
Residential Mortgages	2,446,992	2,441,918	1,371,039	(146,848)	1,224,191	97,935
Higher Risk Assets	200,554	200,554	300,831	-	300,831	24,067
Other Assets	114,928	114,928	100,653	-	100,653	8,052
Defaulted Exposures	236,726	230,753	266,022	(22,669)	243,354	19,469
Total On-Balance Sheet Exposures	**35,834,204**	**35,418,871**	**18,487,675**	**(3,764,954)**	**14,722,721**	**1,177,819**
Off-Balance Sheet Exposures						
OTC Derivatives	198,265	198,265	125,190	-	125,190	10,015
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,960,513	1,934,006	1,544,484	(76,351)	1,468,133	117,450
Defaulted Exposures	8,306	475	713	-	713	57
Total Off-Balance Sheet Exposures	**2,167,084**	**2,132,746**	**1,670,387**	**(76,351)**	**1,594,036**	**127,522**
Total On and Off-Balance Sheet Exposures	**38,001,288**	**37,551,617**	**20,158,062**	**(3,841,305)**	**16,316,757**	**1,305,341**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 5b: Summary of Credit Exposures with CRM by Asset Class and Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2013

Exposure Class	Gross Exposures/ EAD before CRM (RM'000)	Net Exposures/ EAD after CRM (RM'000)	RWA (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA After Effect of PSIA (RM'000)	Minimum Capital Requirements (RM'000)
Exposures under Standardised Approach						
On-Balance Sheet Exposures						
Sovereigns/Central Banks	8,361,466	8,361,466	-	-	-	-
Public Sector Entities	-	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	1,534,521	1,534,521	305,200	-	305,200	24,416
Takaful Cos, Securities Firms & 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 Mortgages	-	-	-	-	-	-
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
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	108,772	108,772	54,844	-	54,844	4,387
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,477,268	2,477,268	1,971,826	-	1,971,826	157,747
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**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 6a: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2014

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	188,764		94,382	67,238
Short-term self-liquidating trade-related contingencies	55,547		11,109	2,264
Assets sold with recourse	-		-	-
NIFs and obligations under an on-going underwriting agreement	-		-	-
Foreign exchange related contracts	**863,979**	**26,237**	**119,237**	**85,676**
1 year or less	775,709	25,161	39,216	35,496
Over 1 year to 5 years	88,270	1,076	80,021	50,180
Over 5 years	-	-	-	-
Profit rate related contracts	**2,975,000**	**21,753**	**79,028**	**39,514**
1 year or less	650,000	682	2,307	1,154
Over 1 year to 5 years	2,235,000	20,619	71,770	35,885
Over 5 years	90,000	452	4,951	2,475
Other commitments, such as formal standby facilities and financing lines, with an original maturity of over 1 year	3,545,835		1,772,918	1,407,888
Other commitments ,such as formal standby facilities and financing lines, with an original maturity of up to 1 year	-		-	-
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	1,791,099		90,410	67,807
Total	**9,420,224**	**47,990**	**2,167,084**	**1,670,387**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 6b: Exposures on 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 on-going 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 1 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 1 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
Total	**9,598,035**	**24,151**	**2,586,040**	**2,026,670**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2014

Exposure Class	Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale, Retail Trade, Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business	Education, Health & Others	Household	Others	Total
	(RM'000)											
Exposures under Standardised Approach												
Sovereigns/Central Banks	-	-	-	-	-	-	-	4,451,415	2,075,604	-	-	6,527,019
Public Sector Entities	-	-	-	-	-	-	-	-	2,429,824	-	-	2,429,824
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,424,341	-	-	-	1,424,341
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	104,522	-	-	-	104,522
Corporates	430,880	799	664,291	579,441	886,474	691,333	3,591,202	4,323,430	1,010,341	-	11,142	12,189,333
Regulatory Retail	32,590	8,602	103,245	1,597	163,643	176,452	44,133	157,679	18,334	11,761,299	40,765	12,508,339
Residential Mortgages	-	-	-	-	-	-	-	-	-	2,502,428	-	2,502,428
Higher Risk Assets	-	-	-	-	200,554	-	-	-	-	-	-	200,554
Other Assets	-	-	-	-	-	-	-	-	-	-	114,928	114,928
Total	**463,470**	**9,401**	**767,536**	**581,038**	**1,250,671**	**867,785**	**3,635,335**	**10,461,387**	**5,534,103**	**14,263,727**	**166,835**	**38,001,288**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2013

Exposure Class	Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale, Retail Trade, Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance, Real Estate & Business	Education, Health & Others	Household	Others	Total
	(RM'000)											
Exposures under Standardised Approach												
Sovereigns/Central Banks	-	-	-	-	-	-	-	3,495,728	4,865,738	-	-	8,361,466
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,642,063	-	-	-	1,642,063
Takaful Cos, Securities Firms & 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 Mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	200,619	-	-	13,803	-	-	-	214,422
Other Assets	-	-	-	-	-	-	-	-	-	-	80,129	80,129
Total	**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)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2014

Exposure Class	One Year or Less (RM'000)	More than One to Five Years (RM'000)	Over Five Years (RM'000)	Total (RM'000)
Exposures under Standardised Approach				
Sovereigns/Central Banks	3,002,893	1,789,663	1,734,463	6,527,019
Public Sector Entities	-	705,710	1,724,114	2,429,824
Banks, Development Financial Institutions & MDBs	1,181,574	131,450	111,317	1,424,341
Takaful Cos, Securities Firms & Fund Managers	103,865	657	-	104,522
Corporates	3,017,640	3,655,105	5,516,588	12,189,333
Regulatory Retail	434,244	1,742,093	10,332,002	12,508,339
Residential Mortgages	1,074	35,005	2,466,349	2,502,428
Higher Risk Assets	-	-	200,554	200,554
Other Assets	-	-	114,928	114,928
Total	**7,741,290**	**8,059,683**	**22,200,315**	**38,001,288**

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2013

Exposure Class	One Year or Less (RM'000)	More than One to Five Years (RM'000)	Over Five Years (RM'000)	Total (RM'000)
Exposures under Standardised Approach				
Sovereigns/Central Banks	2,567,663	365,493	5,428,310	8,361,466
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	1,526,670	54,515	60,878	1,642,063
Takaful Cos, Securities Firms & 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
Total	**4,528,532**	**3,197,317**	**22,500,850**	**30,226,699**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 9a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2014

	Exposure After Credit Risk Mitigation (RM'000)							Total Exposures (RM'000)
	Risk Weight (%)							
Exposure Class	0%	20%	35%	50%	75%	100%	150%	
Exposures under Standardised Approach								
Sovereigns/Central Banks	6,504,787	22,232	-	-	-	-	-	6,527,019
Public Sector Entities	2,417,477	12,347	-	-	-	-	-	2,429,824
Banks, Development Financial Institutions & MDBs	4,858	1,167,639	-	251,807	-	37	-	1,424,341
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	104,522	-	104,522
Corporates	1,044,939	3,330,763	-	19,606	-	7,345,668	117,854	11,858,830
Regulatory Retail	2,094	-	-	12,264	11,003,984	1,323,518	52,622	12,394,482
Residential Mortgages	-	-	1,081,261	656,106	192,484	552,119	15,147	2,497,117
Higher Risk Assets	-	-	-	-	-	-	200,554	200,554
Other Assets	14,275	-	-	-	-	100,653	-	114,928
Total Exposures after CRM (RM'000)	**9,988,430**	**4,532,981**	**1,081,261**	**939,783**	**11,196,468**	**9,426,517**	**386,177**	**37,551,617**
Total Risk-Weighted Assets (RM'000)	**-**	**906,597**	**378,441**	**469,891**	**8,397,351**	**9,426,517**	**579,265**	**20,158,062**

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets By Portfolio (Continued)

Table 9b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2013

Exposure Class	Exposure After Credit Risk Mitigation (RM'000)							Total Exposures (RM'000)
	Risk Weight (%)							
	0%	20%	35%	50%	75%	100%	150%	
Exposures under Standardised Approach								
Sovereigns/Central Banks	8,361,466	-	-	-	-	-	-	8,361,466
Public Sector Entities	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	9,786	1,524,411	-	107,866	-	-	-	1,642,063
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-
Corporates	684,202	2,546,915	-	802,785	-	3,868,583	51,291	7,953,776
Regulatory Retail	54,782	5,495	-	5,148	11,000,359	815,165	93,894	11,974,843
Residential Mortgages	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	-	-	214,422	214,422
Other Assets	8,590	-	-	-	-	71,539	-	80,129
Total Exposures after CRM (RM'000)	**9,118,826**	**4,076,821**	**-**	**915,799**	**11,000,359**	**4,755,287**	**359,607**	**30,226,699**
Total Risk-Weighted Assets (RM'000)	**-**	**815,364**	**-**	**457,899**	**8,250,269**	**4,755,287**	**539,411**	**14,818,230**

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings

For sovereigns, corporate and banking institutions, external ratings from approved external credit assessment institutions (ECAIs), where available, are used to calculate the risk-weighted assets and regulatory capital.

The process used to map ECAIs issuer ratings or comparable ECAIs issue ratings, are in accordance to 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.

The following tables show the Bank's credit exposures as at 31 December 2014 compared with 31 December 2013 position, according to the ratings by ECAIs:

Table 10a: Rated Exposures According to Ratings by ECAIs as at 31 December 2014

	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
Ratings of Corporates by Approved ECAIs	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Public Sector Entities (RM'000)		-	2,203,357	-	-	226,467
Insurance/Takaful Cos, Securities Firms & Fund Managers (RM'000)		-	-	-	-	104,522
Corporates (RM'000)		3,033,246	500,047	-	7,027	8,185,410

	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
Short Term Ratings of Corporates by Approved ECAIs	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
On and Off-Balance Sheet Exposures						
Corporates (RM'000)		133,100	-	-	-	-

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings (Continued)

Table 10a: Rated Exposures According to Ratings by ECAIs as at 31 December 2014 (Continued)

	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
Ratings of Sovereigns and Central Banks by Approved ECAIs	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/Central Banks (RM'000)		-	6,527,019	-	-	-	-

	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
Ratings of Banking Institutions by Approved ECAIs	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, Development Financial Institutions & MDBs (RM'000)		789,114	629,077	6,113	37	-	-

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings (Continued)

Table 10b: Rated Exposures According to Ratings 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						
Public Sector Entities (RM'000)		-	-	-	-	-
Takaful Cos, Securities Firms & Fund Managers (RM'000)		-	-	-	-	-
Corporates (RM'000)		2,536,244	788,432	-	-	4,629,100

Short Term Ratings of Corporates by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
On and Off-Balance Sheet Exposures						
Corporates (RM'000)		-	-	-	-	-

Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures							
Sovereigns/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, Development Financial Institutions & MDBs (RM'000)		1,534,197	107,866	-	-	-	-

6.0 CREDIT RISK (CONTINUED)

6.7 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 financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Bank's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor. Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, shares and unit trusts, while physical collateral includes land and buildings and vehicles. Apart from financial collateral and physical collateral, the Bank has defined standards on the acceptance of guarantors as credit risk mitigants.

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

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Bank does not employ the use of derivative credit instruments and on-balance sheet netting to mitigate its credit exposures. Where possible, the Bank enters into International Swaps and Derivatives Association (ISDA) Master Agreement with its derivative and swap counterparties as the master agreement provides the legal certainty that the credit exposures between counterparties will be netted.

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

The Bank has established mechanism to monitor credit and market concentration within its credit mitigation.

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (Continued)

The following tables show the credit risk mitigation of portfolios under the Standardised Approach as at 31 December 2014 compared with 31 December 2013:

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2014

Exposure Class	Exposures before Credit Risk Mitigation (RM'000)	Exposures Covered by Guarantees/ Credit Derivatives (RM'000)	Exposures Covered by Eligible Financial Collateral (RM'000)
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,516,640	-	-
Public Sector Entities	2,429,824	2,417,478	-
Banks, Development Financial Institutions & MDBs	1,235,115	4,858	-
Takaful Cos, Securities Firms & Fund Managers	103,771	-	-
Corporates	11,231,609	1,044,939	307,836
Regulatory Retail	11,318,045	1,265	96,449
Residential Mortgages	2,446,992	-	5,074
Higher Risk Assets	200,554	-	-
Other Assets	114,928	-	-
Defaulted Exposures	236,726	830	5,974
Total On-Balance Sheet Exposures	**35,834,204**	**3,469,370**	**415,333**
Off-Balance Sheet Exposures			
OTC Derivative	198,265	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,960,513	-	26,507
Defaulted Exposures	8,306	-	7,830
Total Off-Balance Sheet Exposures	**2,167,084**	**-**	**34,337**
Total On and Off-Balance Sheet Exposures	**38,001,288**	**3,469,370**	**449,670**

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (Continued)

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

Exposure Class	Exposures before Credit Risk Mitigation (RM'000)	Exposures Covered by Guarantees/ Credit Derivatives (RM'000)	Exposures Covered by Eligible Financial Collateral (RM'000)
On-Balance Sheet Exposures			
Sovereigns/Central Banks	8,361,466	3,313,818	-
Public Sector Entities	-	-	-
Banks, Development Financial Institutions & MDBs	1,534,521	9,786	-
Takaful Cos, Securities Firms & Fund Managers	-	-	-
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	-	-
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 Derivative	108,772	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	2,477,268	-	-
Defaulted Exposures	-	-	-
Total 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)

6.7 Credit Risk Monitoring and Control (Continued)

Credit Concentration Risk

Credit concentration risk is defined as any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations.

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

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

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for Senior Management, GCRC, IRMC and Board, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and financing impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Specific financing may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the customer has defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Within Group Credit Management, there is a mechanism in place for credit monitoring to flag-out problematic financing (watch list accounts) for intensive monitoring under Enhanced Account Management (EAM). These are accounts which may be exhibiting early distress patterns or in the early stages of delinquency but not yet in default. The EAM guidelines have been further refined in 2014 to better identify, monitor and resolve such account.

Group Internal Audit conducts independent post-approval reviews on a sampling basis to ensure that the quality of credit appraisals and approval standards is in accordance with the credit underwriting standards and financing policies established by the Bank's Management, and relevant laws and regulations.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing

The Bank adopts BNM's guidelines on Classification and Impairment Provisions for Financing. The principles in these revised guideline are in line with those applicable under the new International Financial Reporting Standards compliant framework, the Malaysia Financial Reporting Standards 139.

The Bank classifies financing as impaired:

1. When the principal or profit or both is past due for more than 90 days or 3 months. 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;

2. 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;

3. 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;

4. For rescheduled 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; and

5. Where any one of the Mandatory Status Triggers (MST) or any two or more of the Ancillary Status Triggers (AST) have occurred. MST and AST are a set of pre-defined trigger events approved by the Bank, such as bankrupt/wound-up, ceased operations, etc.

Individual Assessment – Impairment Triggers

For customers (customers with threshold of RM5 million and above per customer) under individual assessment, the Bank performs 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.

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:

1. Segmentation is applied to group of financing, both impaired and non-impaired, based on similar credit risk characteristics, for the purpose of assessing impairment and computing historical default rates and loss rates.
2. Probability of default (PD) model is established with standard loss identification period (by months) and Point of No Return (by months in arrears). PD model adopted could either be migration analysis model or flow rate model. The approaches to migration analysis model could be either by way of outstanding balances or number of accounts.
3. Loss Given Default (LGD) model establishes loss rate at the point in time when the loss event occurred i.e., based on actual incurred loss model.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (Continued)

Re-classification and Recovery of Impaired Customers

An impaired customer may be re-classified as a non-impaired customer under the following situations:

1. 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.
2. 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.
3. 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 customer under approved rescheduling or restructuring, the reclassification to non-impaired status and the write-back of impairment allowances 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, if any, may be recommended for write-off:

1. Deemed irrecoverable, worthless and with slim prospect of recovery.
2. Waiver/discount already given under approved composite settlement schemes.
3. All retail and scored financing with ageing of 12 months and above, provided legal action has been initiated.
4. In the case of credit card and unsecured personal financing, aging is 6 months and above and the write off is automatic.

Partial write-offs of impaired financing is permitted for the shortfall portion in outstanding balance over the security value which is uncollectible and worthless; and the Bank is in the final stage of realising the security/collateral; or in the case of approved composite settlement arrangement, the waiver portion. Further shortfall if any, arising from the disposal of all securities and upon receipt of the sale proceeds, shall be written off immediately.

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)

6.8 Impairment Allowances for Financing (Continued)

For year 2014 and 2013 respectively, all impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia. The following tables show the Bank's impaired and past due financing and allowances by industry sector as at 31 December 2014 compared with 31 December 2013:

Table 12a: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2014

Industry Sector	Impaired Advances/ Financing (RM'000)	Past Due Financing (RM'000)	Individual Impairment Allowances (RM'000)	Collective Impairment Allowances (RM'000)
Agriculture	521	458	-	3,837
Mining & Quarrying	56	155	-	133
Manufacturing	32,201	12,741	3,800	16,185
Electricity, Gas & Water Supply	-	-	-	700
Construction	35,281	7,887	12,315	8,201
Wholesale, Retail Trade, Restaurants & Hotels	68,361	7,338	5,816	14,609
Transport, Storage & Communication	255	2,078	-	7,637
Finance, Takaful, Real Estate & Business	3,859	6,022	-	19,334
Education, Health & Others	10,466	454	3,358	4,144
Household	179,428	708,928	-	108,611
Others	273	-	-	3,916
Total	**330,701**	**746,061**	**25,289**	**187,307**

Table 12b: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2013

Industry Sector	Impaired 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 & Quarrying	-	237	-	67
Manufacturing	48,782	12,402	10,947	14,178
Electricity, Gas & Water Supply	-	-	-	1,436
Construction	49,357	7,326	22,266	8,372
Wholesale, Retail Trade, Restaurants & Hotels	36,891	9,074	7,262	10,812
Transport, Storage & Communication	1,296	6,741	-	4,468
Finance, Takaful, Real Estate & Business	115,685	4,457	70,384	18,427
Education, Health & 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**

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (Continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2014 compared with 31 December 2013:

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

Industry Sector	Twelve Months Period Ended 2014 Net Charges/(Write-back) for Individual Impairment Allowances (RM'000)	Twelve Months Period Ended 2014 Write-Offs (RM'000)	Twelve Months Period Ended 2013 Net Charges/(Write-back) for Individual Impairment Allowances (RM'000)	Twelve Months Period Ended 2013 Write-Offs (RM'000)
Agriculture	-	-	-	-
Mining & Quarrying	-	-	-	-
Manufacturing	(264)	3,970	2,836	4,774
Electricity, Gas & Water Supply	-	-	-	-
Construction	(9,951)	1,426	6,245	2,106
Wholesale, Retail Trade, Restaurants & Hotels	857	4,659	1,205	2,703
Transport, Storage & Communication	-	-	-	-
Finance, Takaful, Real Estate & Business	(15,146)	55,194	15,585	-
Education, Health & Others	2,966	166	(1,194)	-
Household	-	27,573	-	30,596
Others	-	-	-	335
Total	**(21,538)**	**92,988**	**24,677**	**40,514**

The following tables show the reconciliation of changes to financing impairment allowances as at 31 December 2014 compared with 31 December 2013:

Table 14: Reconciliation of Changes to Financing Impairment Allowances

Individual Impairment Allowances	2014 (RM'000)	2013 (RM'000)
Balance as at the beginning of financial year	**111,703**	**89,013**
Net Allowance/(written back) made during the year	(21,538)	24,677
Amount Written-Off	(63,135)	(6,637)
Reclassification (to)/from Collective Impairment Allowance	(1,741)	4,650
Balance as at the end of financial year	**25,289**	**111,703**

Collective Impairment Allowances	2014 (RM'000)	2013 (RM'000)
Balance as at the beginning of financial year	**145,769**	**177,774**
Net Allowance/(written back) made during the year	69,650	6,522
Amount Written-Off	(29,853)	(33,877)
Reclassification from/(to) Individual Impairment Allowance	1,741	(4,650)
Balance as at the end of financial year	**187,307**	**145,769**

7.0 MARKET RISK

Market risk is the risk of loss arising from adverse movements in market indicators, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices.

Market risk is segregated into trading market risk and non-trading market risk. Trading market risk arises from changes in profit rates, foreign exchange rates, equity prices and credit spreads on the value of assets held for trading, while non-trading market risk arises from changes in profit rates, foreign exchange rates and equity prices, of which the main non-trading market risk is profit rate risk arising from re-pricing mismatches of its assets and liabilities from its banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, profit rates, exchange rates, or indices. They include futures, forwards, swaps, and options transactions in the foreign exchange and profit rate markets. Derivative contracts entered into by the Bank are primarily over the counter derivatives.

The Bank has an established Group Trading Book Policy Statement as guidance for market risk management. This is reviewed regularly at least once a year, and/or upon change in strategy or significant event that has a material impact on policy compliance.

The Group Asset and Liability Committee (Group ALCO) performs a critical role in the management of market risk and supports the IRMC 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 Group Market Risk Management within Group Risk Management is the working level that forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk (VaR), sensitivity analysis and stress testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers 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 on 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 options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Bank's treasury functions with the approval of Group ALCO.

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2014 and 31 December 2013 are shown in the tables below:

Table 15a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2014

Market Risk	Long Position (RM'000)	Short Position (RM'000)	RWA (RM'000)	Minimum Capital Requirements (RM'000)
Profit Rate Risk	2,625,070	2,274,513	119,500	9,560
Foreign Currency Risk	1,785	(4,857)	4,857	388
Total			**124,357**	**9,948**

Table 15b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2013

Market Risk	Long Position (RM'000)	Short Position (RM'000)	RWA (RM'000)	Minimum Capital Requirements (RM'000)
Profit 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**

For years 2014 and 2013, 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

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost.

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 efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into long-term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risk.

Through the Group's Liquidity Risk Policy, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objective that underpins the Group's Liquidity Risk Policy includes maintaining financial market confidence at all times, protecting key stakeholders' interests and meeting regulatory liquidity requirements.

The Group ALCO supports the IRMC by performing the critical role in the management of liquidity risk, and is responsible for establishing strategies that assist in controlling and reducing any potential exposure to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risk and the Bank's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO meetings which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets profit rates for liabilities products as well as reference rates for financing products and services. Group ALCO is supported by Group Asset and Liability Management (Group ALM) at the working level. Group ALM monitors liquidity risk limits/Management Action Triggers (MATs) and reports to Group ALCO the liquidity risk profile on monthly basis.

The 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 LCR and the 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 Master Plan also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event. The Group's Liquidity Incident Management Master Plan also covers the entire Group's operations including foreign branch operations.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Rate of return risk in the banking book refers to any opportunity loss to the Group's income and/or economic value due to changes in benchmark rate, which may arise from both on and off-balance sheet positions in the banking book. Rate of return risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. Excessive rate of return risk can pose a significant threat to the Bank's earnings and capital. Changes in benchmark rates may affect the Bank's earnings in terms of the net profit income and economic value of equity.

Rate of return risk in the banking book comprises:

- Re-pricing risk (mismatch risk) – Arises from timing differences in the maturity (for fixed-rate) and re-pricing (for floating-rate) of bank assets, liabilities, and off-balance sheet positions. While such re-pricing mismatches are fundamental to the business of banking, they can expose a bank's income and underlying eco nomic value to unanticipated fluctuations as benchmark rates vary;
- Basis risk – Arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When benchmark rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies;
- Yield curve risk – Arises when unanticipated shifts of the yield curve have adverse effects on the Group's income or underlying economic value; and
- Embedded optionality – Arises primarily from options that are embedded in many banking book positions (e.g. some fixed rate mortgage products give customers the option to prepay the financing early without penalty, call deposit, where customers have the option of withdrawing the deposit funds at any time).

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess 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 tenure 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 is conducted on a monthly basis.

The Group ALCO supports IRMC in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net profit income and economic value of equity, as well as to ensure that rate of return risk exposures are maintained within defined risk tolerances.

In addition, the Bank has established the ALM Policy which provides for the governance of rate of return risk in the banking book. Benchmark rate sensitivity triggers are applied on earnings for the respective profit centres within the Bank. The Bank regularly considers the economics and necessity of increasing or reducing its rate of return risk hedges.

In line with the Bank's ALM Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in benchmark rates, rate of return risk to earnings is controlled using MATs and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme benchmark rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of rate of return risk in the banking book in an environment of rapid financial market changes.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in benchmark rate to net earnings and economic value as at 31 December 2014 and 31 December 2013 are shown in the following tables :

Table 16a: Rate of Return Risk in the Banking Book as at 31 December 2014

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 – Malaysian Ringgit	(36,155)	36,155	(306,428)	306,428
USD – US Dollar	(177)	177	(312)	312
Others[1]	50	(50)	48	(48)
Total	**(36,282)**	**36,282**	**(306,692)**	**306,692**

Notes:
1. Inclusive of GBP, EUR, SGD, etc.
2. As at 31 December 2014, the earnings and economic values were computed based on the standardised approach adopted by BNM under revised method.
3. PSIA (Profit Sharing Investment Account) between RHB Islamic and RHB Bank which qualifies as a risk absorbent, is excluded from the computation of rate of return risk.

Table 16b: 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 – Malaysian Ringgit	(34,321)	34,321	(246,164)	246,164
USD – US Dollar	-	-	-	-
Others[1]	-	-	-	-
Total	**(34,321)**	**34,321**	**(246,164)**	**246,164**

Notes:
1. Inclusive of GBP, EUR, SGD, etc.
2. As at 31 December 2013, RHB Islamic's earnings and economic value 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.
3. PSIA (Profit Sharing Investment Account) between RHB Islamic and RHB Bank which qualifies as a risk absorbent, is excluded from the computation of rate of return risk.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

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

- Benchmark rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point benchmark rate change impact.
- For assets and liabilities with non-fix maturity, e.g, current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of benchmark rate bearing items.

Economic value is characterised by the impact of benchmark rate changes on the value of all net cash flows, i.e., the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in benchmark rates than is offered by the earnings perspective.

The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

10.0 OPERATIONAL RISK

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

One of the Bank's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business and operation level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to improve risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.
- Monitoring and Intervention – This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences as a second and third line of defence respectively. The second line of defence also undertakes recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

Operational Risk Management Function and Organisation

The Group Operational Risk Management within Group Risk Management has the functional responsibility for the development of operational risk framework, policy and methodologies, and providing guidance and information to the business units on operational risk areas. Its responsibility also includes generating a broader understanding and awareness of operational risk issues at all levels in the Group. It also ensures that operational risks from new products, processes and systems are adequately managed and mitigated. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the Senior Management, the GCRC, IRMC and the Board. These reports include various operational risk aspects such as reporting of significant operational loss and Shariah non-compliance events. Such reporting enables Senior Management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

10.0 OPERATIONAL RISK (CONTINUED)

Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting. These are outlined as follows:

- **Risk and Control Self-Assessment (RCSA)**
  Each business unit is required to identify and assess their own operational risks. RCSA is a risk profiling tool which facilitates effective operational risk management for the Bank, and focuses on future risk assessment by using past records of loss or near misses, key risk indicators, and related issues such as audit findings. The RCSA process is facilitated by the business units themselves who together with personnel from Group 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 control failures 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.

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

  The Board of Directors has an oversight function through the BRC and GMC. The Group Business Continuity Management Steering Committee (GBCMSC) is the committee that oversees the Bank's business continuity framework, policies, budget and plans. The GBCMSC reports to the GCRC.

- **Outsourcing**
  With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing ensures that the risk arising from outsourcing activities is adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Takaful Management**
  The Bank considers risk transfer by means of Takaful to mitigate operational risk. The Bank has a programme of Takaful designed to reduce its exposure to liability and to protect its assets. The Bank purchases Takaful from leading 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 Takaful providers and will financially mitigate the economic consequences of risks.

10.0 OPERATIONAL RISK (CONTINUED)

Technology Risk

The Bank recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

New Product and Services Approval Process

The 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 risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

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

Capital Treatment for Operational Risk

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2014 and 31 December 2013, are shown below:

Table 17: Operational Risk-Weighted Assets and Minimum Capital Requirements

	(RM'000)	
Operational Risk	**2014**	**2013**
Risk-Weighted Assets	918,886	783,884
Minimum Capital Requirements	73,511	62,711

11.0 COUNTRY CROSS-BORDER RISK

Country cross-border risk is the risk that the Bank will be unable to obtain payment from customers or third-parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross-border assets comprise financing and advances, profit bearing deposits/placements with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency.

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

12.0 REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

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.

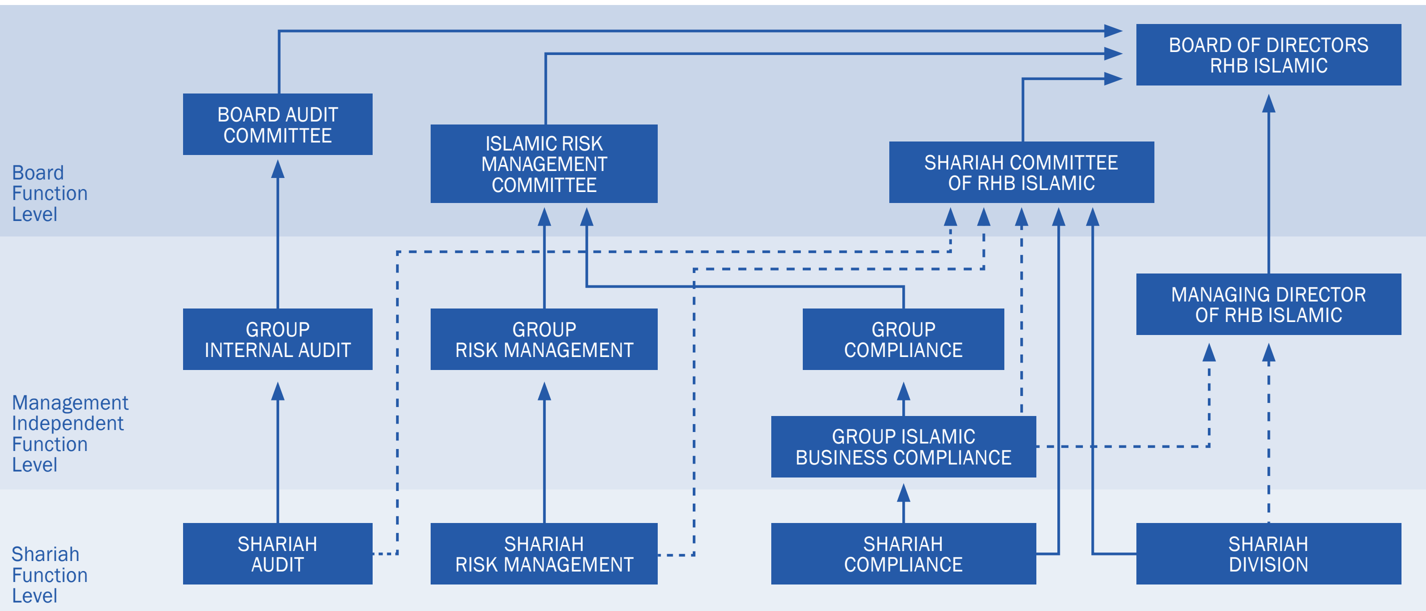
13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

Shariah non-compliance risk is the risk of loss arising from failure to comply with the Shariah rules and principles as determined by the Shariah Committee of the RHB Islamic Bank or any other relevant body, such as the BNM's Shariah Advisory Council.

A Shariah Framework has been developed with the objective of governing the entire Shariah compliance process within Islamic banking operations, and to:

- Ensure that the planning, development, and implementation of the Islamic Bank's products, services and conduct of business are in accordance with Shariah principles;
- Ensure that the Bank's operations do not contravene any of the Shariah 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 Shariah Committee of RHB Islamic Bank (SCR) was established under BNM's Shariah Governance Framework.

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

The main duties and responsibilities of SCR are to advise the Board of Directors on Shariah matters in relation to Islamic Banking business and operations, to endorse Shariah compliance manuals, to endorse and validate relevant documents as well as to provide written Shariah opinion on new products and RHB Islamic Bank's financial statements.

On a functional basis, RHB Islamic Bank is supported by Shariah Division, Shariah Risk Management, Shariah Compliance and Shariah Audit.

The Head of Shariah Division reports functionally to the SCR and administratively to the Managing Director of RHB Islamic Bank. The key functions of the Shariah Division are undertaken by two sub-units, i.e. Shariah Advisory, Development and Secretariat; and Shariah Research and Training.

The main duties and responsibilities of Shariah Advisory, Development & Secretariat are to conduct reviews on the Islamic products and services, provide internal Shariah advisory support to the management of RHB Islamic Bank in its daily business and operational matters, and to represent RHB Islamic Bank in any Shariah-related matters. Meanwhile, the main duties and responsibilities of Shariah Research and Training function are to assist SCR in elaborating and discussing on pertinent Shariah issues, to provide in-depth research on competitive analysis in order to help SCR in making decision, and to conduct Shariah-related training.

The key role and responsibilities of Shariah Risk Management is to facilitate the identifying, measuring, monitoring and controlling of Shariah non-compliance risks inherent in the Islamic business and operations to mitigate any possible Shariah non-compliance events. Shariah Risk Management also performs independent assessment and provides support relating to Shariah non-compliance risk.

Shariah Compliance conducts review and assists the SCR in providing opinions from Shariah perspective in relation to the status of Shariah compliance of products, services and operations of the Islamic business operations. Shariah Audit provides independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the Islamic business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance.

Any incidences of Shariah non-compliance are reported to the SCR, the IRMC, the Board of Directors of RHB Islamic Bank and BNM. Remedial actions may include the immediate termination of the Shariah non–compliant products or services and de-recognition of Shariah non-compliant income.

There is no major Shariah non-compliant event or income arising from the Islamic products or services during the financial year 2014.

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
A-IRB Approach	Advanced Internal Ratings Based Approach
BCC	Board Credit Committee
BCP	Business Continuity Planning
BIA	Basic Indicator Approach
BNM	Bank Negara Malaysia
Board/BOD	Board of Directors
CAFIB	Capital Adequacy Framework For Islamic Banks
CCR	Counterparty Credit Risk
CRM	Credit Risk Mitigation
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EUR	Euro Dollar
EVE	Economic Value of Equity
F-IRB Approach	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
GBCMSC	Group Business Continuity Management Steering Committee
GBP	Pound Sterling
GCC	Group Credit Committee
GCPM	Group Credit Procedures Manual
GCRC	Group Capital and Risk Committee
GMC	Group Management Committee
Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management
IRB Approach	Internal Ratings-Based Approach
IRMC	Islamic Risk Management Committee
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody's	Moody's Investors Service

Table 18	Glossary of Terms
MYR	Malaysian Ringgit
NIF	Notes Issuance Facility
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Probability of Default
PSIA	Profit Sharing Investment Accounts
R&I	Rating and Investment Information, Inc
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self-Assessment
RM'000	Malaysian Ringgit in nearest thousand
RWA	Risk-Weighted Assets
S&P	Standard & Poor's
SA	Standardised Approach
SBUs	Strategic Business Units
SCR	Shariah Committee of RHB Islamic Bank
SFUs	Strategic Functional Units
SGD	Singapore Dollar
SMEs	Small-and Medium-sized enterprises
VaR	Value-at-Risk

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