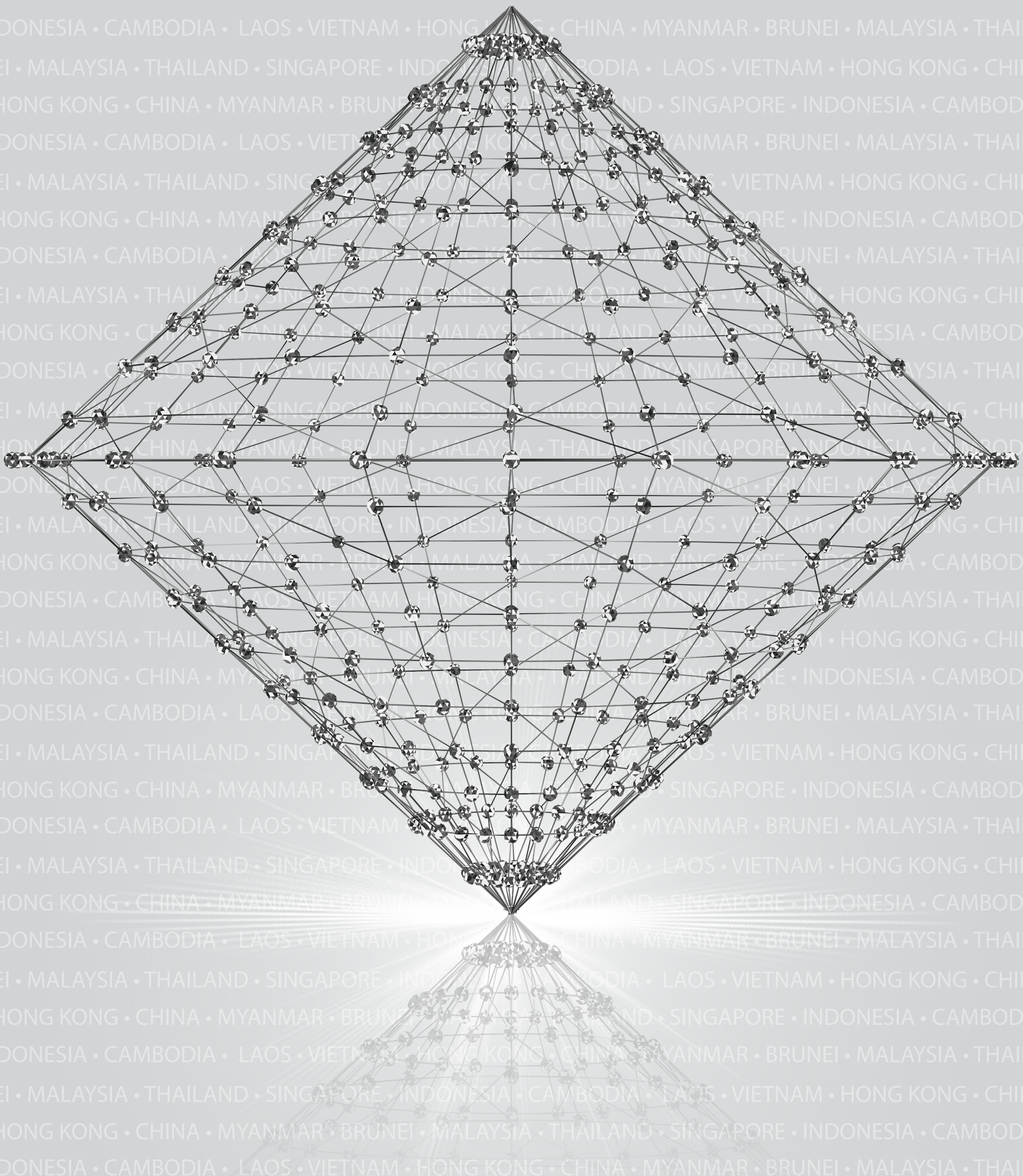
TOGETHER WE PROGRESS

RHB

RHB Islamic Bank Berhad

ANNUAL REPORT 2015



WHAT'S INSIDE

OVERVIEW
pg 1 – pg 8

GOVERNANCE
pg 14 – pg 49

The cover for our 2015 Annual Report depicts a diamond shape formed with interlocking wire mesh. The diamond represents RHB's clarity of focus towards achieving its vision of being a leading multinational financial services group. The wire links further symbolise our commitment to fostering greater ties with our customers and key stakeholders by placing them at the centre of what we do, as described by our revitalised Brand Promise, **"Together We Progress"**.

Our Brand Promise is anchored on being a trusted partner to our customers and stakeholders; delivering simple, fast and seamless experiences; providing solutions that help achieve their goals; and nurturing future generations. These principles will be translated through our daily operations, and drive us in pushing boundaries to create a positive impact for society as a whole, embodying our "Together We Progress" Brand Promise.

FINANCIAL STATEMENTS
pg 50 – pg 151

Feedback

We need your feedback to make sure we are covering the things that matter to you. Email us at **marketing.communications@rhbgroup.com**

www.rhbgroup.com

RHB'S ASPIRATIONS

TOP 3 IN MALAYSIA/TOP 8 IN ASEAN
by performance

STRONG MARKET LEADERSHIP IN MALAYSIA
across targeted products and segments

REGIONAL POWERHOUSE IN ASEAN+
20% profit contribution from international operations

NEXT GENERATION CUSTOMER CENTRIC BANK
delivering innovative and personalised customer offerings

PROMINENT EMPLOYER OF CHOICE
within the region

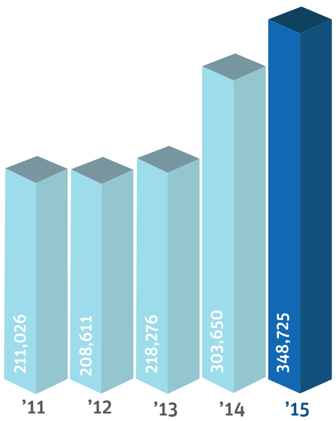
FIVE-YEAR FINANCIAL SUMMARY

	2015 RM'000	2014 RM'000	2013 RM'000	2012 RM'000	2011 RM'000
RESULTS					
Operating profit	**1,859,681**	1,455,197	1,211,922	1,136,990	792,691
Net income	**576,771**	530,971	446,496	398,955	366,808
Profit before zakat and taxation	**348,725**	303,650	218,276	208,611	211,026
STATEMENTS OF FINANCIAL POSITION					
Shareholders' equity	**2,496,407**	2,252,397	2,027,132	1,693,673	1,341,141
Total assets	**44,076,741**	36,113,786	29,131,089	25,609,662	22,650,317
Gross financing and advances	**31,124,322**	25,503,231	18,721,218	16,266,361	13,042,214
Total deposits	**39,589,255**	31,770,545	25,461,734	21,889,173	20,811,963
FINANCIAL RATIOS					
Return on average equity (%)	**10.73**	10.48	8.95	10.30	11.40
Return on average assets (%)	**0.64**	0.69	0.61	0.65	0.90
Total Capital Ratio (%)	**14.608**	16.336	14.424	14.699*	13.93
Total Tier-1 Capital Ratio (%)	**11.041**	12.875	13.864	13.971*	12.88

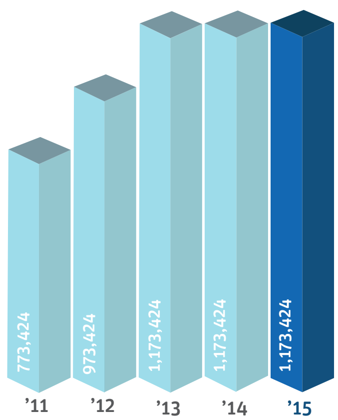
* Restated in accordance with BNM's Capital Adequacy Framework for Islamic Banks (capital components).

FIVE-YEAR FINANCIAL HIGHLIGHTS

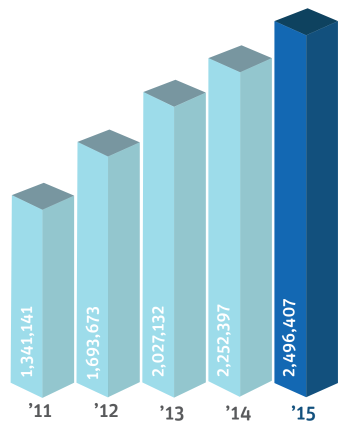
PROFIT BEFORE ZAKAT AND TAXATION
(RM'000)



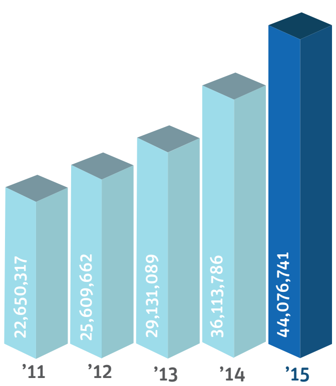
SHARE CAPITAL
(RM'000)



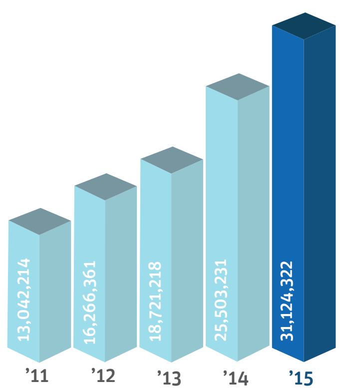
SHAREHOLDERS' EQUITY
(RM'000)



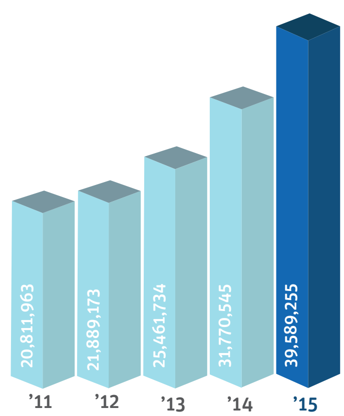
TOTAL ASSETS
(RM'000)



GROSS FINANCING AND ADVANCES
(RM'000)



TOTAL DEPOSITS
(RM'000)



CORPORATE INFORMATION

As at 25 February 2016

BOARD OF DIRECTORS

- **Tuan Haji Md Ja'far Abdul Carrim**
  Chairman
  Non-Independent Non-Executive Director
- **Datuk Haji Faisal Siraj**
  Senior Independent Non-Executive Director
- **Charles Lew Foon Keong**
  Independent Non-Executive Director
- **Dato' Mohd Ali Mohd Tahir**
  Independent Non-Executive Director
- **Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir**
  Independent Non-Executive Director
- **Ibrahim Hassan**
  Managing Director/Chief Executive Officer

BOARD COMMITTEES

ISLAMIC RISK MANAGEMENT COMMITTEE

- **Dato' Mohd Ali Mohd Tahir**
  Chairman
- **Tuan Haji Md Ja'far Abdul Carrim**
  Non-Independent Non-Executive Director
- **Datuk Haji Faisal Siraj**
  Senior Independent Non-Executive Director

BOARD RISK COMMITTEE#

- **Tuan Haji Khairuddin Ahmad**
  Chairman
- **Patrick Chin Yoke Chung**
  Independent Non-Executive Director
- **Tuan Haji Md Ja'far Abdul Carrim**
  Non-Independent Non-Executive Director
- **Datuk Seri Saw Choo Boon**
  Independent Non-Executive Director
- **Chin Yoong Keong**
  Independent Non-Executive Director
- **Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir**
  Independent Non-Executive Director

BOARD NOMINATING AND REMUNERATION COMMITTEE#

- **Datuk Haji Faisal Siraj**
  Chairman
  Senior Independent Non-Executive Director
- **Tan Sri Azlan Zainol**
  Non-Independent Non-Executive Director
- **Datuk Seri Saw Choo Boon**
  Independent Non-Executive Director
- **Tan Sri Dato' Teo Chiang Liang**
  Independent Non-Executive Director
- **Tuan Haji Md Ja'far Abdul Carrim**
  Non-Independent Non-Executive Director

BOARD AUDIT COMMITTEE*

- **Ong Seng Pheow**
  Chairman
  Independent Non-Executive Director
- **Dato' Othman Jusoh**
  Independent Non-Executive Director
- **Datuk Seri Saw Choo Boon**
  Independent Non-Executive Director
- **Datuk Haji Faisal Siraj**
  Senior Independent Non-Executive Director

BOARD CREDIT COMMITTEE*

- **Dato' Mohamed Khadar Merican**
  Chairman
  Non-Independent Non-Executive Director
- **Tuan Haji Khairuddin Ahmad**
  Independent Non-Executive Director
- **Abdul Aziz Peru Mohamed**
  Independent Non-Executive Director
- **Patrick Chin Yoke Chung**
  Independent Non-Executive Director
- **Tuan Haji Md Ja'far Abdul Carrim**
  Non-Independent Non-Executive Director
- **Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir**
  Independent Non-Executive Director

BOARD TECHNOLOGY COMMITTEE*

- **Chin Yoong Kheong**
  Chairman
  Independent Non-Executive Director
- **Ong Seng Pheow**
  Independent Non-Executive Director
- **Charles Lew Foon Keong**
  Independent Non-Executive Director

SHARIAH COMMITTEE

- **Dr. Ghazali Jaapar**
  Chairman
- **Professor Dr. Joni Tamkin Borhan**
- **Assoc. Prof. Dr. Amir Shaharuddin**
- **Wan Abdul Rahim Kamil Wan Mohamed Ali**
- **Mohd Fadhly Md. Yusoff**
- **Shabnam Mohamad Mokhtar**

COMPANY SECRETARY

- **Azman Shah Md Yaman**

GROUP SENIOR MANAGEMENT

- **Dato' Khairussaleh Ramli**
  Deputy Managing Director/
  Group Chief Executive Officer,
  RHB Banking Group Managing Director,
  RHB Bank Berhad
- **Ibrahim Hassan**
  Managing Director/
  Chief Executive Officer,
  RHB Islamic Bank Berhad
  Head, Group Shariah Business
- **Mike Chan Cheong Yuen**
  Managing Director,
  RHB Investment Bank Berhad
- **U Chen Hock**
  Head, Group Retail Banking
- **Kong Shu Yin**
  Managing Director, RHB Insurance Berhad
- **Yap Choi Foong**
  Group Chief Financial Officer
- **Datin Amy Ooi Swee Lian**
  Head, Group Business & Transaction Banking
- **Mohd Rashid Mohamad**
  Group Treasurer
- **Rohan Krishnalingam**
  Group Chief Operations Officer
- **Christopher Loh Meng Heng**
  Group Chief Strategy Officer
- **Patrick Ho Kwong Hoong**
  Group Chief Risk Officer
- **Norazzah Sulaiman**
  Group Chief Marketing & Communications Officer
- **Jamaluddin Bakri**
  Group Chief Human Resource Officer

REGISTERED OFFICE

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

Tel : 603-9287 8888
Fax : 603-9281 9314

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

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

GROUP CORPORATE STRUCTURE

RHB Capital Berhad

COMMERCIAL BANKING GROUP

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

INVESTMENT BANKING GROUP

- 100.00% RHB Investment Bank Berhad
  - 100.00% RHB International Investments Pte Ltd
    - 100.00% RHB Asset Management Pte Ltd
      - 40.00% RHB GC-Millennium Capital Pte Ltd (5)
  - 100.00% RHB Hong Kong Limited
    - 100.00% RHB Securities Hong Kong Limited
      - 100.00% RHB Nominees Hong Kong Limited
    - 100.00% RHB Futures Hong Kong Limited
    - 100.00% RHB Finance Hong Kong Limited
    - 100.00% RHB Capital Hong Kong Limited
    - 100.00% RHB Fundamental Capital Hong Kong Limited
    - 100.00% RHB Asset Management Limited
      - 51.00% RHB Fideus Asia and Emerging Markets Value Fund Ltd.
    - 100.00% RHB Wealth Management Hong Kong Limited
    - 100.00% RHB (China) Investment Advisory Co Ltd
  - 99.00% PT RHB Securities Indonesia
    - 99.62% PT RHB Asset Management Indonesia
  - 100.00% RHB Securities Singapore Pte Ltd
    - 100.00% RHB Nominees Singapore Pte Ltd #
    - 100.00% Summit Nominees Pte Ltd #
    - 100.00% RHB Research Institute Singapore Pte Ltd
  - 99.95% RHB Securities (Thailand) Public Company Limited
  - 100.00% RHB OSK Indochina Securities Limited (7)

* As at 25 February 2016

- 100.00% OSK Investment Bank (Labuan) Ltd*
- 100.00% OSK Futures and Options Sdn Bhd *
  - 40.05% RHB Finexasia.Com Sdn Bhd 59.95%
    - 100.00% RHB OSK Stock 188.Com Sdn Bhd *
  - 49.00% Vietnam Securities Corporation [5]
- 100.00% OSK Research Sdn Bhd *
- 100.00% RHB OSK International Asset Management Sdn Bhd *
- 100.00% OSK Nominees (Tempatan) Sdn Berhad *
- 100.00% OSK Nominees (Asing) Sdn Berhad *
- 100.00% TCL Nominees (Tempatan) Sdn Bhd *
- 100.00% TCL Nominees (Asing) Sdn Bhd *
- 100.00% KE-ZAN Nominees (Tempatan) Sdn Bhd *
- 100.00% KE-ZAN Nominees (Asing) Sdn Bhd *
- 80.00% RHB Trustees Berhad [6] 20.00%
- 80.00% Malaysian Trustees Berhad [6] 20.00%
- 100.00% OSK Investment Management Berhad *
- 100.00% RHB Asset Management Sdn Bhd
  - 100.00% RHB Islamic International Asset Management Berhad
  - 100.00% RHB Islamic Asset Management Sdn Bhd *
- 100.00% RHB Research Institute Sdn Bhd
- 100.00% RHB Merchant Nominees (Tempatan) Sdn Bhd
  - 100.00% RHB Merchant Nominees (Asing) Sdn Bhd
- 100.00% RHB Nominees Sdn Bhd
- 100.00% RHB Nominees (Tempatan) Sdn Bhd
- 100.00% RHB Nominees (Asing) Sdn Bhd
- 100.00% RHB Excel Sdn Bhd [4]
- 100.00% RHB Progressive Sdn Bhd [4]
- 100.00% RHB Marketing Services Sdn Bhd [3]
- 100.00% RHB Unit Trust Management Berhad [4]
- 100.00% RHB Private Equity Holdings Sdn Bhd
  - 100.00% RHB Private Equity Management Ltd
  - 100.00% RHB Private Equity Fund Ltd *(Cayman Islands)*

94.70% RHB Insurance Berhad

OTHERS

- 100.00% RHB Equities Sdn Bhd [1]
  - 100.00% KYB Sdn Bhd [4] *
- 100.00% RHB Capital (Jersey) Limited
  - 100.00% RHB (Philippines) Inc [2] *
- 100.00% RHB Hartanah Sdn Bhd
  - 100.00% Positive Properties Sdn Bhd
  - 100.00% RHB Property Management Sdn Bhd
- 100.00% Straits Asset Holdings Sdn Bhd
  - 100.00% SSSB Services (Melaka) Sdn Bhd [4] *
  - 100.00% SFSB Services (Melaka) Sdn Bhd *
- 100.00% RHBF Sdn Bhd *
- 100.00% RHB Venture Capital Sdn Bhd *
- 100.00% RHB Kawal Sdn Bhd
- 100.00% 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 20.00% each.

(7) The Company became a wholly-owned subsidiary of RHB Investment Bank Berhad on 9 December 2015.

MEMBERS OF RHB ISLAMIC BANK'S SHARIAH COMMITTEE

DR. GHAZALI JAAPAR

Aged 45, Malaysian
Chairman, Shariah Committee of RHB Islamic Bank Berhad

Date Appointed:
01 April 2011

Date of Last Re-appointment:
01 April 2015

Number of Shariah Committee Meetings Attended in the Financial Year
11/11

Qualifications:
- B.A. Shariah (Hons.), University of Malaya, Kuala Lumpur
- Master of Comparative Law, International Islamic University Malaysia, Kuala Lumpur
- Ph.D. Law, University of Birmingham, United Kingdom

Present Membership of Shariah Committee in Other Institutions
- HSBC Amanah Takaful

Skills, Experience and Expertise:
Dr. Ghazali bin Jaapar is currently serving as Assistant Professor of Ahmad Ibrahim Kulliyyah of Laws ("AIKOL"), International Islamic University Malaysia ("IIUM"). Prior to that, he was the Director of Harun M. Hashim Law Centre, IIUM. His areas of expertise are Islamic Legal System, Principles of Islamic Jurisprudence (*Usul al-Fiqh*), Islamic Legal Maxims, *Siyasah Shar'iyyah* (Shariah-oriented policy). He had written numerous journals and articles and presented papers in various forums and seminars.

PROFESSOR DR. JONI TAMKIN BORHAN

Aged 49, Malaysian
Member, Shariah Committee of RHB Islamic Bank Berhad

Date Appointed:
01 April 2005

Date of Last Re-appointment:
01 April 2015

Number of Shariah Committee Meetings Attended in the Financial Year
10/11

Qualifications:
- B.Sh (Shariah) (Hons.), University of Malaya, Kuala Lumpur
- Master of Islamic Economics (Shariah), University of Malaya, Kuala Lumpur
- Ph.D. in Islamic Banking, University of Edinburgh, Scotland

Present Membership of Shariah Committee in Other Institutions
- MAA Takaful Berhad

Skills, Experience and Expertise:
Prof. Dr. Joni Tamkin bin Borhan is currently a professor at Shariah and Economics Department, Academy of Islamic Studies, University of Malaya, Kuala Lumpur. His areas of specialisation are Islamic banking, Islamic transactions and Islamic economics. He has been teaching at the University of Malaya since 1997 both at postgraduate and undergraduate levels and successfully supervised more than 80 postgraduate thesis and dissertations. He has written and presented more than 200 articles and papers in journals and conference both locally and internationally. He has served as Senate Member, Deputy Director of Undergraduate and Postgraduate Degrees and Head of Shariah and Economics Department at the Academy of Islamic Studies, University of Malaya. He was also a member of National Shariah Advisory Council on Islamic Banking and Takaful (1999 – 2004), Visiting Professor of Edinburgh University (January – October 2010), Fellow at University of Leiden, Holland (June – September 2004) and Fellow at Religious Department at Victoria University of Wellington, New Zealand (March – May 2002).

ASSOC. PROF. DR. AMIR SHAHARUDDIN

Aged 38, Malaysian
Member, Shariah Committee of RHB Islamic Bank Berhad

Date Appointed:
01 April 2011

Date of Last Re-appointment:
01 April 2015

Number of Shariah Committee Meetings Attended in the Financial Year
11/11

Qualifications:
- B.A. Shariah (Hons), Al-Azhar University, Egypt
- Master of Business Administration in Islamic Banking & Finance, International Islamic University Malaysia, Kuala Lumpur
- Ph.D. in Islamic Studies, University of Exeter, United Kingdom

Present Membership of Shariah Committee in Other Institutions
- Malaysian Airport Consultancy Berhad

Skills, Experience and Expertise:
Assoc. Prof. Dr. Amir bin Shaharuddin 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 is presently the Dean of Economic and Muamalat Faculty, Islamic Science University of Malaysia ("USIM") since December 2013. He has published numerous articles in refereed journals including Journal of Muamalat and Islamic Finance Research, Jurnal Syariah and ISRA International Journal of Islamic Finance. 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. He has also presented academic papers in various international seminars such as in Indonesia, Bahrain, United Kingdom and Italy.

WAN ABDUL RAHIM KAMIL WAN MOHAMED ALI

Aged 67, Malaysian
Member, Shariah Committee of RHB Islamic Bank Berhad

Date Appointed:
13 April 2013

Date of Last Re-appointment:
01 April 2015

Number of Shariah Committee Meetings Attended in the Financial Year
9/11

Qualifications:
- Professional Member, Institute of Statisticians, United Kingdom
- Post Graduate Degree in Islamic Banking & Economics, International Institute of Islamic Banking & Economics (in association with Al Azhar University, Cairo)

Skills, Experience and Expertise:
Wan Abdul Rahim Kamil possesses extensive experience in Islamic Banking and has been actively involved in various areas of operations including Corporate Financing and Syndication, Debt Capital Market and Corporate Advisory. 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 was the Chief Executive Officer of ABRAR Discounts Berhad from 1994 to 2006. Since then he has been an Islamic Capital Market consultant and trainer to various bodies. He is a regular trainer and speaker for various seminars and in-house training workshops organised by Bank Negara Malaysia ("BNM"), Securities Industries Development Corporation ("SIDC"), Islamic Banking and Finance Institute Malaysia ("IBFIM") and other event organisers, both locally and internationally. He pioneered the development of the Islamic Capital Market in Malaysia and has innovated the development of several benchmark capital market securities through securitisation of Islamic contracts. He has been awarded as "Outstanding Leadership in Islamic Finance" by London Sukuk 2011 organised by ICG Events and UK Trade and Industry Ministry in London, United Kingdom.

MEMBERS OF RHB ISLAMIC BANK'S SHARIAH COMMITTEE (continued)

MOHD FADHLY MD. YUSOFF

Aged 45, Malaysian
Member, Shariah Committee of RHB Islamic Bank Berhad

Date Appointed:
13 April 2013

Date of Last Re-appointment:
01 April 2015

Number of Shariah Committee Meetings Attended in the Financial Year
10/11

Qualifications:
- Bachelor of Syariah (1st Class Honours) from University of Malaya

Present Membership of Shariah Committee in Other Institutions
- Sun Life Malaysia Takaful Bhd
- Universiti Tenaga Nasional
- National Farmers Organization (NAFAS)

Skills, Experience and Expertise:
Mohd Fadhly bin Md. Yusoff was a manager at Islamic Capital Market Department of Securities Commission Malaysia from 1995 to 2008 where he 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. 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 and promotional programs.

SHABNAM MOHAMAD MOKHTAR

Aged 38, Malaysian
Member, Shariah Committee of RHB Islamic Bank Berhad

Date Appointed:
01 May 2015 (New Appointment)

Date of Last Re-appointment:
NIL

Number of Shariah Committee Meetings Attended in the Financial Year
06/07

Qualifications:
- Bachelor of Accountancy, University Putra Malaysia
- Master of Accounting, University of Illinois, Urbana-Champaign, U.S.A

Skills, Experience and Expertise:
Shabnam binti Mohamad Mokhtar is presently the Vice President of SHAPE® Knowledge Services; an Islamic finance consulting firm based in Kuwait. She spearheads research and development activities including financial analysis, strategic & business plan formulation, design and implementation of customised survey, research and training for different clients at SHAPE®. Formerly, she was heading the capital markets research for the International Shariah Research Academy ("ISRA"). She has conducted various training programs on Islamic banking, sukuk & Islamic capital market products, risk management and financial reporting for clients in ASEAN region, Gulf Cooperation Council ("GCC") and European market. She has also contributed chapters in Housing the Nation (Cagamas 2013), Managing Fund Flows, Risks and Derivatives: Applications in Islamic Institutions (Sweet & Maxwell 2012), Islamic Financial System: Principles & Operations Market (ISRA, 2011), Sukuk (Sweet & Maxwell 2009), and Partnership Accounting, Principles and Practice (McGraw Hill). She served as a member of the Shariah Board of Malaysian Ratings Corporation ("MARC") from 2010 to 2014.

PROFILES OF THE BOARD OF DIRECTORS

TUAN HAJI MD JA'FAR ABDUL CARRIM

Aged 60, Malaysian
Non-Independent Non-Executive Chairman

Appointment to the Board
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.

Board Committee Memberships
- Board Credit Committee
- Board Risk Committee
- Board Nominating Remuneration Committee
- Islamic Risk Management Committee

Qualification
- Bachelor of Science in Civil Engineering from Loughborough University, United Kingdom
- Member of the Institution of Engineer, Malaysia
- Council Member for the Chair on Financial Planning for Old Age at University Malaya

Skills and Experience
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.

Directorships in Other Public Companies
- Employees Provident Fund, Malaysia
- RHB Insurance Berhad

No. of Board Meetings Attended in the Financial Year: 17/17

DATUK HAJI FAISAL SIRAJ

Aged 70, Malaysian
Senior Independent Non-Executive Director

Appointment to the Board
Appointed as an Independent Non-Executive Director of RHB Islamic on 3 December 2007, and appointed as the Chairman on 15 January 2008. He relinquished his position as Chairman of RHB Islamic Bank with effect from 1 January 2012 but remained on the Board as an Independent Non-Executive Director. Datuk Faisal was appointed as Senior Independent Non-Executive Director on 4 June 2013.

Board Committee Memberships
- Board Nominating and Remuneration Committee (Chairman)
- Board Audit Committee
- Group Board Audit Committee
- Islamic Risk Management Committee

Qualification
- Fellow of the Institute of Chartered Accountants in England & Wales
- Member of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

Skills and Experience
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.

Directorships in Other Public Companies
- RHB Capital Berhad
- RHB Insurance Berhad
- RHB Trustees Berhad
- Malaysian Trustees Berhad

No. of Board Meetings Attended in the Financial Year: 17/17

PROFILES OF THE BOARD OF DIRECTORS (continued)

CHARLES LEW FOON KEONG

Aged 58, Malaysian
Independent Non-Executive Director

Appointment to the Board
Appointed as an Independent Non-Executive Director of RHB Islamic Bank on 14 October 2008.

Board Committee Memberships
- Board Technology Committee

Qualification
- BA (Hons) in Finance and Accounting from the University of East London
- MSC (MBA) in Management Science from Imperial College, University of London

Skills and Experience
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 HongKong 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-IPOs investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global Initial Public Offerings ("IPOs"), equity placements, takeovers and mergers, debt/equity restructuring and venture capital and private equity financing.

Directorships in Other Public Companies
- RHB Investment Bank Berhad
- Hastings Rare Metals Ltd

No. of Board Meetings Attended in the Financial Year: 14/17

DATO' MOHD ALI MOHD TAHIR

Aged 63, Malaysian
Independent Non-Executive Director

Appointment to the Board
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 Bhd.

Board Committee Memberships
- Islamic Risk Management Committee (Chairman)

Skills and Experience
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.

No. of Board Meetings Attended in the Financial Year: 15/17

YBHG DATO' SRI HAJI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR

Aged 53, Malaysian
Independent Non-Executive Director

Appointment to the Board
Appointed as an Independent Non-Executive Director of RHB Islamic Bank on 6 October 2015.

Board Committee Memberships
- Board Risk Committee
- Board Credit Committee

Qualification
- Bachelor of Science in Civil Engineering from University of Maryland, USA

Skills and Experience
Dato' Sri Syed Zainal began his career as a Project Engineer with Petronas Gas Sdn Bhd in 1987, prior to joining Petroliam Nasional Berhad in 1992 as the Senior Executive of the Company's Corporate Planning & International Business Development Unit. He then left to join HICOM Holdings Berhad in 1995, where he assumed various senior positions in the Company. Dato' Sri Syed Zainal lent his expertise to PERODUA when he was appointed as Senior General Manager in 1999. Subsequently, he was appointed Executive Director of PERODUA Auto Corporation Sdn Bhd in 2002, and later promoted to Deputy Managing Director of PERODUA in October 2005. On 1 January 2006, he was appointed as the Group Managing Director of PROTON Holdings Berhad. He also sits on the Boards of various subsidiaries within the PROTON Group before he left the Company in May 2012. Dato' Sri Syed Zainal received various awards during his stint in the automotive industries.

Directorships in Other Public Companies
- RHB Bank Berhad
- Bioalpha Holdings Berhad

No. of Board Meetings Attended in the Financial Year: 4/4

TUAN HAJI IBRAHIM HASSAN

Aged 59, Malaysian
Managing Director/Chief Executive Officer

Appointment to the Board
Appointed as the Managing Director/Chief Executive Officer ("MD/CEO") of RHB Islamic Bank on 2 September 2013.

Board Committee Memberships
Nil

Skills and Experience
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.

No. of Board Meetings Attended in the Financial Year: 17/17

STATEMENT ON CORPORATE GOVERNANCE

INTRODUCTION

"THE SUCCESS OR FAILURE OF ANY ORGANISATION IS OFTEN ATTRIBUTED TO THE QUALITY OF ITS CORPORATE GOVERNANCE. IN HEAVILY REGULATED SECTORS LIKE BANKING AND INSURANCE, THE COLLAPSE OF FINANCIAL INSTITUTIONS ESPECIALLY MAJOR GLOBAL PLAYERS INVARIABLY INVITES GREATER PUBLIC SCRUTINY AND THE TIGHTENING OF RULES AND REGULATIONS… WHILE IT IS IMPORTANT THAT THE RELEVANT CORPORATE GOVERNANCE STANDARDS ARE FURTHER STRENGTHENED, THIS MUST BE REINFORCED BY AN HONEST REFLECTION ON GAPS THAT EXIST IN PRACTICE AND A STRONG RESPONSE BY THOSE AT THE VERY TOP OF THE ORGANISATION TO ELEVATE AN INSTITUTION'S GOVERNANCE PRACTICES AND ARRANGEMENTS. IT IS IN OUR COLLECTIVE INTERESTS TO ENSURE THAT CORPORATE GOVERNANCE PRACTICES IN THE FINANCIAL SECTOR REMAIN SOUND OVER TIME. REGULATION ALONE WILL NOT ACHIEVE THIS. AS KEY PUBLIC INTEREST ENTITIES, FINANCIAL INSTITUTIONS ARE EXPECTED TO LEAD BY EXAMPLE AND REMAIN AT THE FOREFRONT IN REGARD TO CORPORATE GOVERNANCE PRACTICES."

Datuk Nor Shamsiah Mohd Yunus, Deputy Governor, Bank Negara Malaysia
Opening Speech, Launch of the FIDE Forum's Directors' Remuneration Report 2015, Lanai Kijang, Kuala Lumpur
7 December 2015

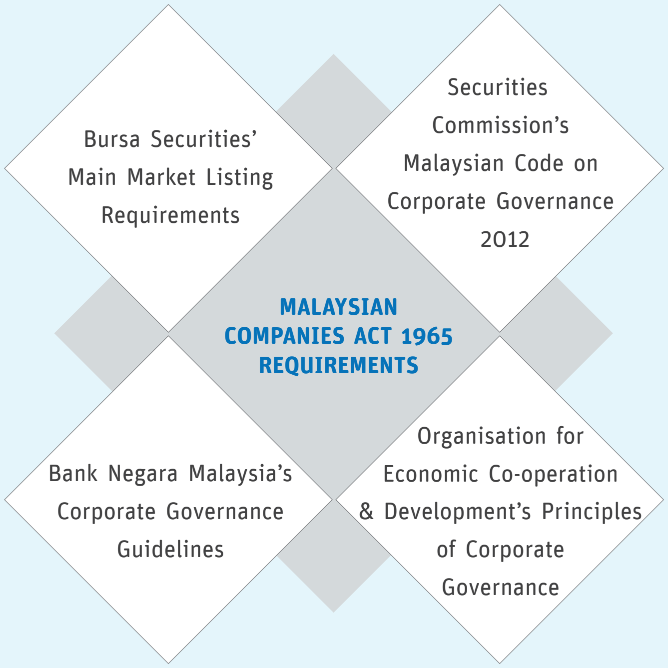
COMMITMENT TO GOVERNANCE

RHB Islamic Bank Berhad ("RHBIB" or "The Company") is fully committed to protect the interests of all its stakeholders by applying good corporate governance, including greater transparency and sustainable disclosure.

Excellence in corporate governance is an important element in promoting the Company's financial services among the ASEAN and Greater China economic communities. RHB Banking Group's current transition from the "A New Dawn" era to the next chapter of sustainable operation is rapidly progressing, thus echoing its commitment to its "Together We Progress" tagline hand in hand with its stakeholders, as the Company operates and manages its business in an orderly fashion.

CONFORMANCE CULTURE

RHBIB recognises that good corporate governance is key to ensuring long-term sustainability for the Group. As such, the Company fully subscribes and adopts the broad principles set out in the following requirements and guidelines where applicable:



In leading the organisation and ensuring that all the Group's strategic objectives and business scorecards are met, the Board is bound by its Charter, the Terms of Reference ("TOR") for its various Board Committees, and also by the Group Code of Ethics and Business Conduct for Directors.

For Senior Management, key performance indicators ("KPIs") and the TOR for various management committees reiterate the strategic objectives and risk appetite that the Board has set to achieve common organisational goals and value creation.

Complementing this are the Group Manual of Authority, Power of Attorney, Delegated Lending and Financing Authority (Discretionary Powers), Group Code of Ethics and Conduct for Employees, and Group Whistleblowing Policy, all of which were approved by the Board to ensure that good governance practices and fiduciary duties are implemented by the Senior Management and other key personnel.

This compliance culture encourages the Group's Directors, Senior Management and the rest of its employees to embrace professional business ethics and practise self-compliance with internal and external requirements.

This process is embedded top-down, where the Company's shared values encourage its Directors and employees in having **P.R.I.D.E.** in upholding the spirit and the letter of legal and regulatory requirements. All employees are guided by and committed to the following core shared values of the Group:

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

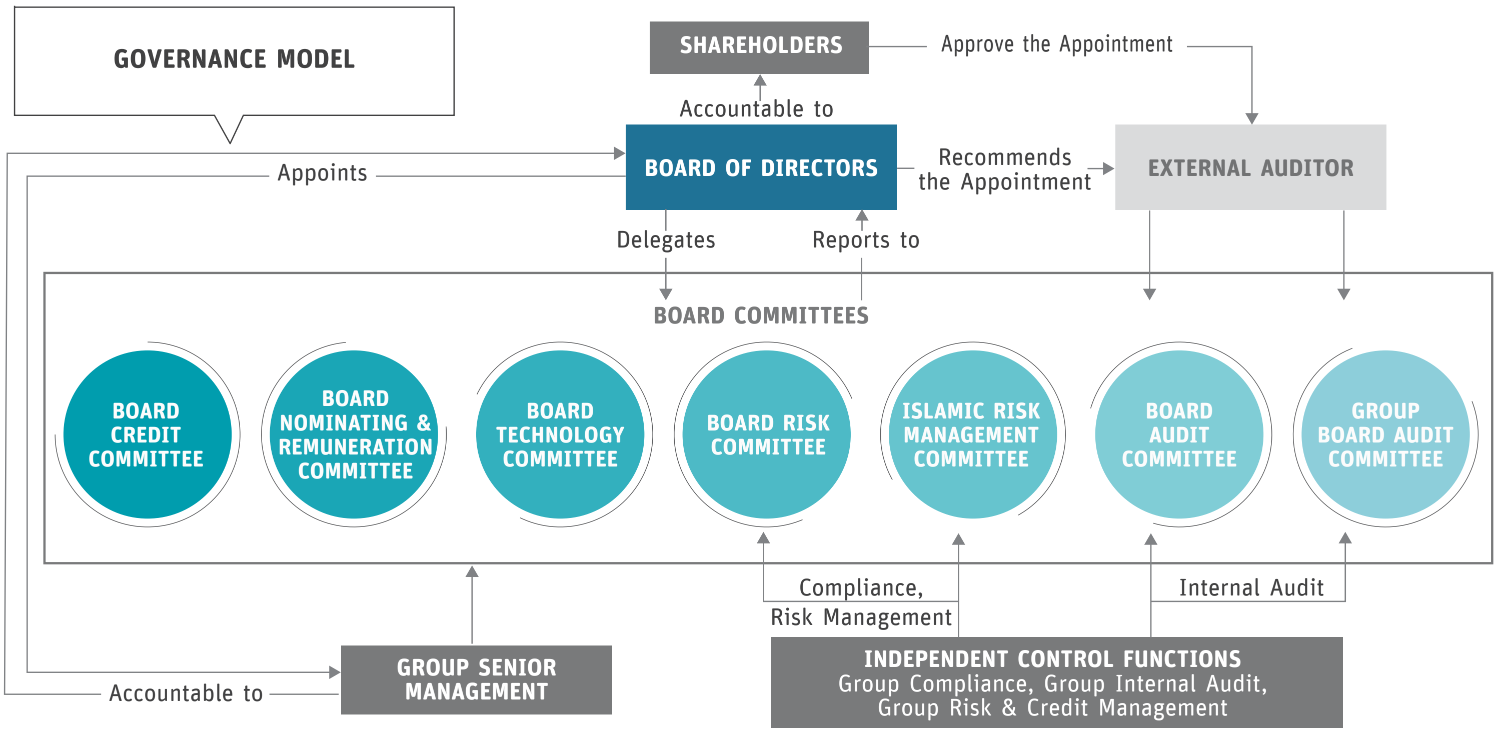
- **Respect**
  We are courteous, humble and we show empathy to everyone through our actions and interactions.

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

- **Dynamic**
  We are proactive, responsive and forward thinking.

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

STATEMENT ON CORPORATE GOVERNANCE (continued)



GOVERNANCE MODEL & FRAMEWORK

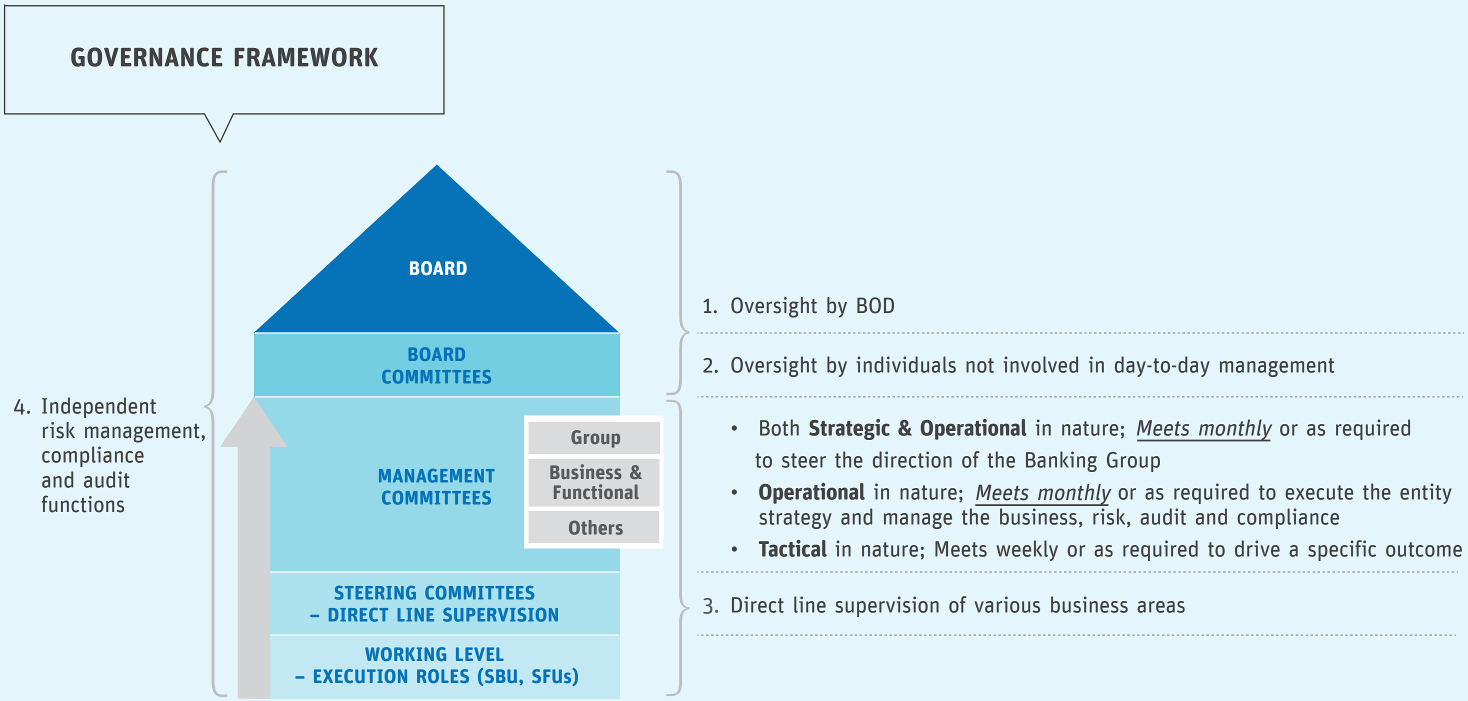
The **Governance Model** outlines a clear organisational structure with robust internal control and risk management mechanisms which promote high standards of governance and of integrity, transparency and well-defined accountabilities and responsibilities of the shareholders, Board and Board Committees, Senior Management, external and internal auditors and other Independent Control Functions.

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

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

As the framework is based on conformance with regulatory requirements of the Guidelines on Corporate Governance for Licensed Institutions issued by Bank Negara Malaysia ("BNM"), this solid foundation is thus important to create value in the Group whether in the short, medium or long-term.

The Board continuously explores enhancements to the Group's governance processes to ensure it remains robust even as it continues to expand. The Governance Model and framework is currently being used as guidance and reference to build a strong governance structure and conformance culture within the Company and other RHB entities in the Banking Group.



** Based on BNM Guidelines on Corporate Governance for licensed institutions*

Business Governance

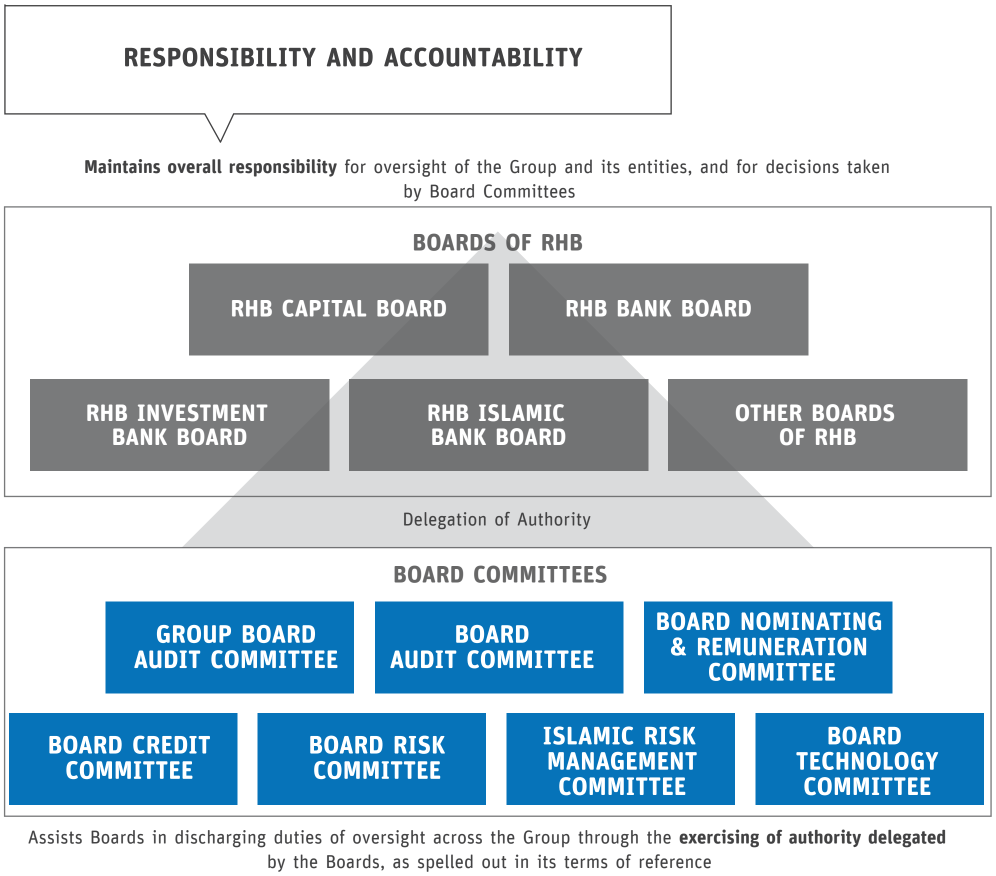
The Board acknowledges that conformance to internal and external requirements must be balanced with the Company's financial and business performance to give an overall picture of the Company's sustainability in the long-run. The Annual Business Scorecard which sets out quantitative and qualitative key performance indicators for the key Senior Management is reviewed periodically by the Board against the Group Balanced Scorecard and the Group Risk Appetite.

The progress made by the Board Committees is also scrutinised by the main Board. Each Committee's performance and progress will be deliberated on and the Board will decide on matters of strategic importance to the Group or respective entity.

In terms of monitoring financial and business performance, the main Board will discuss and make final decisions on strategic matters recommended by its respective Board Committees. An overview and analysis of the Company's financial performance are available on pages 52 to 62 of this Annual Report and also on the corporate website **www.rhbgroup.com**.

All final achievements by the MD/Chief Executive Officer ("CEO"), Senior Management and employees will be reflected on at financial year-end in terms of performance rewards and in line with the retention policy.

STATEMENT ON CORPORATE GOVERNANCE (continued)



Strategic Matters

In each meeting, Joint and Individual Boards to deliberate and decide on matters of strategic importance to the Group/each entity, including:

1. Business & operating strategies
2. New or changes to existing Business Plans
3. New investments/divestments
4. Expansion/entry into new markets/geographies/regions
5. Joint ventures
6. Partnerships or strategic alliances
7. Acquisition/disposal of significant assets
8. IGNITE 2017 (Quarterly Updates during Joint Board)

THE BOARD OF DIRECTORS

Board Charter

The Board Charter, which sets out the key corporate governance principles adopted by the various Boards of the Group, was developed for each of the Group's major entities. It clearly defines the roles and responsibilities of the Boards, Chairperson, Senior Independent Director and the Group Managing Director ("Group GMD")/Managing Directors ("MD")/Chief Executive Officer ("CEO") in the areas of strategy setting, management of company, succession planning, risk management, integrity of internal control and communication plan.

Within these boundaries, the respective Boards discuss, set and agree with Management on the Annual Balanced Scorecard, KPIs and the risk appetite that are to be duly executed and achieved by Management. The performance and progress of Management is then reviewed by the respective Boards at specified intervals.

Roles and Responsibilities of the Board

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

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

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

The Board governs the business conduct, performance and operations of the Company. To ensure high performance, the Board reviews the Company's business strategies and approves the Group 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, human resource ("HR") management and information technology through the delegation of certain decision-making and/or oversight responsibilities to various Board Committees, namely the Islamic Risk Management Committee, Board Risk Committee, Board Nominating & Remuneration Committee, Board Audit Committee, Board Credit Committee and Board Technology Committee. At the highest executive level, the MD assumes the overall responsibilities of executing the Company's strategies and plans in line with the Board's direction, oversees the Company's operations and drives the Company's businesses and performance towards achieving the Company's vision and goals.

In carrying out his tasks, the MD is supported by the key Senior Management of the Company.

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 a vis the Company's approved Balanced Scorecard and industry benchmarks, risk management report, compliance report and transformation updates. The Board is also kept abreast of the key strategic initiatives, significant operational issues and latest developments in the financial services industry.

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

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

As part of the Company's initiative to continuously improve employee engagement and employee value propositions, an employee engagement survey, namely the "Internal Customer Effectiveness Survey", was conducted in November 2015 to assess the level of employee engagement and quality of service rendered by the respective Strategic Business Groups and Strategic Functional Groups within the Group. Themed "Voice Out Now - Igniting Engagement 2015", the Group sought to acquire valuable information from the employees in order to craft sustainable improvements in primary aspects of operations.

(b) Risk Management

The Board is responsible for identifying the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board Risk Committee ("BRC") has been entrusted with providing oversight and governance of risks for the Group. The BRC comprises five Independent Non-Executive Directors ("INEDs") and one Non-Independent Non-Executive Director ("NINED") representing the Group's respective entities. 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 two INEDs and one NINED of the Company. One of the IRMC member is 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 on a monthly basis.

STATEMENT ON CORPORATE GOVERNANCE (continued)

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 to meet regulatory requirements.

A Group Risk Management Report (including the Company'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 & Internal Control set out on pages 39 to 43 of this Annual Report.

(c) Talent Development and Succession Planning

Talent development and succession planning are key priorities to the Board in ensuring a high-performing workforce which contributes to the Company's sustainability and competitiveness. The Board has entrusted the Board Nominating & Remuneration Committee ("BNRC") with the responsibility of providing high-level oversight and direction on human resource matters, and with recommending 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 and that of the subsidiaries in reviewing and assessing the appointment of Directors, Board Committee members, Shariah Committee and key Senior Management officers. It also advises on the optimal size and mix of skills for the Group's Boards.

In line with IGNITE 2017, the Group has made a concerted effort to enhance and realign its HR and talent management to attract and retain regional talent and build a high-performing regional workforce. During the year, 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 package(s) in finalising the terms and conditions of their service contracts. In addition, the BNRC reviewed the current organisation structure in enhancing greater alignment and accountability to deliver business value and outcomes.

The BNRC also continuously monitors succession planning updates presented by Group HR to ensure 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.

(d) 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 RHBIB is currently represented by **six** Members, comprising a Non-Independent Non-Executive Chairman, four INEDs and the MD, as follows:

BOARD COMPOSITION

- **1 NINE Chairman**
  – Tuan Haji Md Ja'far Abdul Carrim
- **3 INEDs**
  – Mr Charles Lew Foon Keong
  – YBhg Dato' Mohd Ali Mohd Tahir
  – YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
- **1 Senior INED**
  – YBhg Datuk Haji Faisal Siraj
- **1 MD of RHBIB**
  – Tuan Haji Ibrahim Hassan

The above structure and composition of the Board comply with the BNM's Guidelines on Corporate Governance for Licensed Islamic Banks (BNM's CG Guidelines). YBhg Datuk Haji Faisal Siraj has been appointed as the Senior INED ("SINED"), to whom concerns pertaining to RHBIB may be conveyed by shareholder. Current Independent Directors of the Company account for 67% of the Board, **exceeding** BNM's requirement that one-third (33.3%) of Board members must be independent and fulfil the criteria of independence as defined in the BNM's CG Guidelines.

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

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 as it strives to achieve the targeted level of women's participation.

In view that organisations are best served by having a constantly evolving board of directors with staggered terms and a healthy combination of fresh perspectives and experience, **age limits** at 70 and 73 are set for the Group's Non-Executive Directors ("NED"), with the exception of major shareholders' representatives. At the first checkpoint, Directors who are **over** the age limit of 70 shall retire at the next AGM but are eligible for appointment or re-appointment on the Boards of RHB Banking Group, subject to shareholder's approval. At the second checkpoint, Directors who exceed the age limit of 73 cannot continue their service tenure further and shall retire at the next AGM of the company concerned. Only one INED in the Company, namely YBhg Datuk Haji Faisal Siraj, reached the age of 70 during the current financial year and according to the Internal Guidelines on Tenure of Appointment/Re-Appointment of Non-Executive Directors for RHB Banking Group, YBhg Datuk Haji Faisal shall be eligible for re-appointment on the Board of the Company subject to the shareholders' approval during the AGM, upon the endorsement and recommendation of the BNRC.

Assessment of Independence

The independence of the Directors is reviewed annually and benchmarked against best practices and regulatory provisions. Independent Directors are required to attest to their compliance with the criteria and definition of "Independent Director" as stipulated under Clause 2.27 of BNM's CG Guidelines for Licensed Islamic Banks.

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

STATEMENT ON CORPORATE GOVERNANCE (continued)

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

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 Non-Executive Directors ("NEDs") for RHB Banking Group ("Internal Guidelines"). The Board believes the tenure of INEDs should balance experience and learning with the need for renewal and fresh perspectives.

Mr Charles Lew Foon Keong ("Mr Charles Lew") was first appointed as an INED in the Group and Company in March 2004 and October 2008 respectively. The Board acknowledges that Mr Charles Lew has detailed knowledge of the business and possesses the industry exposure and competency to effectively advise and oversee the management of the Company.

Notwithstanding the above, Mr Charles Lew, as an INED, shall retire at the next AGM of the Company upon completion of his consecutive or cumulative term of 12 years, pursuant to the Internal Guidelines.

Roles 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 shareholders and ensures that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary in the Board's decision-making.

Additionally, the Chairman must ensure that general meetings are conducted efficiently and in accordance with the requirements of the Companies Act 1965.

The MD, Tuan Haji Ibrahim Hassan has extensive financial experience and knowledge, to assume the overall responsibilities of executing the Company's strategies in line with the Board's direction and driving the Company's businesses and performance towards achieving the Company's vision and goals.

Tuan Haji Ibrahim Hassan leads the Senior Management in the execution of the Company's strategic initiatives.

Nomination Framework

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

The assessment takes into account the nominees' background, skills, knowledge and experience, and is part of a transparent nomination process before a recommendation is made for the Board's approval.

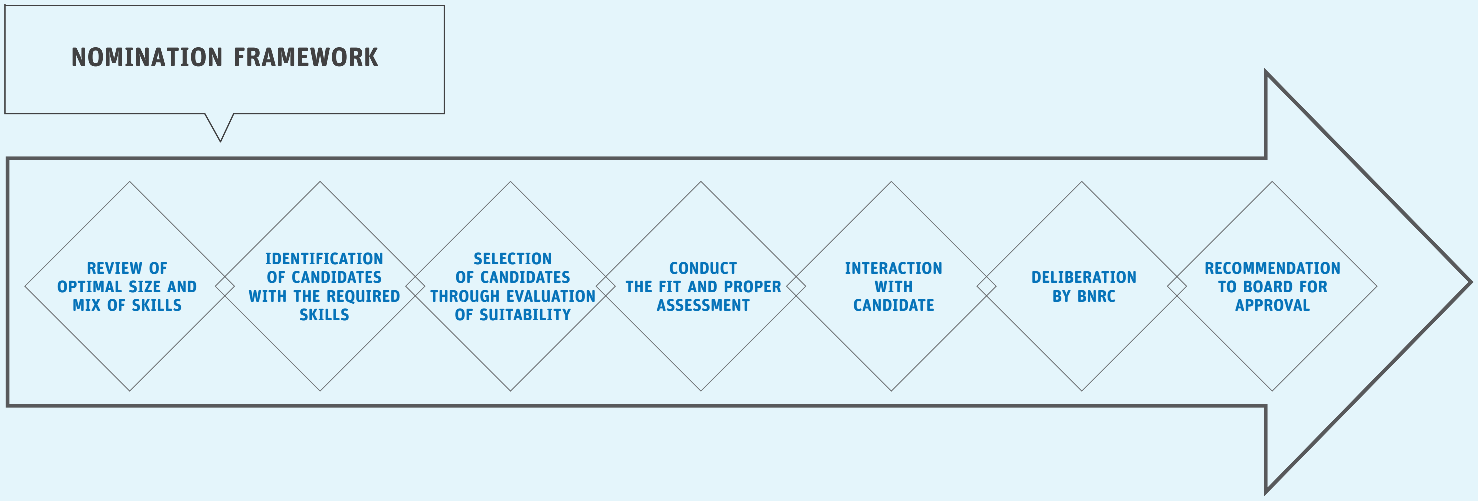
These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, the completion of declarations by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy 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 be 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 perspective. The Board's expectations on the time commitment and contribution from the Directors will also be clearly communicated to the proposed candidates.

Directors' Appointment and Assessment

(a) Appointment of Directors

The Group sources for new candidates for Board appointments from the industry talent pool and the Group's Independent Directors' network, as overseen by the BNRC.

The BNRC follows a Board-approved nomination framework, which ensures that individuals appointed to relevant senior positions and the Boards within the Group possess the appropriate fitness and propriety to discharge their prudential responsibilities on and during the course of their appointment.

STATEMENT ON CORPORATE GOVERNANCE (continued)

As part of its review of the suitability of candidates and criteria for the appointment process, the BNRC also evaluates the skill sets required, size, structure and composition of the Board. This is to ensure the Board is well-balanced and is supportive of good governance and efficient management, while complying with regulatory requirements and remaining responsive to shifts in the business environment and 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 Board Effectiveness Evaluation exercise in addition to their formal/informal interactions with the Directors. The BNRC also assesses the Directors based on how well they performed their roles and contributed to the Board and Board Committees, their independence of view in respect of decision making (whichever is applicable), adequacy of training and time commitment. Once approved by the Board, the application for the appointment/re-appointment of Directors is submitted to BNM for its consideration.

(b) Board Effectiveness Evaluation

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. Implemented in 2006, the BEE is designed to detect strengths and weaknesses to improve the Board's overall effectiveness and forms part of the BNRC's evaluation for the re-appointment of Directors.

The BEE is made up of self- and peer assessment conducted through a customised questionnaire. Messrs PricewaterhouseCoopers Consulting Services Sdn Bhd ("PwCCS") was engaged to collate and tabulate the results of the evaluation, ensuring integrity and independence of the appraisal process. The BEE also includes in-depth interviews between PwCCS and Directors and Senior Management to evaluate areas which may not be covered by the written assessment. The detailed BEE results are then discussed with the Chairmen of the BNRC and Boards.

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

Part A: Board Evaluation

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

Part B: Board Committees' Evaluation

1. Structure and processes
2. Accountability and responsibilities

Part C: Directors' Self- and Peer Evaluation

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

Part D: Committee Members' Self- and Peer Evaluation

1. Participation levels and contribution
2. Technical competencies

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, were provided to each Director and Board Committee member for their information and further improvement. The latest BEE results were presented to the BNRC in July 2015 and to the Board in August 2015 to identify and address areas for improvement.

MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

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

For the financial year ended 31 December 2015, the Board is satisfied with the time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of RHBIB. All Directors have complied with the required minimum Board meetings attendance of 75% under BNM's revised guidelines and as adopted by the Company.

The Board convened 17 meetings for the financial year ended 31 December 2015. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Tuan Haji Md Ja'far Abdul Carrim	17/17	100
YBhg Datuk Haji Faisal Siraj	17/17	100
Mr Charles Lew Foon Keong	14/17	82
YBhg Dato' Mohd Ali Mohd Tahir	15/17	88
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (Appointed as Director w.e.f. 6 October 2015)	4/4	100
Tuan Haji Ibrahim Hassan	17/17	100

An annual meeting schedule for Board and Board Committees' meetings and the AGM is circulated to the Directors for the convenience before the beginning of every year. Since 2014, Directors/Board Committee members have also been enabled to use their iPads to gain secure access to a meeting management solution system via an online portal.

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

This latest convenience allows any Board meeting's paper to be circulated to the Board members instantly. Currently, Board papers are circulated between 5 and 7 days before each meeting.

In an effort to promote transparency in discharging their duties, Directors are required to notify the Board on changes of their other directorships and shareholdings as and when such changes arise. This information is used to monitor the number of directorships held by the Directors of RHBIB, including those on other public listed companies, and to notify the Companies Commission of Malaysia accordingly.

The information on the Company's Directors' directorships in public companies is available on pages 11 to 13 of this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Information and Advice

The Board, as a group and individually as Directors, is supported by the Company Secretary who provides advice and assistance to the Board in discharging their duties. The Board members are also encouraged to interact directly with the Management, seek its clarification and advice as well as request for information on matters pertaining to the Company's and the Group's operations or business concerns. Should the need arise, the Directors are also allowed to seek independent professional advice at the Company's expense, pursuant to the Group's Standard Procedures for Directors to Have Access to Independent Advice.

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 good corporate governance practices, ensures that Board meetings are appropriately convened and maintain an accurate and proper record of the proceedings and minutes of the meetings.

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

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

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

REMUNERATION STRATEGIES

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

In an effort to ensure that remuneration levels are commensurate with responsibilities, risks and time commitment of the Boards/ Board Committees, the Group's common reference, which incorporates the Non-Executive Directors' Remuneration Framework, sets out the general principles for the remuneration of NEDs. The remuneration also takes into consideration industry practices and is reviewed at least once every two years.

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 shareholder of the Company had, at the 9th AGM held on 5 May 2014, approved the structure of Directors' fees—on the basis of RM150,000 per annum for Non-Executive Chairman and of RM120,000.00 per annum for every NED.

(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, among others, of the provision of a company car, driver and petrol allowance.

Total allowances for Board Committee allowance and Meeting attendance allowance are subject to the number of Board Committee sittings and the number of meetings attended by each Company NED, as illustrated in the table below:

	No. of Meetings Attended						
Name of Company's Director	**Board Meeting**	**IRMC Meeting**	**BRC Meeting**	**BNRC Meeting**	**BAC Meeting**	**BCC Meeting**	**BTC Meeting**
Tuan Haji Md Ja'far Abdul Carrim	17/17 (Chairman)	13/13	17/17	12/13		35/37	
YBhg Datuk Haji Faisal Siraj	17/17	13/13		13/13	18/18		
Mr Charles Lew Foon Keong	14/17						6/8
Mr Choong Tuck Oon *(Resigned w.e.f. 9 August 2015)*	10/10	6/6	6/9	6/7			4/4
YBhg Dato' Mohd Ali Mohd Tahir	15/17	13/13 (Chairman)					4/5 *(Resigned as member w.e.f. 29 June 2015)*
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir *(Appointed w.e.f. 6 October 2016)*	4/4		1/1			1/2	
Tuan Haji Ibrahim Hassan	17/17						

In addition to the above, the Directors are covered by 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 insurance policy does not indemnify a Director or principal officer if he or she is proven to have acted negligently, fraudulently or dishonestly, or in breach of his or her duty of trust. The Directors are required to contribute jointly towards the premium of the said policy.

The MD does not receive a Director's fee or any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration, which is approved by the Board upon recommendation by the Board Nominating & Remuneration Committee, includes among others, salary, bonus and benefits-in-kind, and is derived from the Company.

Key Senior Management are remunerated based on a remuneration framework consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with contributions to the organisation. Key Senior Management Officers are made up of the Heads of respective Strategic Business Sectors and Strategic Functional Sectors across the Group who report directly to the Group MD ("GMD") and sit in the Group Management Committee.

STATEMENT ON CORPORATE GOVERNANCE (continued)

DIRECTORS' ORIENTATION, CONTINUING EDUCATION AND TRAINING

Continuing education and training of Board Directors are integral to their responsibilities, to ensure they remain updated with the latest developments in the areas related to their duties.

Costs for Directors' training are covered by a budget allocated each year by RHBIB, with the training needs of each Director assessed annually by the Board as part of the BEE exercise. The training and development of Directors is detailed in the Group's Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group.

In an effort to ensure the Company's and Group's NEDs discharge their duties in line with industry best practices, they are encouraged to participate in local and/or overseas training programmes organised by credible training organisations under the Board's 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 organisation al excellence. The organisation of internal training programmes and Directors' attendance of external programmes are facilitated by the Company Secretary, who also maintain a complete record of the training received and attended by the Directors.

Learning Process for New Director

There was one new NED on the Board of the Company for FYE 2015. Newly appointed NED is required to attend an induction programme organised by the Management of the Group to provide the NED with in-depth information of the industry and familiarise them with the Group's business operations. As part of this programme, the NED is briefed by relevant Management personnel on the functions and areas of responsibility of their respective divisions. In addition to allowing the NED to understand the Group's operations and organisational structure, this exercise also helps them to establish effective channels of communication and interaction with Management.

New NEDs are also provided with a comprehensive Director's induction kit to assist him/her in building a detailed understanding of the Group's operations, its longer-term direction and statutory obligations.

During the year, the Directors of RHBIB attended the following training programmes, conferences and seminars:

Name of Director(s)	Training Programmes Attended	Training Scope & Description
• Tuan Haji Md Ja'far Abdul Carrim	1. Goods and Services Tax Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. PNB Investment Institute Sdn Bhd – Predicting Financial Crime-Detection, Prevention & Remediation (1 April 2015)	• Typology and Consequences of Financial Crime and Financial Fraud • Financial Fraud Red Flags • Detection, Prevention and Remediation • Building a Fraud Proof Culture
	3. The Briefing on Charter Contracts (25 February 2015)	• Charter and Legal Requirements • Main Ingredient of Charter Contracts
	4. FIDE Forum: Invitation to Industry Consultation Session (6 May 2015)	• Encourage development of world class directors • Attract and retain highly qualified directors • Promote board diversity • Improve board performance

Name of Director(s)	Training Programmes Attended	Training Scope & Description
• Tuan Haji Md Ja'far Abdul Carrim (continued)	5. FIDE Forum 3rd Board Leadership Series: Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	• Reclassification of assets & liabilities • Revenue recognition Latest Accounting standard – adoption of IFRS 9
	6. MINDA – Corporate Directors Advance Programme Strategy & Risk – Managing Uncertainty (2 – 3 September 2015)	• Equip directors with a solid framework of managing the oversight of strategy and risks effectively • Provide directors with a new perspective of "looking outside, looking forward" in the areas of: • Strategy Development and Monitoring • Risk Oversight
	7. 5th Distinguished Board Leadership Series: "Beyond Compliance to Growth – Board's Strategy in Cultivating Real Growth within a Conducive Governance Environment" by The Honourable Sheila C. Bair. (28 October 2015)	• Champion real growth that is a "win-win-win" for regulators, shareholders and the consumers of FI products/services – and what FI Boards can do about it. • Infusing regulatory demands into the FI's business culture without compromising business growth – and with the Board providing strategic leadership. • FI Boards' collective role in creating a conducive and responsible environment for business growth with respect to their fiduciary responsibilities to depositors/policyholders. • FI Boards collaborating with regulators to develop a sustainable marketplace without compromising profits and growth of FIs.
	8. Special Invite: 6th Distinguished Board Leadership Series "Digital Transformation and Its Impact on Financial Services – Role of the Board in Maximising Potential" by Mr Joydeep Sengupta (4 November 2015)	• What is the role of the board in managing digital transformation? • What should the board be concerned about given the digitalisation of business and changes in consumer purchasing habits? • What could the board do to lead their organisation in leveraging digital transformation for business growth?
	9. Invitation Launch of FIDE FORUM's Directors' Remuneration Report 2015 (7 December 2015)	• Objectives and Coverage of the Report • Key Findings and Recommendations of the Report

STATEMENT ON CORPORATE GOVERNANCE (continued)

Name of Director(s)	Training Programmes Attended	Training Scope & Description
• YBhg Datuk Haji Faisal Siraj	1. Goods and Services Tax Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	• Latest updates on Financial Standards • FRS 139
	3. FIDE Forum: Invitation to Industry Consultation Session (6 May 2015)	• Encourage development of world class directors • Attract and retain highly qualified directors • Promote board diversity • Improve board performance
	4. FIDE Forum's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" (21 May 2015)	• Innovative Products • High Risk, High Return Product • Compliance Cost
	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – "Financial Instruments" For RHB Banking Group Directors (1 October 2015)	• Overseas Tax • FATCA • MFRS 9
• YBhg Dato' Mohd Ali Mohd Tahir	1. FIDE FORUM's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" by Mr Ram Charan (21 May 2015)	• Innovative Products • High Risk, High Return Product • Compliance Cost
	2. SPECIAL INVITE: FIDE FORUM's "Impact of the New Accounting Standard on Banks – What Directors should be aware of" and "Impact Of The New Accounting Standard on Insurance Companies – What Directors should be aware of" by Mr Darrel Scott (5 June 2015)	• Reclassification of assets & liabilities • Revenue recognition • Latest Accounting standard – adoption of IFRS 9
	3. Invitation Launch of FIDE FORUM's Directors' Remuneration Report 2015 (7 December 2015)	• Objectives and Coverage of the Report • Key Findings and Recommendations of the Report

Name of Director(s)	Training Programmes Attended	Training Scope & Description
• Mr Charles Lew Foon Keong	1. FIDE FORUM's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" by Mr Ram Charan (21 May 2015)	• Innovative Products • High Risk, High Return Product • Compliance Cost
	2. Capital Market Director Training Programme (CMDP) Module 2A (28 July 2015) Module 2B (1 July 2015)	• Capital Market in Malaysia • Good Corporate Governance • Stakeholders' Management
	3. FIDE CORE Program Module B (Insurance) (5 – 7 October 2015)	• Board Leadership & effectiveness • Fiduciary Responsibilities • Financial Reporting
• Tuan Haji Ibrahim Hassan	1. GST Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – 'Financial Instruments' For RHB Banking Group Directors. Thursday, 1 October 2015	• Overseas Tax • FATCA • MFRS 9
• Mr Choong Tuck Oon	1. GST Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. FIDE Forum: Invitation to Industry Consultation Session (6 May 2015)	• Encourage development of world class directors • Attract and retain highly qualified directors • Promote board diversity • Improve board performance
	3. FIDE FORUM's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" by Mr Ram Charan (21 May 2015)	• Innovative Products • High Risk, High Return Product • Compliance Cost
	4. 4th Distinguished Board Leadership Series – "Board Leading Change: Organisational Transformation Strategy as Key Sustainable Growth in Challenging Times" (18 August 2015)	• Sustainable Growth • Redefined Strategy • Transformation

STATEMENT ON CORPORATE GOVERNANCE (continued)

Name of Director(s)	Training Programmes Attended	Training Scope & Description
• YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	1. Directors' In-House Orientation and Continuing Education Programme	• Provide insight to RHB Banking Group

BOARD COMMITTEES

Board Committees assist the Board in discharging its roles and responsibilities through the delegation of specific authority to the relevant Board Committees. This delegation of authority is expressly stipulated in the Terms of Reference ("TOR") of the respective Board Committees. The TOR are also reviewed periodically to ensure effective and efficient decision making in the Group. Additionally, the Board Committees 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, Islamic Risk Management Committee, Board Risk Committee and Board Nominating & Remuneration Committee on matters that require specific mention that have been deliberated on and considered at the meetings of the Board Committees. This practice also applies to other entities within the Group.

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 three INEDs of RHB Islamic Bank, of whom two are INEDs and one is NINED. IRMC met 13 times during the financial year 2015. The composition of IRMC and the attendance of the members at Meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
YBhg Dato' Mohd Ali Mohd Tahir (INED/Chairman)	13/13 (100%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	13/13 (100%)
YBhg Datuk Haji Faisal Siraj (INED)	13/13 (100%)
Mr Choong Tuck Oon (INED) (Resigned w.e.f. 9 August 2015)	6/6 (100%)

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 Shariah Committee of RHB Islamic Bank Berhad ("the Bank") comprises of six (6) qualified local Shariah scholars; an assortment of knowledge, experience and approach from these mixed Shariah scholars are needed to position the Bank's operations and products to be globally accepted.

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

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

There were 11 meetings held during the financial year ended 31 December 2015. The details of attendance of each member at the Shariah Committee Meetings are as follows:

Name of Shariah Committee Members	Attendance at Meetings
Dr. Ghazali Jaapar (Chairman)	11/11 (100%)
Prof. Dr. Joni Tamkin Borhan	10/11 (91%)
Assoc. Prof. Dr. Amir Shaharudin	11/11 (100%)
Wan Abdul Rahim Kamil Wan Mohamed Ali	9/11 (82%)
Mohd Fadhly Md. Yusoff	10/11 (91%)
Shabnam Mohamad Mokhtar* *newly appointed 01 May 2015	6/7 (86%)

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

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

STATEMENT ON CORPORATE GOVERNANCE (continued)

The BNRC comprises five NEDs, of whom three are INEDs and two are NINEDs, representing the respective entities within the Group. The BNRC is chaired by YBhg Datuk Haji Faisal Siraj, the SINED of RHB Capital.

The BNRC met 13 times during the financial year 2015. The composition of the BNRC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
Datuk Haji Faisal Siraj (Chairman/Senior INED)	13/13 (94%)
Tan Sri Azlan Zainol (NINED)*	7/8 (88%)
Datuk Seri Saw Choo Boon (INED)	13/13 (100%)
Tan Sri Dato' Teo Chiang Liang (INED)	11/13 (85%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	12/13 (92%)
Choong Tuck Oon (INED)^	6/7 (86%)

Notes:
* Appointed with effect from 13 April 2015
^ Resigned with effect from 1 June 2015

Board Risk Committee

In ensuring that a robust system of risk management and internal control are in place 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.

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

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

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

The BRC comprises six NEDs, of whom five are INEDs and one is a NINED, representing the respective entities within the Group. The BRC met 17 times during the financial year 2015. The composition of the BRC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (INED/Chairman)	16/17 (94%)
Mr Patrick Chin Yoke Chung (INED)	15/17 (88%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	17/17 (100%)
YBhg Datuk Seri Saw Choo Boon (INED)	17/17 (100%)
Mr Choong Tuck Oon (INED)*	6/9 (67%)
Mr Chin Yoong Kheong (INED)#	8/8 (100%)
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (INED)^	1/1 (100%)

Notes:
* Resigned with effect from 1 June 2015.
# Newly appointed with effect from 1 June 2015.
^ Newly appointed with effect from 1 December 2015.

Pursuant to the Group's current governance framework, RHB Islamic Bank Berhad ("RHB Islamic Bank") has adopted the BRC while maintaining a dedicated Risk Management Committee to provide oversight on risk matters which specifically relates to Islamic banking activities.

Board Audit Committee

The Board Audit Committee ("BAC") comprises four INEDs who represent the Group's major operating subsidiaries. The BAC provides independent oversight of RHB Banking Group's financial reporting and internal control system, ensuring checks and balances for entities within the Group, excluding RHB Capital. 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 perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

The composition of the BAC and the attendance of the members together with the TOR and activities of the BAC during the financial year are set out in the BAC Report in this Annual Report.

Board Credit Committee

The Board Credit Committee ("BCC") comprises six NEDs, of whom four are INEDs and two are NINEDs representing the respective banking entities within the Group. The BCC supports the relevant Boards in affirming, vetoing or including additional conditions on all types of credit applications (including under stock/futures broking) and all types of underwriting applications for amounts above the defined thresholds of the Group Credit Committee and/or the Group 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.

STATEMENT ON CORPORATE GOVERNANCE (continued)

The BCC met 37 times during the financial year 2015. The composition of the BCC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
YBhg Dato' Mohamed Khadar Merican (NINED/Chairman)	34/37 (92%)
Tuan Haji Khairuddin Ahmad (INED)	33/37 (89%)
Encik Abdul Aziz Peru Mohamed (INED)	34/37 (92%)
Mr Patrick Chin Yoke Chung (INED)	33/37 (89%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	35/37 (95%)
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (INED)#	1/2 (50%)

Notes:

Newly appointed with effect from 1 December 2015.

Board Technology Committee

The Board Technology Committee ("BTC") comprises three INEDs. The BTC guides the Boards on the Group's overall technology strategies and policies. The BTC reviews and advises the Boards on strategic and major technology investments and projects above approving authority at Group Management Committee ("GMC") level.

The BTC met 8 times during the financial year 2015. The composition of the BTC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
Mr Chin Yoong Kheong (INED/Chairman)#	3/3 (100%)
Mr Ong Seng Pheow (INED)	8/8 (100%)
Mr Charles Lew Foon Keong (INED)	6/8 (75%)
Mr Choong Tuck Oon (INED)*	4/4 (100%)
YBhg Dato' Mohd Ali Mohd Tahir (INED)^	4/5 (80%)
YBhg Dato' Khairussaleh Ramli (NIED)^	5/5 (100%)
Mr Kellee Kam Chee Khiong (NIED)+	0

Notes:

* Resigned with effect from 1 June 2015.
# Newly appointed with effect from 29 June 2015.
^ Resigned with effect from 29 June 2015.
+ Resigned with effect from 4 May 2015.

Corporate Website

In February 2015, the Company launched its revamped corporate website (www.rhbgroup.com) to meet the evolving expectations of customers and other stakeholders while reinforcing the Group's brand and image. The corporate section on the Company's website, which provides all relevant information on RHBIB is publicly accessible.

UPHOLDING INTEGRITY

Compliance with Financial Reporting Standards

The Annual Audited Financial Statements and quarterly reports affecting the Company provide shareholder with a clear, balanced and meaningful assessment of the Company's financial performance, position and future prospects.

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. The GIA is guided by the Group Internal Audit Charter and regularly reviews and reports on the adequacy and effectiveness of the Group's risk management, internal control and governance processes. It also undertakes an independent assessment of the Company's internal control systems to assure that deficiencies or issues are promptly resolved by the Management. This is based on the annual audit plan approved by the BAC.

Any recommendations by the auditors are followed-up and reviewed by the Management via the various Management Audit Committees established within the Group. External auditors also assist the Group internal auditors in resolving 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.

The Group's current Internal Audit Charter is up-to-date and 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 sent to Management requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the financial reporting year.

The survey assesses 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 shareholder's approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC reviews the non-audit services rendered by the external auditors and the related fees prior to the approval of the services. A report on non-audit fees is also presented to the BAC on a quarterly basis. This is to ensure the independence of the external auditors and their compliance with the Policy and terms of all relevant professional and regulatory requirements when rendering their 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 Whistle Blower Policy, established in 2004 and revised and updated in 2014, serves to strengthen its controls and governance, enabling employees to report suspected fraud, corruption, dishonest practices or other similar circumstances. This policy encourages reporting of such matters in good faith, with the confidentiality of the person making such reports protected from reprisal in the best possible manner.

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

Code of Ethics

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

STATEMENT ON CORPORATE GOVERNANCE (continued)

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 the community. Within this framework, employees are expected to exercise good judgement and be accountable for their actions. Compliance with the Code is part of the terms and conditions of employment for every employee. The Code is currently under revision to incorporate current best practices and to be in line with the industry standard.

Group Gifts & Hospitality Guidelines

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

Corporate Responsibility

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

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

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

ADDITIONAL COMPLIANCE INFORMATION

Related Party Transactions

The Group has put in place a Policy on Related Party Transaction Review Process since 2004 (revised and updated in 2011, 2012 and 2015, respectively), which guides the review and reporting of all related party transactions. Under this policy, all related party transactions are reviewed by GIA and Group Legal before any submission is made to the BAC for deliberation.

COMPLIANCE STATEMENT

In carrying out its fiduciary duties, the Board of Directors ("Board") of RHBIB is pleased to disclose that the Company for the FYE 31 December 2015 has satisfied the following:

- The Company's financial statements have been prepared in compliance with the approved accounting standards and disclosure requirements set out in the Companies Act 1965.
- All material aspects of the principles stipulated by Bank Negara Malaysia's (Central Bank of Malaysia) Guidelines on Corporate Governance for Licensed Islamic Banks ("BNM CG Guidelines") have been complied with.

This Corporate Governance Statement and the disclosures in this report have been approved by the Board on 25 April 2016.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

BOARD'S RESPONSIBILITY

The Board of Directors ("Board") acknowledges its overall responsibility for establishing RHB Islamic Bank Berhad ("RHB Islamic Bank")'s risk management framework and internal control system. RHB Islamic Bank has put in place a risk management framework and internal control system that are 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 Board's responsibility includes reviewing the adequacy and effectiveness of the risk management and internal control system in safeguarding shareholders' investments and RHB Islamic Bank's assets. The Board is assisted by the Islamic Risk Management Committee, Board Risk Committee and Board Audit Committees in assessing the adequacy and effectiveness of RHB Islamic Bank's risk management and internal control system.

The Board is further assisted by the Management who is responsible for implementing RHB Islamic Bank's 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.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

A sound risk management and internal control system is fundamental to good corporate governance. The key elements of the RHB Islamic Bank's risk management framework and internal control system encompass the following:

Risk Management Framework

The Group's risk management framework governs the management of risks faced by the Group, inclusive of RHB Islamic Bank by providing a holistic overview of the risk and control environment of the bank and setting out the strategic progression of risk management towards becoming a value creation enterprise.

The Group's risk management framework approved by the Board includes an on-going process for identifying, evaluating, managing and reporting of significant risks faced by RHB Islamic Bank that may affect the achievement of the bank's business objectives and strategies. The main inherent risks in the business and operations include credit risk, market risk, profit rate risk in the banking book, liquidity risk, operational risk, reputational risk and Shariah non-compliance risk.

The risk management process within RHB Islamic Bank seeks to identify, measure, monitor and control these risks so that the risk exposures are adequately dealt with while the expected returns sufficiently compensate the risks taken. This process is regularly reviewed by the Board through its Islamic Risk Management Committee ("IRMC") which provides oversight over the risk management activities for RHB Islamic Bank to ensure that the bank's risk management process is in place and functional, and appropriate measures are taken to mitigate any identified weaknesses in the control environment.

The IRMC assists the Board to review RHB Islamic Bank's overall risk management philosophy, frameworks, policies and models. In discharging its overall duties and responsibilities, the IRMC is supported by the BRC, Group Capital and Risk Committee ("GCRC") and Group Risk & Credit Management function which monitor and evaluate the effectiveness of the Group's risk management system on an ongoing basis.

The GCRC, comprising Senior Management of the Group and is chaired by the Group Managing Director, is responsible for the supervision of the management of enterprise risk and capital matters.

Group Risk & Credit Management function provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Its responsibilities include implementation of the Group's risk policy and framework, daily risk measurement and monitoring, provision of timely risk analysis to Management, ensuring compliance to regulatory risk reporting requirements, overseeing group-wide credit evaluation and assessment as well as implementing a comprehensive enterprise-wide risk governance framework and a robust risk management infrastructure.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL (continued)

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 ("RCSA") 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 to ensure that the risks identified are adequately managed and mitigated. On completion of the RCSA exercise, all business and functional units within the Group are required to submit their respective results to Group Operational Risk Management for review prior to tabling the RCSA results to the GCRC for deliberation and further action when necessary.

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

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Asset and Liability Committee, Group Credit Committee, Shariah Committee, Islamic Risk Management Committee, Board Credit Committee and Board Technology Committee.

Control Environment and Control Activities

Organisation Structure

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

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 the Company.

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.

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

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

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. RHB Islamic Bank's budget and business plans as well as strategic initiatives, taking into account the risk appetite, were deliberated at the Board where the budget was presented.

A reporting system on actual performance against the approved budgets is in place and the reasons for significant variances as well as action plans by Management are reported to the Board.

Business Continuity Management

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

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

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

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.

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.

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

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL (continued)

Group Code of Ethics and Conduct

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

The Group has also established the Gifts and Hospitability Guidelines 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' obligations in upholding corporate integrity.

Information and Communication

Performance Review

Regular and comprehensive information is provided 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 RHB Islamic Bank during the year.

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

Group Whistle Blower Policy

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

Incident Management Reporting

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

Monitoring

Group Compliance

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

To manage compliance risk, the compliance lifecycle involves identifying the scope of compliance obligations, determining the compliance risk, conducting gap analysis to determine the state of compliance and proposing recommendations to address the compliance gaps and emplacing monitoring process to ensure compliance including periodically conducting compliance testing on key compliance risk areas.

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.

Group Compliance provides monthly Compliance Assurance Report to the respective Boards based on their compliance and gap reviews. In addition, the Board is apprised on a quarterly basis on the extent of the Group's compliance with regulatory requirements and the actions taken to address any shortcomings.

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.

In addition, the Group Shariah business 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 RHB Islamic Bank.

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.

Internal Audit Function

The Group has an in-house internal audit function which reports to the Group Board Audit Committee ("Group BAC") of the Company and the Board Audit Committees ("BAC") of the RHB Banking Group (which undertakes the functions of the Audit Committee of the major operating entities within the Group, such as RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad).

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. The annual audit plan for RHB Banking Group is reviewed and approved by the BAC.

Management Audit Committees ("MAC") are established at the key operating subsidiaries within the Group to ensure timely rectification of any audit findings and control lapses highlighted by the internal and external auditors, and regulators. RHB Islamic Bank's MAC comprising senior level representatives from different business/functional groups is chaired by the Managing Director. The minutes of meetings of the MACs together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

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

The Group BAC and BAC hold scheduled 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 Group's internal control system. The minutes of the meetings of the BAC are then tabled to the Board with 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.

CONCLUSION

The Board has received assurance from RHB Islamic Bank's Managing Director and the Group Chief Financial Officer as well as the Group Chief Risk Officer that RHB Islamic 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. The Board also receives monthly updates on key risk management and internal control matters through its Islamic Risk Management Committee, Board Risk Committee and Group Board Audit Committee as well as compliance assurance from the Group Compliance function.

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

BOARD AUDIT COMMITTEE REPORT

COMPOSITION AND ATTENDANCE

During the financial year ended 31 December 2015 ("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 BAC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	18/18 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	18/18 (100%)
3. Datuk Seri Saw Choo Boon (Member/Independent Non-Executive Director)	18/18 (100%)
4. Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director)	18/18 (100%)

SUMMARY OF BAC'S TERMS OF REFERENCE

The BAC's objectives, authority, duties and responsibilities, reporting, composition, frequency of meetings and secretariat are defined in its Terms of Reference. A summary of the BAC's Terms of Reference is outlined below:

Authority

The BAC is authorised by the respective Boards to:

1. Investigate any matter within its terms of reference.
2. Have direct communication channels with the external and internal auditors.
3. Obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend meetings, if it considers this necessary.
4. Provide a written confirmation to Bank Negara Malaysia ("BNM") that the banking entities comply with BNM's requirements on financial reporting.

Composition

1. The membership of the BAC including the position of Chairman shall be approved by the respective Boards and shall comprise at least three (3) members and there should be a fair representation on the BAC from each entity within the Group. All BAC members should be non-executive directors with majority of whom are independent directors.
2. The Chairman of the BAC shall be an independent non-executive director.
3. No alternate director shall be appointed as a member of the BAC.
4. All members of the BAC shall be financially literate and at least one member shall be a member of an accounting association or body.

Duties and Responsibilities

The key duties and responsibilities of the BAC are summarised as follows:

1. 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.
2. To review and approve the internal audit plan and 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.
3. To ensure that all findings and recommendations are resolved effectively and in a timely manner.
4. 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.
5. To recommend to the Board on the appointment and the annual reappointment of the external auditors and their audit fees, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit as well as the resignation of auditors.
6. To review the quarterly results and year-end financial statements of the respective entities before recommending to the respective Boards for approval, focusing particularly on changes in or implementation of new accounting policies and practices, significant and unusual events and compliance with applicable financial reporting standards and other legal and regulatory requirements.
7. 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.
8. To review the minutes of meetings of other 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 audit committees.
9. 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.

Meetings

1. Meetings shall be held at least once a month or when necessary with a minimum quorum of three (3) members and the majority of members present shall be independent non-executive directors.
2. The head of internal audit and the Group Chief Financial Officer shall be in attendance at the BAC meetings. 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.
3. 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.

SUMMARY OF BAC'S ACTIVITIES

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

Financial Reporting

1. Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Islamic Bank before recommending them for approval by the Board. The review process encompassed the following:
    a. Reviewed on any changes in accounting policy or treatment and adoption of new accounting standards, and its impact to the financial statements.
    b. Reviewed the highlights on the performance of various business sectors contributing to the financial performance of RHB Islamic Bank and the main factors impacting the bank's operating expenses and costs.
    c. Reviewed the financial statements for any material changes between the current and preceding or corresponding quarter/year as well as any items that may appear uncorrelated.

BOARD AUDIT COMMITTEE REPORT (continued)

Internal Audit

2. Reviewed and approved the annual internal audit plan for 2016 in November 2015 to ensure adequacy of scope and coverage of the auditable areas identified from the audit universe based on Group Internal Audit's risk assessment methodology.

3. Reviewed the staffing needs of Group Internal Audit including the skill-sets and core competencies of the internal auditors required to support the internal audit function.

4. Reviewed the audit activities for the year covering the planned audit assignments, ad-hoc audit projects such as requests from regulators and Management, and investigations, review of policy, process and procedures, and IT project participation.

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

6. Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken by Management in respect of any findings to satisfy itself that all matters highlighted in these reports had been adequately and promptly addressed by Management.

7. Reviewed the effectiveness of the internal audit function and assessed the performance of Group Internal Audit.

External Audit

8. Reviewed the audit plan of the external auditors, the audit strategy, risk assessment and areas of audit emphasis for the year.

9. Reviewed with the external auditors, the results of their annual audit and the Audit Committee Report together with the Management's response to their findings and recommendations.

10. Met twice with the external auditors without the presence of Management to discuss issues of concern to the auditors arising from their annual statutory audit or their limited review of RHB Islamic Bank's unaudited financial results for the half year period.

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

12. Evaluated the performance of the external auditors based on the results of assessment of their work by the relevant staff in the Group covering the categories of people, meeting objectives, responsiveness, knowledge of business, adding value and communications before making recommendations in relation to their appointment to the Board for consideration.

Related Party Transactions

13. Reviewed the reports of related party transactions on a quarterly basis covering the nature and amount of the transactions including any conflict of interest situation in ensuring proper reporting and disclosures in accordance with the regulatory requirements.

TRAINING

During the year, the BAC members have attended the following training programmes, conferences and seminars to enhance their knowledge in order to efficiently discharge their duties as directors and members of the BAC:

Name of Director	Training Programme Attended	Training Scope & Description
• Ong Seng Pheow	1. GST Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	• Latest updates on Financial Standards • FRS 139
	3. PNB Investment Institute Sdn Bhd – Predicting Financial Crime: Detection, Prevention & Remediation (1 April 2015)	• Financial Crime & Financial Fraud • Consequences of Financial Crime & Financial Fraud • Financial Fraud Red Flags • Detection, Prevention & Remediation • Building A Fraud Proof Culture
	4. FIDE Forum 3rd Board Leadership Series – Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	• Reclassification of assets & liabilities • Revenue recognition • Latest Accounting standard – adoption of IFRS 9
	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – "Financial Instruments" For RHB Banking Group Directors (1 October 2015)	• Overseas Tax • FATCA • MFRS 9
• Dato' Othman Jusoh	1. GST Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing on Charter Contracts (25 February 2015)	• Charter and Legal Requirements • Main Ingredients of Charter Contracts
	3. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – "Financial Instruments" For RHB Banking Group Directors (1 October 2015)	• Overseas Tax • FATCA • MFRS 9
	4. Capital Market Director Programme – Module 1 (10 August 2015) – Module 2A (11 August 2015) – Module 2B (12 August 2015) – Module 3 (13 August 2015) – Module 4 (14 August 2015)	• Capital Market in Malaysia • Good Corporate Governance • Stakeholders' Management
	5. FIDE Forum 3rd Board Leadership Series: Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	• Reclassification of assets & liabilities • Revenue recognition • Latest Accounting standard – adoption of IFRS 9

BOARD AUDIT COMMITTEE REPORT (continued)

Name of Director	Training Programme Attended	Training Scope & Description
• Datuk Seri Saw Choo Boon	1. Briefing by Finance Department on Financial Statements (16 March 2015)	• Latest updates on Financial Standards • FRS 139
	2. Invitation from Bursa Malaysia Berhad – Risk Management & Internal Control: Workshops For Audit Committee Members (8 June 2015)	• Audit Committee • Relationship with Internal Audit • Good Risk Management & Internal Control
	3. CG Breakfast Series With Directors: "The Board's Response In Light Of Rising Shareholder Engagements" (4 August 2015)	• Fiduciary Duty • Shareholders' Needs • Good Corporate Governance Practices
	4. Directors CG Series: "Building Effective Finance Function – From Reporting to Analytic to Strategic Input" (10 August 2015)	• Financial Reporting Requirements • Opportunity and challenges in green investment strategy
	5. Cooking the Books – The Malaysian Recipe on Financial Fraud (10 September 2015)	• Ingredients for fraud • Types of financial fraud • Red flags on fraud
	6. Capital Market Director's Training Programme (CMDP): Module 1 – 7 September 2015 Module 2A – 6 October 2015 Module 3 – 8 October 2015 Module 4 – 2 October 2015	• Capital Market in Malaysia • Good Corporate Governance
	7. Ethics Red Flags For Board of Directors (3 November 2015)	• Ethics & Governance • Conflicts of interest
• Datuk Haji Faisal Siraj	1. GST Training (5 February 2015)	• Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	• Latest updates on Financial Standards • FRS 139
	3. FIDE Forum: Invitation to Industry Consultation Session (Directors' Remuneration Study) (6 May 2015)	• Encourage development of world class directors • Attract and retain highly qualified directors • Promote board diversity • Improve board performance
	4. FIDE Forum's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" (21 May 2015)	• Innovative Products • High Risk, High Return Product • Compliance Cost
	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – 'Financial Instruments' For RHB Banking Group Directors (1 October 2015)	• Overseas Tax • FATCA • MFRS 9

INTERNAL AUDIT FUNCTION

The Group has an in-house group internal audit function ("Group Internal Audit") which is guided by the Group Internal Audit Charter and the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. Group Internal Audit reports to the Group BAC of the RHB Capital Berhad and the BAC of RHB Banking Group, and its main function is to provide the Board with independent assurance that the Group's risk management, internal control and governance processes are operating adequately and effectively.

The annual audit plan of RHB Banking Group is approved by the BAC for each financial year. Group Internal Audit continues to adopt a risk-based approach towards the planning and conduct of audits in ensuring that the audit resources are prioritised in line with the Group's key risks and areas of focus which are identified based on Group Internal Audit's risk assessment methodology.

Upon completion of the audits, all audit reports on the results of work undertaken together with the recommended action plans and their implementation status are then presented to the respective Management Audit Committees and the Board Audit Committee. Group Internal Audit closely monitors the implementation progress of its audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed by Management.

Group Internal Audit also 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.

In addition to the planned audits, Group Internal Audit also performs investigations and special reviews as well as participate in system development activities to provide recommendations upfront on relevant system-built controls.

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

The internal assessment is performed according to the approved Quality Assurance Review ("QAR") plan by an independent QAR team within Group Internal Audit and reports directly to the Group CIA while the external quality assessment is conducted by a qualified independent reviewer once every five years. The results of both internal and external assessment are tabled to the Board Audit Committee for deliberation and information.

FINANCIAL

STATEMENTS

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2015 and of the financial results and cash flows of the Bank for the financial year ended 31 December 2015.

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

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

The Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 is set out in page 150 of the financial statements.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors submit herewith their report together with the audited financial statements of RHB Islamic Bank Berhad ('the Bank') for the financial year ended 31 December 2015.

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	**254,853**

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 (continued)

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

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

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

DIRECTORS' REPORT (continued)

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Significant event during the financial year is disclosed in Note 41 of the financial statements.

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	
Dato' Mohd Ali Mohd Tahir	
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	(Appointed on 6 October 2015)
Haji Ibrahim Hassan	
Choong Tuck Oon	(Resigned on 9 August 2015)

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

In accordance with Article 73 of the Bank's Articles of Association, Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

None of the Directors in office at the end of the financial year held any interest in the securities of the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 29 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

DIRECTORS' REPORT (continued)

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
29 February 2016

REPORT OF THE GROUP SHARIAH COMMITTEE

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

We, Dr. Ghazali Jaapar, Prof. Dr. Joni Tamkin Borhan, Assoc. Prof. Dr. Amir Shaharuddin, Wan Abdul Rahim Kamil Wan Mohamed Ali, Mohd Fadhly Md. Yusoff and Shabnam Mohamad Mokhtar, being six 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 2015.

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

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

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

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

In our opinion:

(a) the main sources of income of the Bank during the financial year ended 31 December 2015 that we have reviewed are in compliance with the Shariah (Islamic Law) rules and principles;

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

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

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

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

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

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

Dr. Ghazali Jaapar
Chairman of the Committee

Prof. Dr. Joni Tamkin Borhan
Member of the Committee

Assoc. Prof. 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

Shabnam Mohamad Mokhtar
Member of the Committee

Kuala Lumpur
29 February 2016

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
ASSETS			
Cash and short-term funds	2	**6,149,038**	4,025,661
Deposits and placements with banks and other financial institutions	3	**618,072**	893,146
Financial assets held-for-trading ('HFT')	4	**20,248**	351,888
Financial investments available-for-sale ('AFS')	5	**3,062,645**	2,389,447
Financial investments held-to-maturity ('HTM')	6	**1,861,693**	1,965,362
Financing and advances	7	**30,890,427**	25,265,443
Other assets	8	**133,284**	82,195
Derivative assets	9	**146,922**	47,990
Statutory deposits with Bank Negara Malaysia ('BNM')	10	**1,168,500**	1,063,700
Deferred tax assets	11	**11,964**	9,942
Property, plant and equipment	12	**8,384**	12,339
Intangible assets	13	**5,564**	6,673
TOTAL ASSETS		**44,076,741**	36,113,786
LIABILITIES AND EQUITY			
Deposits from customers	14	**27,928,029**	24,370,954
Deposits and placements of banks and other financial institutions	15	**5,310,572**	7,399,591
Investment account due to designated financial institutions	16	**6,350,654**	–
Bills and acceptances payable		**5,549**	8,836
Derivative liabilities	9	**129,106**	24,901
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	17	**982,760**	1,147,677
Subordinated obligations	18	**503,119**	503,051
Other liabilities	19	**349,613**	395,965
Provision for tax and zakat		**20,932**	10,414
TOTAL LIABILITIES		**41,580,334**	33,861,389
Ordinary share capital	20	**1,173,424**	1,173,424
Reserves	21	**1,322,983**	1,078,973
TOTAL EQUITY		**2,496,407**	2,252,397
TOTAL LIABILITIES AND EQUITY		**44,076,741**	36,113,786
COMMITMENTS AND CONTINGENCIES	34	**13,611,181**	9,420,224

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

INCOME STATEMENT

for the financial year ended 31 December 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
Income derived from investment of depositors' funds	22	**1,581,366**	1,325,425
Income derived from investment account funds	23	**139,228**	–
Income derived from investment of shareholders' funds	24	**139,087**	129,772
Allowance for impairment on financing and advances	25	**(56,173)**	(22,313)
Impairment losses made on other assets		**–**	(576)
Total distributable income		**1,803,508**	1,432,308
Income attributable to depositors	26	**(1,112,277)**	(901,337)
Profit distributed to investment account holders		**(114,460)**	–
		576,771	530,971
Personnel expenses	27	**(44,145)**	(54,953)
Other overheads and expenditures	28	**(183,901)**	(172,368)
Profit before zakat and taxation		**348,725**	303,650
Zakat		**(3,000)**	(2,000)
Profit after zakat before taxation		**345,725**	301,650
Taxation	30	**(90,872)**	(77,335)
Net profit for the financial year		**254,853**	224,315
Earnings per share (sen):			
– basic	31	**21.72**	19.12

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 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
Net profit for the financial year		**254,853**	224,315
Other comprehensive (loss)/income:			
Items that will be reclassified subsequently to profit or loss:			
Financial investments AFS:			
– Unrealised net (loss)/gain on revaluation		**(7,054)**	3,613
– Net transfer to income statement on disposal or impairment		**(6,716)**	(2,346)
Income tax relating to components of other comprehensive loss/(income)	32	**2,927**	(317)
Other comprehensive (loss)/income, net of tax for the financial year		**(10,843)**	950
Total comprehensive income for the financial year		**244,010**	225,265

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 2015

	Note		Non distributable				
		Share Capital RM'000	Statutory Reserve RM'000	AFS Reserve RM'000	Regulatory Reserve RM'000	Retained Profits RM'000	Total RM'000
Balance as at 1 January 2015		**1,173,424**	**553,765**	**(28,352)**	**–**	**553,560**	**2,252,397**
Net profit for the financial year		**–**	**–**	**–**	**–**	**254,853**	**254,853**
Other comprehensive income/(loss) for the financial year:							
Financial investments AFS:							
– Unrealised net loss on revaluation		**–**	**–**	**(7,054)**	**–**	**–**	**(7,054)**
– Net transfer to income statement on disposal or impairment		**–**	**–**	**(6,716)**	**–**	**–**	**(6,716)**
Income tax relating to components of other comprehensive loss	32	**–**	**–**	**2,927**	**–**	**–**	**2,927**
Other comprehensive loss for the financial year		**–**	**–**	**(10,843)**	**–**	**–**	**(10,843)**
Total comprehensive income/(loss) for the financial year		**–**	**–**	**(10,843)**	**–**	**254,853**	**244,010**
Transfer to statutory reserve		**–**	**127,427**	**–**	**–**	**(127,427)**	**–**
Transfer to regulatory reserve		**–**	**–**	**–**	**160,361**	**(160,361)**	**–**
Balance as at 31 December 2015		**1,173,424**	**681,192**	**(39,195)**	**160,361**	**520,625**	**2,496,407**
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) for the financial year:							
Financial investments AFS:							
– Unrealised net gain 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 income	32	–	–	(317)	–	–	(317)
Other comprehensive income for the financial year		–	–	950	–	–	950
Total comprehensive income for the financial year		–	–	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 CASH FLOWS

for the financial year ended 31 December 2015

	31.12.2015 RM'000	31.12.2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**348,725**	303,650
Adjustments for:		
Depreciation of property, plant and equipment:	**3,201**	3,969
Amortisation of computer software license	**1,884**	4,248
Income from:		
– Investment on financial assets HFT	**(4,397)**	(7,545)
– Investment on financial investments AFS	**(118,365)**	(92,803)
– Investment on financial investments HTM	**(87,950)**	(101,122)
Net gain on disposal of financial investments AFS	**(6,715)**	(2,346)
Net loss/(gain) on disposal of financial assets HFT	**3,334**	(6,239)
Net gain on redemption of financial assets HTM	**(498)**	(862)
Unrealised loss from revaluation of derivatives	**921**	4,372
Unrealised (gain)/loss from financial assets HFT	**(1,481)**	2,941
Allowance for impairment on financing and advances	**72,279**	65,112
Property, plant and equipment written off	**8**	–
Impairment losses on intangible assets	**–**	1,199
Operating profit before working capital changes	**210,946**	174,574
(Increase)/Decrease in operating assets:		
Deposits and placements with banks and other financial institutions	**275,074**	(188,821)
Financing and advances	**(5,697,263)**	(6,893,763)
Financial assets HFT	**334,184**	452,514
Other assets	**(51,089)**	(34,064)
Statutory deposits with BNM	**(104,800)**	(273,700)
	(5,243,894)	(6,937,834)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	**3,557,075**	3,336,854
Deposits and placements of banks and other financial institutions	**(2,089,019)**	2,971,957
Investment account due to designated financial institutions	**6,350,654**	–
Bills and acceptances payable	**(3,287)**	(6,256)
Amount due to holding company	**(54,506)**	(5,946)
Other liabilities	**14,507**	92,907
Recourse obligation on financing sold to Cagamas	**(164,917)**	(160,655)
Subordinated obligations	**68**	3,051
	7,610,575	6,231,912
Cash generated from/(used in) operations	**2,577,627**	(531,348)
Net tax and zakat paid	**(82,448)**	(80,833)
Net cash generated from/(used in) operating activities	**2,495,179**	(612,181)

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

STATEMENT OF CHANGES IN EQUITY (continued)

for the financial year ended 31 December 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial investments AFS and HTM			
– Purchases		**(4,230,842)**	(2,436,662)
– Proceeds from disposal		**3,661,391**	3,065,945
Property, plant and equipment			
– Purchases		**(1,567)**	(2,376)
– Proceeds from disposal		**1**	–
Purchase of intangible assets		**(463)**	(1,414)
Financial assets HFT and financial investments AFS and HTM:			
– Profit income received		**113,847**	95,980
– Investment income received		**85,831**	84,689
Net cash (used in)/generated from investing activities		**(371,802)**	806,162
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of subordinated notes		**–**	500,000
Net cash generated from financing activities		**–**	500,000
Net increase in cash and cash equivalents		**2,123,377**	693,981
Cash and cash equivalents at beginning of the financial year		**4,025,661**	3,331,680
Cash and cash equivalents at end of financial year	2	**6,149,038**	4,025,661

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 2015

(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

(I) STATEMENT OF COMPLIANCE

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.

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

The financial statements also incorporate those activities relating to Islamic banking which have been undertaken by the Bank. Islamic banking refers generally to the acceptance of deposits, granting of financing and dealing in Islamic securities 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.

(II) ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs AND INTERPRETATION

(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, amendments and improvements to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2015 are as follows:

- Annual Improvement to MFRSs 2010-2012 Cycle
- Annual Improvement to MFRSs 2011-2013 Cycle

The adoption of these amendments do not give rise to any material financial impact to the Bank.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(II) ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs AND INTERPRETATION (CONTINUED)

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

- Amendment to MFRS 11 'Joint arrangements' (effective from 1 January 2016) requires an investor to apply the principles of MFRS 3 'Business Combination' when it acquires an interest in a joint operation that constitutes a business. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

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

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

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

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

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

The Bank is in the process of reviewing the requirements of MFRS 9 and MFRS 15, 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 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS

(a) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing, advances and receivables, financial investments AFS and HTM. The classification depends on the purpose for which the financial assets were acquired. 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 losss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also classified in this category unless they are designated as hedges. Refer to accounting policy Note 4.

(ii) 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.

(iii) Financial investments AFS

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

(iv) Financial investments HTM

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

(b) Recognition and initial measurement

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) FINANCIAL ASSETS (CONTINUED)

(c) Subsequent measurement – gains and losses

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

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

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

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

(d) De-recognition

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

Financing, advances and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not 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 AFS are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to income statement.

(e) Offsetting financial instruments

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) REPURCHASE AGREEMENTS

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

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

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

(4) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to carrying amount of a hedged item for which the effective profit method is used is amortised to the income statement over the period to maturity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(b) Cash flow hedge

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

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects income statement (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 income statement. 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 income statement.

(c) Derivatives that do not qualify for hedge accounting

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

(5) INTANGIBLE ASSETS – COMPUTER SOFTWARE LICENSES

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

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 19 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 income statement when the asset is de-recognised.

(6) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are recognised as expense in income statement during the financial year in which they are incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

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

Renovations	10%
Office equipment and furniture	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 require 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 income statement.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 19 on impairment of non-financial assets.

(7) FINANCIAL LIABILITIES

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

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

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

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

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are 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 (continued)

for the financial year ended 31 December 2015

(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 income statement over the period of the borrowings using the effective profit method.

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

Borrowings measured at amortised cost are subordinated obligations.

(8) INVESTMENT ACCOUNT ('IA')

On 14 March 2014, BNM issued a policy document on IA where it requires Islamic Financial Instituition ('IFI') to distinguish IA from Islamic deposit. IA is defined by the application of Shariah contracts as investment with non-principal guarantee feature. Under the Islamic Financial Services Act 2013, the priority payment for IA upon liquidation of IFI is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the investment account holders.

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

(9) RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

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

(10) 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 income statement on a straight-line basis over the period of the lease.

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) PROVISIONS

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

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

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

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

(12) FINANCIAL GUARANTEE CONTRACTS

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

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

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

(13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

Subsequent to the initial recognition, the Bank measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provision of MFRS 137 'Provision. Contingent Liabilities and Contingent Assets' and the amount initially recognised as profit or loss, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 'Revenue'.

(14) SHARE CAPITAL

(a) Classification

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

(b) Share issue cost

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

(c) Dividend distribution

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

(15) CASH AND CASH EQUIVALENTS

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

(16) REVENUE RECOGNITION

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) REVENUE RECOGNITION (CONTINUED)

(a) Ijarah

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

Murabahah

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

Musyarakah

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

Bai'Inah

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

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

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

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

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

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

(g) Income from bancatakaful agreement is amortised on a straight line basis throughout the exclusive service agreement period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in profit or principal payments;
- The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties;
- 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 is reduced and the amount of the loss is recognised in income statement. If 'financing, advances and receivables' or a 'HTM 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 income statement.

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 (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) 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 grouped 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.

(iii) Regulatory reserve

The Bank has early adopted the requirement to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, net of individual impairment allowances. The regulatory reserve is debited againts retained earnings.

BNM, had on 6 April 2015, issued the Revised Policy on Classification and Impairment Provision for Financing. The requirements to the Revised Policy are effective for financial years beginning on or after 1 January 2015, except for the following:

- Classification of a financing as impaired when the financing is classified as rescheduled and restructured ('R&R') in BNM's Central Credit Reference Information System ('CCRIS') effective on or after 1 April 2015. The R&R financing shall only be reclassified from impaired to non-impaired when repayments based on revised and restructured terms have been observed continuously for a period of at least six (6) months; and
- Banking institutions are required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, net of individual impairment allowances, effective beginning 31 December 2015.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(b) Assets classified as AFS

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 income statement, the impairment loss is reversed through income statement.

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

(18) EMPLOYEE BENEFITS

(a) Short-term employee benefits

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

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

(b) Defined contribution plans

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

(c) Termination benefits

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

(19) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows or cash generating unit. 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 income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

(20) CURRENT AND DEFERRED INCOME TAXES

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

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

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

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

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

(21) CURRENCY CONVERSION AND TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

for the financial year ended 31 December 2015

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(21) CURRENCY CONVERSION AND TRANSLATION (CONTINUED)

(b) Transactions and balances (continued)

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 income statement, 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 income statement 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.

(22) SEGMENT REPORTING

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

(23) ZAKAT

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

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Allowance for impairment of financial assets

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

The Bank makes allowance for losses based on assessment of recoverability. Management's judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash 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 2015

1 GENERAL INFORMATION

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

2 CASH AND SHORT-TERM FUNDS

	31.12.2015 RM'000	31.12.2014 RM'000
Cash and balances with banks and other financial institutions	**525,119**	321,213
Money at call and deposit placements maturing within one month	**5,623,919**	3,704,448
	6,149,038	4,025,661

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2015 RM'000	31.12.2014 RM'000
Licensed Islamic banks	**100,011**	340,892
Other financial institutions	**518,061**	552,254
	618,072	893,146

4 FINANCIAL ASSETS HELD-FOR-TRADING ('HFT')

	31.12.2015 RM'000	31.12.2014 RM'000
At fair value		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Investment Issues	**20,248**	351,888

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

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

	31.12.2015 RM'000	31.12.2014 RM'000
At fair value		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Investment Issues	**705,803**	584,009
Wakala Global Sukuk	**14,175**	11,853
Khazanah bonds	**8,664**	8,285
Cagamas bonds	**60,064**	59,914
UNQUOTED SECURITIES:		
In Malaysia		
Islamic private debt securities	**2,072,777**	1,524,257
Perpetual sukuk	**200,587**	200,554
	3,062,070	2,388,872
At cost		
UNQUOTED SECURITIES:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	**575**	575
	3,062,645	2,389,447

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

	31.12.2015 RM'000	31.12.2014 RM'000
At amortised cost		
MONEY MARKET INSTRUMENTS:		
Malaysian Government Investment Issues	**540,428**	625,481
Sukuk Perumahan Kerajaan	**9,957**	9,944
Khazanah bonds	**29,645**	28,447
Cagamas bonds	**60,619**	198,376
Negotiable Islamic debt certificates	**99,785**	–
UNQUOTED SECURITIES:		
In Malaysia		
Islamic private debt securities	**1,121,259**	1,103,114
	1,861,693	1,965,362

Included in financial investments HTM are Restricted Investment account ('RIA'), as part of arrangement between the Bank and RHB Bank. As at 31 December 2015, the gross exposure to RIA financing is RM21.0 million (31 December 2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 FINANCING AND ADVANCES

	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
31.12.2015							
At amortised cost							
Cashline	–	–	276,983	–	68	2,814	279,865
Term financing:							
– housing financing	579,713	–	–	7,024,400	–	1,612	7,605,725
– syndicated term financing	–	98,095	1,291,353	–	–	19,106	1,408,554
– hire purchase receivables	–	5,883,569	–	–	–	47,189	5,930,758
– other term financing	10,511	508,967	9,944,145	–	3,313,854	38,919	13,816,396
Bills receivables	–	–	437,917	–	–	4,471	442,388
Trust receipts	–	–	16,959	–	–	655	17,614
Staff financing	4,465	–	–	–	–	–	4,465
Credit/charge card receivables	–	–	–	–	–	251,270	251,270
Revolving financing	–	–	1,367,287	–	–	–	1,367,287
Gross financing and advances	594,689	6,490,631	13,334,644	7,024,400	3,313,922	366,036	31,124,322
Fair value changes arising from fair value hedge							(11,593)
							31,112,729
Allowance for impaired financing and advances:							
– individual impairment allowance							(22,649)
– collective impairment allowance							(199,653)
Net financing and advances							30,890,427

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 FINANCING AND ADVANCES (CONTINUED)

	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
31.12.2014							
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	–	–	449	20,860
Staff financing	5,279	–	–	–	–	–	5,279
Credit/charge card receivables	–	–	–	–	–	223,915	223,915
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 (continued)
for the financial year ended 31 December 2015

7 FINANCING AND ADVANCES (CONTINUED)

(a) Beginning 1 July 2015, the Bank has reclassify the Restricted Profit Sharing Investment Account ('RPSIA') with RHB Bank from Deposits and placements with banks and other financial instituitions into Investment Account due to designated Financial Instituitional classification. This is in compliance with BNM's policy on Investment Account issued on 14 March 2014.

Included in financing and advances are exposures to RIA as part of arrangement between RHB Islamic and its immediate holding company, RHB Bank.

As at 31 December 2015, the gross exposures to RIA financing are RM6,057 million (2014: RM4,750 million-RPSIA) and the portfolio allowance for impairment losses for financing and advances relating to RIA amounting to RM41.9 million (2014: RM36.6 million) is recognised in the financial statements of RHB Bank. There was no individual impairment being made for such RIA financing.

(b) Included in term financing are hire purchase receivables sold to Cagamas amounting to RM976 million (2014: RM1,141 million).

	31.12.2015 RM'000	31.12.2014 RM'000
(i) By remaining maturities		
Maturing within one year	**3,026,772**	3,246,425
One to three years	**2,594,196**	1,736,497
Three to five years	**5,900,673**	3,190,928
Over five years	**19,602,681**	17,329,381
	31,124,322	25,503,231
(ii) By type of customer		
Domestic non-bank financial institutions:		
– Others	**1,250,142**	1,018,648
Domestic business enterprises:		
– Small medium enterprises	**2,365,515**	1,198,829
– Others	**8,566,221**	6,373,182
Government and statutory bodies	**3,355,987**	3,316,207
Individuals	**15,304,462**	13,335,086
Other domestic entities	**106,447**	111,414
Foreign entities	**175,548**	149,865
	31,124,322	25,503,231

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 FINANCING AND ADVANCES (CONTINUED)

	31.12.2015 RM'000	31.12.2014 RM'000
(iii) By profit rate sensitivity		
Fixed rate:		
– Housing financing	**580,869**	670,868
– Hire purchase receivables	**5,930,758**	5,883,027
– Other fixed rate financing	**8,015,107**	7,345,106
Variable rate:		
– BFR plus	**16,137,587**	11,113,775
– Cost-plus	**460,001**	490,455
	31,124,322	25,503,231
(iv) By purpose		
Purchase of transport vehicles	**5,904,916**	5,854,963
Purchase of landed property:		
– Residential	**7,320,047**	5,989,031
– Non-residential	**1,993,971**	1,233,755
Purchase of property, plant and equipment other than land and building	**752,254**	683,524
Personal use	**1,899,384**	1,378,997
Credit card	**251,270**	223,915
Purchase of consumer durables	**2**	6
Construction	**168,231**	27,415
Working capital	**6,948,924**	5,758,155
Merger and acquisition	**1,184,073**	–
Other purposes	**4,701,250**	4,353,470
	31,124,322	25,503,231

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 FINANCING AND ADVANCES (CONTINUED)

	31.12.2015 RM'000	31.12.2014 RM'000
(v) By geographical distribution		
Malaysia	**31,124,322**	25,503,231
(vi) Impaired financing and advances		
(i) Movement in impaired financing and advances		
Balance as at the beginning of the financial year	**330,701**	431,267
Classified as impaired during the financial year	**627,425**	480,870
Reclassified as non-impaired	**(411,779)**	(360,795)
Amount recovered	**(121,031)**	(111,964)
Amount written off	**(62,580)**	(109,706)
Exchange differences	**–**	1,029
Balance as at the end of the financial year	**362,736**	330,701
Gross impaired financing and advances ratio	**1.17%**	1.30%
(ii) By purpose		
Purchase of transport vehicles	**52,176**	60,397
Purchase of landed property:		
– Residential	**132,862**	131,979
– Non-residential	**28,845**	17,573
Purchase of property, plant and equipment other than land and building	**7,823**	9,124
Personal use	**2,800**	3,275
Credit card	**5,763**	5,208
Working capital	**110,167**	76,539
Other purposes	**22,300**	26,606
	362,736	330,701
(iii) By geographical distribution		
Malaysia	**362,736**	330,701

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 FINANCING AND ADVANCES (CONTINUED)

	31.12.2015 RM'000	31.12.2014 RM'000
(vii) Movement in allowance for impaired financing and advances		
Individual impairment allowance		
Balance as at the beginning of the financial year	**25,289**	111,703
Net allowance writen back	**(2,640)**	(21,538)
Amount written off	**–**	(63,135)
Transfer to collective impairment allowance	**–**	(1,741)
Balance as at end of the financial year	**22,649**	25,289
Collective impairment allowance		
Balance as at the beginning of the financial year	**187,307**	145,769
Net allowance made	**65,749**	69,650
Amount written off	**(53,403)**	(29,853)
Transfer from individual impairment allowance	**–**	1,741
Balance as at the end of the financial year	**199,653**	187,307
Collective impairment allowance inclusive of regulatory reserve as % of gross financing and advances (excluding RIA financing) less individual impairment allowance	**0.80%**	0.90%

8 OTHER ASSETS

	31.12.2015 RM'000	31.12.2014 RM'000
Prepayments	**10,777**	3,349
Deposits	**1,297**	1,221
Amount due from other related companies	**1,739**	21
Other debtors	**119,471**	77,604
	133,284	82,195

The amount due from other related companies are unsecured, profit free and receivable within the normal credit period.

9 DERIVATIVE ASSETS/(LIABILITIES)

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

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

	31.12.2015 RM'000	31.12.2014 RM'000
Derivative assets:		
– Trading derivatives	**139,196**	34,363
– Fair value hedging derivatives	**7,726**	13,627
	146,922	47,990
Derivative liabilities:		
– Trading derivatives	**(125,252)**	(24,901)
– Fair value hedging derivatives	**(3,854)**	–
	(129,106)	(24,901)
	17,816	23,089

	Contract or underlying principal amount RM'000	Financial year-end positive fair value RM'000	Financial year-end negative fair value RM'000
31.12.2015			
Trading derivatives:			
Foreign exchange related contracts:			
– forwards	**3,495,206**	**134,137**	**124,215**
Profit rate related contracts:			
– swaps	**1,650,000**	**5,059**	**1,037**
Fair value hedging derivatives:			
Profit rate related contracts:			
– swaps	**2,125,000**	**7,726**	**3,854**
		146,922	**129,106**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

9. DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Contract or underlying principal amount RM'000	Financial year-end positive fair value RM'000	Financial year-end negative fair 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

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 24) is the net gains and losses arising from fair value hedges during the financial year as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
(Loss)/Gain on hedging instruments	**(8,458)**	1,924
Gain on hedged items attributable to the hedged risk	**8,263**	244
	(195)	2,168

10 STATUTORY DEPOSITS WITH BNM

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

11 DEFERRED TAX ASSETS

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

	31.12.2015 RM'000	31.12.2014 RM'000
Deferred tax assets	**11,964**	9,942
Deferred tax assets:		
– settled more than twelve months	**13,099**	9,884
– settled within twelve months	**3,741**	5,613
Deferred tax liabilities:		
– settled within twelve months	**(4,876)**	(5,555)
	11,964	9,942

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

	Intangible assets-computer software license RM'000	Property, plant and equipment RM'000	Financial investments AFS RM'000	Others liabilities RM'000	Total RM'000
31.12.2015					
Balance as at the beginning of the financial year	**(5,555)**	**543**	**9,448**	**5,506**	**9,942**
Transfer from/(to) income statement	**678**	**361**	**–**	**(1,944)**	**(905)**
Transfer from equity	**–**	**–**	**2,927**	**–**	**2,927**
Balance as at the end of the financial year	**(4,877)**	**904**	**12,375**	**3,562**	**11,964**
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

12 PROPERTY, PLANT AND EQUIPMENT

	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
31.12.2015					
Cost					
Balance as at the beginning of the financial year	**18,970**	**8,243**	**12,410**	**2,446**	**42,069**
Additions	**999**	**108**	**460**	**–**	**1,567**
Disposal	**(2,000)**	**–**	**(8)**	**(812)**	**(2,820)**
Written off	**–**	**(9)**	**(123)**	**–**	**(132)**
Reclassification from intangible assets	**(886)**	**574**	**–**	**–**	**(312)**
Balance as at the end of the financial year	**17,083**	**8,916**	**12,739**	**1,634**	**40,372**
Less: Accumulated depreciation					
Balance as at the beginning of the financial year	**9,293**	**7,053**	**11,463**	**1,921**	**29,730**
Charge for the financial year	**1,061**	**779**	**1,182**	**179**	**3,201**
Disposal	**–**	**–**	**(7)**	**(812)**	**(819)**
Written off	**–**	**(9)**	**(115)**	**–**	**(124)**
Balance as at the end of the financial year	**10,354**	**7,823**	**12,523**	**1,288**	**31,988**
Net book value as at the end of the financial year	**6,729**	**1,093**	**216**	**346**	**8,384**
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)
Reclassifications 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
Less: 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 (continued)

for the financial year ended 31 December 2015

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	31.12.2015 RM'000	31.12.2014 RM'000
Cost		
Renovations	**316**	286

13 INTANGIBLE ASSETS

Computer software license

	31.12.2015 RM'000	31.12.2014 RM'000
Cost		
Balance as at the beginning of the financial year	**13,407**	12,002
Additions	**463**	1,414
Reclassification from/(to) property, plant and equipment	**312**	(9)
Balance as at the end of the financial year	**14,182**	13,407
Less: Accumulated amortisation		
Balance as at the beginning of the financial year	**5,535**	1,287
Charge for the financial year	**1,884**	4,248
Balance as at the end of the financial year	**7,419**	5,535
Less: Accumulated impairment loss		
Balance as at the beginning of the financial year	**1,199**	–
Charge for the financial year	**–**	1,199
Balance as at the end of the financial year	**1,199**	1,199
Net book value as at the end of the financial year	**5,564**	6,673

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

14. DEPOSITS FROM CUSTOMERS

	31.12.2015 RM'000	31.12.2014 RM'000
Savings Deposits		
– Wadiah	**1,129,320**	1,054,313
Demand Deposits		
– Wadiah	**3,403,515**	2,813,680
Term Deposits		
– Commodity Murabahah	**10,828,229**	5,421,399
– Wadiah Corporate Deposits	**1,249,671**	11,573,684
Specific Investment Account		
– Murabahah	**11,136,182**	3,149,148
– Mudharabah	**–**	51,577
General Investment Account		
– Mudharabah	**181,112**	307,153
	27,928,029	24,370,954

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

	31.12.2015 RM'000	31.12.2014 RM'000
Due within six months	**20,371,201**	17,767,829
Six months to one year	**2,990,789**	2,418,870
One year to three years	**32,336**	315,505
Three years to five years	**868**	757
	23,395,194	20,502,961

(b) By type of customer

	31.12.2015 RM'000	31.12.2014 RM'000
Government and statutory bodies	**4,540,209**	3,647,864
Business enterprises	**18,539,375**	16,929,349
Individuals	**4,297,238**	3,092,089
Others	**551,207**	701,652
	27,928,029	24,370,954

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2015 RM'000	31.12.2014 RM'000
Non-Mudharabah funds:		
– Licensed Islamic banks	**1,853,985**	221,130
– Licensed banks	**2,749,230**	720,751
– Licensed investments banks	**248,847**	744,472
– BNM	**1,150**	775
	4,853,212	1,687,128
Mudharabah funds:		
– Licensed banks	**–**	4,957,940
– Other financial institutions	**457,360**	754,523
	5,310,572	7,399,591

16 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Mudharabah Restricted Investment Account RM'000
As at 1 January 2015	**–**
Funding inflows/(outflows):	
Reclassification from deposits and placements with banks and other financial institutions	**4,823,890**
New placement during the year	**1,270,000**
Redemption during the year	**(9,382)**
Total principal	**6,084,508**
Profit expense payable to investment account holders:	
Reclassification from deposits and placements with banks and other financial institutions	**221,696**
Profit distributed to investment account holders	**114,460**
Profit expense paid to investment account holders during the financial year	**(70,010)**
	266,146
As at 31 December 2015	**6,350,654**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

16 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS (CONTINUED)

	Mudharabah Restricted Investment Account RM'000
Investment asset (principal):	
Housing financing	**397,110**
Hire purchase receivables	**700,000**
Other term financing	**4,959,508**
Marketable securities and short-term funds	**27,890**
Total investment	**6,084,508**
By type of counterparty	
– Licensed banks	**6,350,654**

	Average profit sharing ratio %	Average rate of return %
Restricted investment account:		
– between 1 to 2 years	**86**	4.07
– between 2 to 5 years	**74**	4.17

Beginning 1 July 2015, the Bank has reclassified the Restricted Profit Sharing Investment Account ('RPSIA') with RHB Bank from deposits and placements with banks and other financial institutions into Investment account due to designated financial institutions classification. This is in compliance with BNM's policy on Investment Account issued on 14 March 2014.

17 RECOURSE OBLIGATION 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.

18 SUBORDINATED OBLIGATIONS

	31.12.2015 RM'000	31.12.2014 RM'000
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	**503,119**	503,051

On 15 May 2014, the Bank issued RM500 million nominal value of Subordinated Sukuk Murabahah, being part of RM1.0 billion Subordinated Sukuk Murabahah Programme.

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

19 OTHER LIABILITIES

	31.12.2015 RM'000	31.12.2014 RM'000
Sundry creditors	**9,919**	17,585
Amount due to ultimate holding company	**–**	126
Amount due to immediate holding company	**144,591**	198,971
Amount due to other related companies	**2,231**	412
Deferred income	**56,211**	–
Short term employee benefits	**8,206**	10,850
Accrual for operational expenses	**9,546**	14,460
Interbranch clearing account	**97,591**	133,283
Other accruals and payables	**21,318**	20,278
	349,613	395,965

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

20 SHARE CAPITAL

	31.12.2015 RM'000	31.12.2014 RM'000
Ordinary shares of RM1.00 each:		
Authorised:		
Balances as at the beginning/end of financial year	**3,000,000**	3,000,000
Issued and fully paid:		
Balances as at the beginning/end of financial year	**1,173,424**	1,173,424

21 RESERVES

	Note	31.12.2015 RM'000	31.12.2014 RM'000
Statutory reserve	(a)	**681,192**	553,765
AFS reserve	(b)	**(39,195)**	(28,352)
Regulatory reserve	(c)	**160,361**	–
Retained profits	(d)	**520,625**	553,560
		1,322,983	1,078,973

(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 reserve arises from a change in the fair value of securities classified as AFS 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 AFS securities at the end of the financial year is RM37,796,000 (2014: RM27,163,000).

(c) Regulatory reserve represents the Bank's adoption of BNM's Policy on Classification and Impairment Provisions for Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding financing, net of individual impairment allowances.

(d) Pursuant to the Finance Act, 2007 which was gazetted on 28 November 2007, dividends paid, credited or distributed to shareholders are not tax deductible by the Bank, but are exempted from tax to the shareholders ('single-tier system'). As at 31 December 2015, the Bank's retained profits are distributable profits and may be distributed as dividends under the single tier system.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax exempt income of RM10,399,000, under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its retained profits as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

22 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	31.12.2015 RM'000	31.12.2014 RM'000
Income derived from investment of:		
(i) General investment deposits	**11,295**	33,365
(ii) Other deposits	**1,570,071**	1,292,060
	1,581,366	1,325,425

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

	31.12.2015 RM'000	31.12.2014 RM'000
Finance income and hibah:		
Financing and advances	**8,766**	25,681
Financial assets HFT	**30**	182
Financial investments AFS	**815**	2,238
Financial investments HTM	**602**	2,439
Money at call and deposits with banks and other financial institutions	**1,004**	2,525
Total finance income and hibah	**11,217**	33,065
Other operating income (Note a)	**78**	300
	11,295	33,365
Of which:		
Financing income earned on impaired financing	**57**	337

(a) Other operating income comprise of:

Commission	**27**	97
Guarantee fees	**15**	46
Net (loss)/gain on revaluation and disposal of financial assets HFT	**(13)**	79
Net gain on disposal of financial investments AFS	**46**	57
Net gain on early redemption of financial investments HTM	**3**	21
	78	300

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

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

(ii) Income derived from investment of other deposits:

	31.12.2015 RM'000	31.12.2014 RM'000
Finance income and hibah:		
Financing and advances	**1,218,361**	994,521
Financial assets HFT	**4,210**	7,047
Financial investments AFS	**113,320**	86,677
Financial investments HTM	**83,640**	94,446
Money at call and deposits with banks and other financial institutions	**139,598**	97,784
Total finance income and hibah	**1,559,129**	1,280,475
Other operating income (Note a)	**10,942**	11,585
	1,570,071	1,292,060
Of which:		
Financing income earned on impaired financing	**7,911**	13,071
(a) Other operating income comprise of:		
Commission	**3,692**	3,738
Guarantee fees	**2,118**	1,770
Net (loss)/gain on revaluation and disposal of financial assets HFT	**(1,774)**	3,081
Net gain on disposal of financial investments AFS	**6,429**	2,191
Net gain on early redemption of financial investments HTM	**477**	805
	10,942	11,585

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

23 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	31.12.2015 RM'000	31.12.2014 RM'000
Finance income and hibah:		
Financing and advances	**135,128**	–
Financial investments HTM	**586**	–
Money at call and deposits with banks and other financial institutions	**3,514**	–
Total finance income and hibah	**139,228**	–

24 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	31.12.2015 RM'000	31.12.2014 RM'000
Finance income and hibah:		
Financing and advances	**45,479**	44,616
Financial assets HFT	**157**	316
Financial investments AFS	**4,230**	3,888
Financial investments HTM	**3,122**	4,237
Money at call and deposits with banks and other financial institutions	**5,211**	4,387
Total finance income and hibah	**58,199**	57,444
Other operating income (Note a)	**80,888**	72,328
	139,087	129,772
Of which:		
Financing income earned on impaired financing	**295**	586
(a) Other operating income comprise of:		
Commission	**8,426**	9,081
Service charges and fees	**54,339**	51,960
Guarantee fees and underwriting fees	**79**	79
Foreign exchange profit	**18,759**	11,114
Net (loss)/gain on revaluation and disposal of financial assets HFT	**(66)**	138
Net gain on disposal of financial investments AFS	**240**	98
Net gain on early redemption of financial investments HTM	**18**	36
Net (loss)/gain on fair value hedges	**(195)**	2,168
Net loss on revaluation of derivatives	**(921)**	(4,372)
Other income	**209**	2,026
	80,888	72,328

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

25 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	31.12.2015 RM'000	31.12.2014 RM'000
Allowances for impairment on financing and advances:		
– Individual impairment written back	**(2,640)**	(21,538)
– Collective impairment allowance	**65,749**	69,650
– Impaired financing recovered	**(16,106)**	(42,799)
– Impaired financing written off	**9,170**	17,000
	56,173	22,313

26 INCOME ATTRIBUTABLE TO DEPOSITORS

	31.12.2015 RM'000	31.12.2014 RM'000
Deposits from customers:		
– Mudharabah funds	**7,009**	177,147
– Non-Mudharabah funds	**816,741**	441,936
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	**109,992**	163,335
– Non-Mudharabah funds	**101,361**	41,572
Subordinated obligations	**24,750**	15,664
Recourse obligations on financing sold to Cagamas	**52,424**	61,683
	1,112,277	901,337

27 PERSONNEL EXPENSES

	31.12.2015 RM'000	31.12.2014 RM'000
Salaries, allowances and bonuses	**30,956**	44,571
Contributions to Employees' Provident Fund	**5,061**	5,570
Other staff related costs	**8,128**	4,812
	44,145	54,953

Included in the personnel expenses is the Managing Director's remuneration (excluding benefits-in-kind) totalling RM1,755,000 (2014: RM1,913,000), as disclosed in Note 29.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

28 OTHER OVERHEADS AND EXPENDITURES

	31.12.2015 RM'000	31.12.2014 RM'000
Establishment costs		
Property, plant and equipment:		
– Depreciation	**3,201**	3,969
– Written off	**8**	–
Amortisation of computer software license	**1,884**	4,248
Information technology expenses	**2,506**	2,898
Repair and maintenance	**800**	709
Rental of premises	**5,017**	5,347
Water and electricity	**893**	904
Rental of equipment	**31**	134
Printing and stationeries	**2,816**	3,438
Insurance	**4,334**	3,362
Others	**2,870**	3,119
	24,360	28,128
Marketing expenses		
Advertisement and publicity	**4,781**	5,479
Sales commission	**5,641**	7,266
Travelling expenses	**772**	1,294
Motor vehicle expenses	**179**	310
Others	**2,776**	4,626
	14,149	18,975
Administration and general expenses		
Auditors' remuneration:		
– statutory audit	**204**	164
– limited review	**55**	55
– other audit related	**100**	100
– non-audit	**16**	16
Communication expenses	**4,868**	3,647
Legal and professional fee	**2,517**	2,245
Management fee	**130,124**	112,075
Others	**7,508**	6,963
	145,392	125,265
	183,901	172,368

Included in the administration and general expenses of the Bank are other Director's remuneration (excluding benefits-in-kind) totaling RM1,100,000 (2014: RM1,280,000) as disclosed in Note 29.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

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

31.12.2015

	Salary and other remuneration RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Haji Ibrahim Hassan	975	8	780	1,763

	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Others remuneration RM'000	Total RM'000
Non-executive Directors				
Haji Md Ja'far Abdul Carrim (Chairman)	150	31	146	327
Datuk Haji Faisal Siraj	120	–	118	238
Charles Lew Foon Keong	120	–	41	161
Dato' Mohd Ali Mohd Tahir	120	–	116	236
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (Appointed on 6 October 2015)	29	–	10	39
Choong Tuck Oon (Resigned on 9 August 2015)	72	–	58	130
	611	31	489	1,131

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	88
Prof. Dr. Joni Tamkin Borhan	75
Assoc. Prof. Dr. Amir Shaharuddin	76
Wan Abdul Rahim Kamil Wan Mohamed Ali	81
Mohd Fadhly Md. Yusoff	81
Shabnam Mohamad Mokhtar (Appointed on 1 May 2015)	53
	454

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

31.12.2014

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

	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Others remuneration RM'000	Total RM'000
Non-executive Directors				
Haji Md Ja'far Abdul Carrim (Chairman)	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
Prof. Dr. Joni Tamkin Borhan	66
Assoc. Prof. Dr. Amir Shaharuddin	66
Wan Abdul Rahim Kamil Wan Mohamed Ali	86
Mohd Fadhly Md. Yusoff	86
	384

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

30 TAXATION

	31.12.2015 RM'000	31.12.2014 RM'000
Malaysian income tax:		
– Current tax	**87,405**	74,175
– Under provision in respect of prior years	**2,562**	1,273
Deferred tax (Note 11)	**905**	1,887
	90,872	77,335

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

	31.12.2015 %	31.12.2014 %
Tax at Malaysian statutory income tax rate	**25.0**	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.3**	0.2
Under provision in respect of prior years	**0.7**	0.4
Temporary differences not recognised in prior years	**0.1**	0.2
Non-taxable income	**–**	(0.3)
Effective tax rate	**26.1**	25.5

31 EARNINGS PER SHARE

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

	31.12.2015	31.12.2014
Net profit for the financial year (RM'000)	**254,853**	224,315
Weighted average number of ordinary shares in issue ('000)	**1,173,424**	1,173,424
Basic earnings per share (sen)	**21.72**	19.12

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

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

	31.12.2015			31.12.2014		
	Before tax RM'000	Tax effects RM'000	Net of tax RM'000	Before tax RM'000	Tax effects RM'000	Net of tax RM'000
Financial investments AFS:						
– Net fair value (loss)/gain and net amount transfer to income statement	**(13,770)**	**2,927**	**(10,843)**	1,267	(317)	950

33 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	Relationships
RHB Capital Berhad	Ultimate holding company
RHB Bank Berhad	Immediate holding company
Employees' Provident Fund ('EPF')	Ultimate holding company's substantial shareholder, a fund body that is significantly influenced by government
Subsidiaries, associates and joint ventures of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries of the ultimate holding company
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the immediate holding company
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Key management personnel	The key management personnel of the Bank consists of: – All Directors of the Bank and – Members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

33 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions

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

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

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

	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
31.12.2015					
Income					
Commission	–	–	–	–	141
Income derived from investment of depositors' funds	–	–	36,613	–	–
Income from financing and advances	–	5,336	–	–	–
Other income	–	–	18	–	588
	–	5,336	36,631	–	729
Expenditure					
Profit expense on deposits and placements	–	129,496	343	–	621
Profit expense on investment account	–	114,460	–	–	–
Other expenses	–	1,126	–	–	8,014
Reimbursement of operating expenses to holding company	–	130,124	–	–	–
	–	375,206	343	–	8,635
Amounts due from					
Financing and advances	–	–	1,175,596	–	–
Derivative assets	–	15,164	–	–	–
Other assets	–	–	–	–	1,739
	–	15,164	1,175,596	–	1,739
Amounts due to					
Derivative liabilities	–	127,557	–	–	–
Demand and investment deposits	–	97	109,386	146	3,141
Deposits and placements of banks and other financial institutions	–	2,560,263	–	–	16,225
Investment account due to designated financial institutions	–	6,350,654	–	–	–
Other liabilities	–	144,591	–	–	2,231
	–	9,183,162	109,386	146	21,597

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

33 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 depositors 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
Amounts 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
Amounts due to					
Derivative liabilities	–	24,855	–	–	–
Demand 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 (continued)

for the financial year ended 31 December 2015

33 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
Short-term employee benefits:		
– Fees	**611**	630
– Salary and other remuneration	**2,032**	2,333
– Defined contribution plan	**212**	230
– Benefits-in-kind (based on an estimated monetary value)	**39**	39
	2,894	3,232

The above remuneration includes Directors' remuneration as disclosed in Notes 29.

(d) Credit exposures arising from transactions with connected parties

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

	31.12.2015	31.12.2014
Outstanding credit exposure with connected parties (RM'000)	**2,150,499**	520,210
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	**6.27**	1.85
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	**–**	–

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

34 COMMITMENTS AND CONTINGENCIES

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

	31.12.2015 RM'000	31.12.2014 RM'000
Transaction-related contingent items #	**153,039**	188,764
Short-term self-liquidating trade related contingencies #	**82,857**	55,547
Obligations under underwriting agreements	**76,000**	–
Irrevocable commitments to extend credit:		
– maturity more than one year	**3,693,518**	3,545,835
Foreign exchange related contracts*:		
– less than one year	**2,975,712**	775,709
– one year to less than five years	**519,494**	88,270
Profit rate related contracts*:		
– less than one year	**850,000**	650,000
– one year to less than five years	**2,425,000**	2,235,000
– more than five years	**500,000**	90,000
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**2,335,561**	1,791,099
Total	**13,611,181**	9,420,224

Included in transaction-related contingent items and short-term self-liquidating trade-related contingencies are financial guarantee contracts of RM235,896,000 (2014: RM244,311,000).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

35 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:

	31.12.2015 RM'000	31.12.2014 RM'000
Within one year	**5,148**	784
Between one and five years	**7,388**	12,542
	12,536	13,326

36 CAPITAL COMMITMENTS

	31.12.2015 RM'000	31.12.2014 RM'000
Capital expenditure for property, plant and equipment:		
– Authorised but not contracted for	**1,370**	42,913
– Authorised and contracted for	**1,046**	–
	2,416	42,913

37 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

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

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

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

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

(1) Risk Governance from the Board of Directors of various operating entities within the Group

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

The Board Risk Committee (BRC) is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. An Islamic Risk Management Committee (IRMC) was 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 to the BRC/IRMC and the GMC. There are other committees set up to manage specific areas of risks in the Group.

(2) Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Strategic Business Units (SBUs) and Strategic Functional Units (SFUs) 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.

(3) Institutionalisation of a risk-focused organisation

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(5) Optimisation of risk-adjusted return

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

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

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 profit rates, credit spreads, equity prices, currency exchange rates and commodity prices.

(ii) Liquidity risk – the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

(iii) Credit risk – the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's financing, trade finance and its fundings, investment and trading activities from both on- and off-balance sheet transactions.

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

To mitigate the various business risks, 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 financial market activities as well as to identify potential risk areas early in order to mitigate against any adverse effects arising from market volatility.
- The Group Asset and Liability Committee (Group ALCO) performs a critical role in the oversight of the management of market risk and supports the IRMC and BRC in the overall market risk management.
- The Group Risk Management function forms a centralised function to support Senior Management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Market risk (continued)

- 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 Bank to ascertain market risk under abnormal market conditions.

Liquidity risk

- The Group ALCO plays a fundamental role in the asset and liability management of the Bank and establishes strategies to assist in controlling and reducing any potential exposures to liquidity risk.
- The liquidity risk management process involves establishing liquidity risk management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals arising from unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored.
- The Bank has established a Liquidity Incident Management Procedure to manage any potential adverse liquidity incidences, and which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

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 proposals are approved. All credit proposals are first evaluated by the originating business units before being evaluated prior to submission to the relevant committees for approval. 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. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Credit risk (continued)

- 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 operational risk tools used include Risk and Control Self-Assessment, Key Risk Indicators, Incident and Loss Management.
- The Bank's operational risk management system has integrated applications to support the 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.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

	Financing and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
31.12.2015					
Assets					
Cash and short-term funds	6,149,038	–	–	–	6,149,038
Deposits and placements with banks and other financial institutions	618,072	–	–	–	618,072
Financial assets HFT	–	20,248	–	–	20,248
Financial investments AFS	–	–	3,062,645	–	3,062,645
Financial investments HTM	–	–	–	1,861,693	1,861,693
Financing and advances	30,890,427	–	–	–	30,890,427
Derivative assets	–	146,922	–	–	146,922
Other financial assets	84,341	–	–	–	84,341
	37,741,878	167,170	3,062,645	1,861,693	42,833,386

	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Liabilities			
Deposits from customers	–	27,928,029	27,928,029
Deposits and placements of banks and other financial institutions	–	5,310,572	5,310,572
Investment account due to designated financial institutions	–	6,350,654	6,350,654
Bills and acceptances payable	–	5,549	5,549
Derivative liabilities	129,106	–	129,106
Recourse obligation on financing sold to Cagamas	–	982,760	982,760
Subordinated obligations	–	503,119	503,119
Other financial liabilities	–	281,141	281,141
	129,106	41,361,824	41,490,930

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

	Financing and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
31.12.2014					
Assets					
Cash and short-term funds	4,025,661	–	–	–	4,025,661
Deposits and placements with banks and other financial institutions	893,146	–	–	–	893,146
Financial assets HFT	–	351,888	–	–	351,888
Financial investments AFS	–	–	2,389,447	–	2,389,447
Financial investments HTM	–	–	–	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
	30,251,872	399,878	2,389,447	1,965,362	35,006,559

	Liabilities at fair value through the profit and loss RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Liabilities			
Deposits from customers	–	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 obligation on financing sold to Cagamas	–	1,147,677	1,147,677
Subordinated obligations	–	503,051	503,051
Other financial liabilities	–	259,101	259,101
	24,901	33,689,210	33,714,111

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest/profit rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank.

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

(i) Profit rate sensitivity analysis

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

	Impact on profit after tax RM'000	Impact on equity RM'000
31.12.2015		
+100 bps	**(19,815)**	**(93,263)**
-100 bps	**19,871**	**99,547**
31.12.2014		
+100 bps	(43,053)	(68,495)
-100 bps	44,329	72,999

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

(i) Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term profit rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps (2014: 100bps) profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the currency position, while other variables remain constant.

	Impact on profit after tax RM'000
31.12.2015	
+10%	**(2,293)**
–10%	**2,293**
31.12.2014	
+5%	(115)
–5%	115

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

Note: Based on the market volatility and the decline in MYR against USD by -22.8% in 2015, the foreign exchange sensitivity scenario has been revised to +/– 10% (2014: +/– 5%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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
31.12.2015									
ASSETS									
Cash and short-term funds	5,622,870	–	–	–	–	–	526,168	–	6,149,038
Deposits and placements with banks and other financial institutions	–	200,000	–	61,124	356,370	–	578	–	618,072
Financial assets HFT	–	–	–	–	–	–	–	20,248	20,248
Financial investments AFS	–	17,239	20,044	95,265	641,647	2,262,318	26,132	–	3,062,645
Financial investments HTM	119,785	70,010	–	166,397	573,272	915,960	16,269	–	1,861,693
Financing and advances:									
– performing	18,739,390	324,409	292,501	396,999	904,549	9,911,717	180,428	–	30,749,993
– impaired	–	–	–	–	–	–	140,434*	–	140,434
Other assets	–	–	–	–	–	–	133,284	–	133,284
Derivative assets	–	–	–	–	6,039	1,687	–	139,196	146,922
Statutory deposits with BNM	–	–	–	–	–	–	1,168,500	–	1,168,500
Deferred tax assets	–	–	–	–	–	–	11,964	–	11,964
Property, plant and equipment	–	–	–	–	–	–	8,384	–	8,384
Intangible assets	–	–	–	–	–	–	5,564	–	5,564
TOTAL ASSETS	24,482,045	611,658	312,545	719,785	2,481,877	13,091,682	2,217,705	159,444	44,076,741

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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
31.12.2015									
LIABILITIES									
Deposits from customers	14,428,677	5,371,817	2,727,301	2,978,547	33,302	836	2,387,549	–	27,928,029
Deposits and placements of banks and other financial institutions	1,235,024	2,540,000	497,138	61,124	356,370	594,358	26,558	–	5,310,572
Investment account due to designated financial institutions	4,956	–	5,132	10,795	893,625	5,170,000	266,146	–	6,350,654
Bills and acceptances payable	–	–	–	–	–	–	5,549	–	5,549
Derivative liabilities	–	–	–	–	3,854	–	–	125,252	129,106
Recourse obligation on financing sold to Cagamas	–	–	–	–	966,652	–	16,108	–	982,760
Subordinated obligations	–	–	–	–	–	500,000	3,119	–	503,119
Other liabilities	–	–	–	–	–	–	349,613	–	349,613
Provision for tax and zakat	–	–	–	–	–	–	20,932	–	20,932
TOTAL LIABILITIES	15,668,657	7,911,817	3,229,571	3,050,466	2,253,803	6,265,194	3,075,574	125,252	41,580,334
TOTAL EQUITY	–	–	–	–	–	–	2,496,407	–	2,496,407
TOTAL LIABILITIES AND EQUITY	15,668,657	7,911,817	3,229,571	3,050,466	2,253,803	6,265,194	5,571,981	125,252	44,076,741
On-balance sheet profit sensitivity gap	8,813,388	(7,300,159)	(2,917,026)	(2,330,681)	228,074	6,826,488			
Off-balance sheet profit sensitivity gap	1,985,000	1,640,000	–	(700,000)	(2,000,000)	(925,000)			
TOTAL PROFIT-SENSITIVITY GAP	10,798,388	(5,660,159)	(2,917,026)	(3,030,681)	(1,771,926)	5,901,488			

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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									
ASSETS									
Cash and short-term funds	3,699,000	–	–	–	–	–	326,661	–	4,025,661
Deposits and placements with banks and other financial institutions	–	359,721	30,000	85,040	417,494	–	891	–	893,146
Financial assets HFT	–	–	–	–	–	–	–	351,888	351,888
Financial investments AFS	–	10,021	20,026	117,161	595,817	1,628,877	17,545	–	2,389,447
Financial investments HTM	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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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
Provision for tax 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			

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

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

The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continues to report Net Stable Funding Ratio under the Basel III observation reporting to BNM.

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

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
31.12.2015								
ASSETS								
Cash and short-term funds	6,149,038	–	–	–	–	–	–	6,149,038
Deposits and placements with banks and other financial institutions	–	–	200,578	–	61,124	356,370	–	618,072
Financial assets HFT	–	387	–	–	–	19,861	–	20,248
Financial investments AFS	291	7,708	23,848	30,994	95,265	2,703,378	201,161	3,062,645
Financial investments HTM	21,735	100,349	78,789	5,782	166,397	1,488,641	–	1,861,693
Financing and advances	608,010	1,189,202	415,948	294,696	397,801	27,984,770	–	30,890,427
Other assets	102,553	4,400	–	–	–	–	26,331	133,284
Derivative assets	381	15,709	55,928	36,296	21,799	16,809	–	146,922
Statutory deposits with BNM	–	–	–	–	–	–	1,168,500	1,168,500
Deferred tax assets	–	–	–	–	–	–	11,964	11,964
Property, plant and equipment	–	–	–	–	–	–	8,384	8,384
Intangible assets	–	–	–	–	–	–	5,564	5,564
TOTAL ASSETS	6,882,008	1,317,755	775,091	367,768	742,386	32,569,829	1,421,904	44,076,741

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
31.12.2015								
LIABILITIES								
Deposits from customers	8,405,409	8,336,273	5,403,214	2,759,141	2,990,789	33,203	–	27,928,029
Deposits and placements of banks and other financial institutions	442,437	792,303	2,527,054	492,022	61,124	995,632	–	5,310,572
Investment account due to designated financial institutions	–	5,063	–	5,243	11,027	6,329,321	–	6,350,654
Bills and acceptances payable	5,549	–	–	–	–	–	–	5,549
Derivative liabilities	425	15,624	46,935	35,606	17,543	12,973	–	129,106
Recourse obligation on financing sold to Cagamas	–	–	–	–	–	982,760	–	982,760
Subordinated obligations	–	–	–	–	–	503,119	–	503,119
Other liabilities	213,994	9,110	11,381	–	46,199	457	68,472	349,613
Provision for tax and zakat	–	–	–	–	–	–	20,932	20,932
TOTAL LIABILITIES	9,067,814	9,158,373	7,988,584	3,292,012	3,126,682	8,857,465	89,404	41,580,334
TOTAL EQUITY	–	–	–	–	–	–	2,496,407	2,496,407
TOTAL LIABILITIES AND EQUITY	9,067,814	9,158,373	7,988,584	3,292,012	3,126,682	8,857,465	2,585,811	44,076,741

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
31.12.2014								
ASSETS								
Cash and short-term funds	2,323,620	1,702,041	–	–	–	–	–	4,025,661
Deposits and placements with banks and other financial institutions	–	–	360,606	30,007	85,040	417,493	–	893,146
Financial assets HFT	–	–	1,437	1,090	–	349,361	–	351,888
Financial investments AFS	807	4,073	15,729	26,136	117,161	2,024,412	201,129	2,389,447
Financial investments HTM	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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
31.12.2014								
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
Provision for tax 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments.

	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2015							
LIABILITIES							
Deposits from customers	16,755,568	8,262,124	3,094,388	36,279	990	–	28,149,349
Deposits and placements of banks and other financial institutions	1,232,019	3,009,069	69,743	420,331	724,959	–	5,456,121
Investment account due to designated financial institutions	5,069	5,305	11,330	1,015,045	2,721,519	4,248,156	8,006,424
Bills and acceptances payable	5,549	–	–	–	–	–	5,549
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	(267,670)	(562,612)	(552,158)	(82,373)	(172,071)	–	(1,636,884)
– Outflow	283,640	640,999	562,553	94,610	165,635	–	1,747,437
– Net settled derivatives	4,778	1,102	1,976	7,734	2,175	1,903	19,668
Recourse obligation on financing sold to Cagamas	23,309	79,355	103,696	828,214	–	–	1,034,574
Subordinated obligations	–	12,375	512,375	–	–	–	524,750
Other financial liabilities	223,105	11,381	46,199	456	–	–	281,141
TOTAL FINANCIAL LIABILITIES	18,265,367	11,459,098	3,850,102	2,320,296	3,443,207	4,250,059	43,588,129

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The following table presents the cash outflows for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The balances in the table below will not agree to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. (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
31.12.2014							
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 settled 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 derivatives	–	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 financial 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
31.12.2015			
Transaction-related contingent items	**153,039**	**–**	**153,039**
Short-term self-liquidating trade-related contingencies	**82,857**	**–**	**82,857**
Obligations under underwriting agreements	**76,000**	**–**	**76,000**
Irrevocable commitments to extend credit	**–**	**3,693,518**	**3,693,518**
Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	**2,335,561**	**–**	**2,335,561**
TOTAL COMMITMENTS AND CONTINGENCIES	**2,647,457**	**3,693,518**	**6,340,975**
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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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:

	31.12.2015 RM'000	31.12.2014 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**6,138,469**	4,014,324
Deposits and placements with banks and other financial institutions	**618,072**	893,146
Financial assets and investments portfolios (exclude shares and perpetual sukuk):		
– HFT	**20,248**	351,888
– AFS	**2,861,483**	2,188,318
– HTM	**1,861,693**	1,965,362
Financing and advances	**30,890,427**	25,265,443
Other financial assets	**84,341**	67,622
Derivative assets	**146,922**	47,990
	42,621,655	34,794,093
Credit risk exposure relating to off-balance sheet assets:		
Commitments and contingencies	**6,340,975**	5,581,245
Total maximum credit risk exposure	**48,962,630**	40,375,338

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

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

(a) Fixed deposits, Mudharabah General Investment Account, Commodity Murabahah Deposit-i, Negotiable Instruments of Deposits, Islamic Negotiable Instruments of Deposits, Foreign Currency Deposits and Cash deposits/margins;

(b) Land and/or buildings;

(c) Vessels and automobiles;

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

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

The Bank also accepts non-tangible securities 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 2015 is 55.6% (2014: 55.4%) The financial effect of collateral held for the other financial assets is insignificant.

(iii) Credit quality

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officer's judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
Good	Exposures exhibit strong capacity to meet financial commitments with no cause of concern to the Bank
Fair	Exposures exhibit fairly acceptable capacity to meet financial commitments and may require varying 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(a) Financing and advances

Financing and advances are summarised as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
Neither past due nor impaired	**29,959,285**	24,401,277
Past due but not impaired	**790,708**	746,061
Individually impaired	**362,736**	330,701
Gross financing and advances	**31,112,729**	25,478,039
Less: Individual impairment allowance	**(22,649)**	(25,289)
Collective impairment allowance	**(199,653)**	(187,307)
Net financing and advances	**30,890,427**	25,265,443

(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:

	31.12.2015 RM'000	31.12.2014 RM'000
Good	**14,864,185**	11,399,134
Fair	**318,569**	88,153
No Rating	**14,776,531**	12,913,990
	29,959,285	24,401,277

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(a) Financing and advances (continued)

(ii) Financing and advances past due but not impaired

Analysis of ageing of financing and advances that are past due but not impaired is as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
Past due up to 30 days	**45,825**	35,440
Past due 31 to 60 days	**577,960**	547,508
Past due 61 to 90 days	**166,923**	163,113
Past due but not impaired	**790,708**	746,061

(iii) Financing and advances that are individually determined to be impaired are as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
Individually impaired financing	**362,736**	330,701

(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, other assets and derivative assets are summarised as follows:

	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
31.12.2015						
Neither past due nor impaired	**6,756,541**	**20,248**	**2,861,483**	**1,861,693**	**84,341**	**146,922**
31.12.2014						
Neither past due nor impaired	4,907,470	351,888	2,188,318	1,965,362	67,622	47,990

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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, other assets and derivative assets that are neither past due nor impaired by rating agency designation as at are as follows:

	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
31.12.2015						
AAA to AA3	518,061	–	1,480,881	237,978	–	23,320
A1 to A3	–	–	14,175	–	–	11
P1 to P3	–	–	–	–	–	–
Non-rated of which:	6,238,480	20,248	1,366,427	1,623,715	84,341	123,591
– Malaysian Government Investment Issues	–	20,248	705,803	540,428	–	–
– BNM	5,623,918	–	–	–	–	–
– Private debt securities	–	–	651,960	324,790	–	–
– Khazanah bonds	–	–	8,664	29,645	–	–
– Negotiable Islamic debt certificates	–	–	–	99,785	–	–
– Others	614,562	–	–	629,067	84,341	123,591
	6,756,541	20,248	2,861,483	1,861,693	84,341	146,922

37 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, other assets and derivative assets that are neither past due nor impaired by rating agency designation as at are as follows (continued):

	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
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:	3,373,570	351,888	1,035,067	1,594,297	67,622	26,165
– Malaysian Government Investment Issues	–	351,888	584,009	625,481	–	–
– BNM	2,872,884	–	–	–	–	
– Private debt securities	–	–	442,773	350,541	–	–
– Khazanah bonds	–	–	8,285	28,447	–	–
– Others	500,686	–	–	589,828	67,622	26,165
	4,907,470	351,888	2,188,318	1,965,362	67,622	47,990

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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 HFT RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
31.12.2015								
Agriculture	–	–	196,799	–	164,737	–	457,073	818,609
Mining and quarrying	–	–	–	–	534,485	–	20,283	554,768
Manufacturing	–	–	–	–	662,106	–	393,260	1,055,366
Electricity, gas and water	–	–	259,479	142,843	153,842	–	6,321	562,485
Construction	–	–	44,557	199,576	918,032	–	907,122	2,069,287
Real estate	–	–	150,279	180,697	627,328	–	90,241	1,048,545
Purchase of landed property	–	–	–	–	7,572,847	–	1,674,416	9,247,263
General commerce	–	–	–	–	613,688	–	227,074	840,762
Transport, storage and communication	–	–	368,307	91,866	4,066,178	–	250,192	4,776,543
Finance, insurance and business services	479,036	–	564,389	128,059	3,968,677	–	781,408	5,921,569
Government and government agencies	6,277,505	20,248	832,537	794,138	3,304,719	146,922	–	11,376,069
Purchase of transport vehicles	–	–	–	–	–	–	528,789	528,789
Consumption credit	–	–	–	–	–	–	523,109	523,109
Others	–	–	445,136	324,514	8,503,441	84,341	481,687	9,839,119
	6,756,541	20,248	2,861,483	1,861,693	31,090,080	231,263	6,340,975	49,162,283

Excludes collective impairment allowance amounting to RM199,653,000.

@ Exclude equity instrument and perpetual sukuk amounting to RM201,162,000.

* Other financial assets include other financial assets amounting to RM84,341,000 and derivative assets amounting to RM146,922,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 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 HFT RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Financing and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
31.12.2014								
Agriculture	–	–	149,731	–	213,798	–	646,535	1,010,064
Mining and quarrying	–	–	–	–	7,259	–	–	7,259
Manufacturing	–	–	–	–	537,893	–	322,360	860,253
Electricity, gas and water	–	–	290,222	153,525	135,295	–	1,589	580,631
Construction	–	–	15,043	183,506	1,037,302	–	219,544	1,455,395
Real estate	–	–	145,462	180,570	245,419	–	1,752	573,203
Purchase of landed property	–	–	–	–	6,229,296	–	2,176,660	8,405,956
General commerce	–	–	–	–	537,738	–	288,412	826,150
Transport, storage and communication	–	–	277,811	102,229	3,124,932	–	265,939	3,770,911
Finance, insurance and business services	1,482,331	–	444,257	128,214	2,520,090	47,990	625,592	5,248,474
Government and government agencies	3,425,139	351,888	707,850	923,153	3,294,428	–	–	8,702,458
Purchase of transport vehicles	–	–	–	–	–	–	78,212	78,212
Consumption credit	–	–	–	–	–	–	457,479	457,479
Others	–	–	157,942	294,165	7,569,300	67,622	497,171	8,586,200
	4,907,470	351,888	2,188,318	1,965,362	25,452,750	115,612	5,581,245	40,562,645

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

@ Exclude equity instrument and perpetual sukuk amounting to RM201,129,000.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of measurement

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

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

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

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

The table below analyses financial instruments carried at fair value (recurring measurement) analysed by level within the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Recurring fair value measurements				
31.12.2015				
Financial assets				
Financial assets HFT:				
– money market instruments	–	**20,248**	–	**20,248**
Financial investments AFS:	–	**2,861,483**	**201,162**	**3,062,645**
– money market instruments	–	**788,706**	–	**788,706**
– unquoted securities	–	**2,072,777**	**201,162**	**2,273,939**
Derivative assets	–	**146,922**	–	**146,922**
	–	**3,028,653**	**201,162**	**3,229,815**
Financial liabilities				
Derivative liabilities	–	**129,106**	–	**129,106**
31.12.2014				
Financial assets				
Financial assets HFT:				
– money market instruments	–	351,888	–	351,888
Financial investments AFS:	–	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	–	47,990	–	47,990
	–	2,588,196	201,129	2,789,325
Financial liabilities				
Derivative liabilities	–	24,901	–	24,901

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

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of measurement (continued)

(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 market parameters including but not limited to yield curves, volatilities and foreign exchange rates as inputs. The majority of valuation techniques employ only observable market data. These would include certain bonds, government bonds, corporate debt securities and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons and 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.

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

The following represents the changes in Level 3 instruments for the financial year ended 31 December 2015 and 31 December 2014 for the Bank.

Financial investments AFS

	31.12.2015 RM'000	31.12.2014 RM'000
Balance as at the beginning of the financial year	**201,129**	201,194
Profit recognised	**11,900**	11,900
Payment received	**(11,867)**	(11,965)
Balance as at the end of the financial year	**201,162**	201,129

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

38 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
31.12.2015		
Financial assets		
Deposits and placements with banks and other financial institutions	**618,072**	**629,722**
Financial investments HTM	**1,861,693**	**1,848,495**
Financing and advances	**30,890,427**	**31,223,159**
Financial liabilities		
Deposits from customers	**27,928,029**	**27,934,351**
Deposits and placements of banks and other financial institutions	**5,310,572**	**5,319,834**
Investment account due to designated financial institutions	**6,350,654**	**6,147,121**
Recourse obligation on financing sold to Cagamas	**982,760**	**939,534**
Subordinated obligations	**503,119**	**508,504**
31.12.2014		
Financial assets		
Deposits and placements with banks and other financial institutions	893,146	803,699
Financial investments HTM	1,965,362	1,940,456
Financing and advances	25,265,443	25,467,033
Financial liabilities		
Deposits from customers	24,370,954	24,343,653
Deposits and placements of banks and other financial institutions	7,399,591	7,109,761
Recourse obligation on financing sold to Cagamas	1,147,677	1,101,993
Subordinated obligations	503,051	506,846

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

38 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value at 31 December 2015 and 31 December 2014 but for which fair value is disclosed.

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2015				
Financial assets				
Deposits and placements with banks and other financial institutions	**–**	**629,722**	**–**	**629,722**
Financial investments HTM	**–**	**1,229,385**	**619,110**	**1,848,495**
Financing and advances	**–**	**31,223,159**	**–**	**31,223,159**
Financial liabilities				
Deposits from customers	**–**	**27,934,351**	**–**	**27,934,351**
Deposits and placements of banks and other financial institutions	**–**	**5,319,834**	**–**	**5,319,834**
Investment account due to designated financial institutions	**–**	**6,147,121**	**–**	**6,147,121**
Recourse obligation on financing sold to Cagamas	**–**	**939,534**	**–**	**939,534**
Subordinated obligations	**–**	**508,504**	**–**	**508,504**
31.12.2014				
Financial assets				
Deposits and placements with banks and other financial institutions	–	803,699	–	803,699
Financial investments HTM	–	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 obligation on financing sold to Cagamas	–	1,101,993	–	1,101,993
Subordinated obligations	–	506,846	–	506,846

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

38 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

For cash and short-term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Financial assets HFT, financial investments HTM and financial investments AFS

The estimated fair value for financial assets HFT, financial investments HTM and financial investments AFS is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicate yield or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for similar instrument at the date of 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, investment account due to designated financial institutions, bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions, investment account due to designated financial instituitions, and 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 interest rates with similar remaining period to maturities.

38 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(vii) Recourse obligation 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) 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.

(ix) Credit related commitments and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

(x) Foreign exchange and profit rate related contracts

The fair value of foreign exchange and profit rate related contracts are the estimated amounts the Bank would receive to sell or pay to transfer the contracts at the date of statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

39 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.

The capital adequacy ratios of the Bank are as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
Common Equity Tier-l Capital ('CET-l')/Tier-I Capital		
Paid-up ordinary share capital	**1,173,424**	1,173,424
Retained profits	**520,625**	553,560
Statutory reserve	**681,192**	553,765
AFS reserve	**(39,195)**	(28,352)
	2,336,046	2,252,397
Less:		
Deferred tax assets	**(16,840)**	(15,497)
Intangible assets (include associated deferred tax liabilities)	**(687)**	(1,119)
Ageing Reserve and Liquidity Reserve*	**(763)**	(551)
Total CET-l/Total Tier-I Capital	**2,317,756**	2,235,230
Tier-II Capital		
Subordinated obligations	**500,000**	500,000
Collective impairment allowance and regulatory reserve^	**248,696**	100,832
Total Tier-II Capital	**748,696**	600,832
Total Capital	**3,066,452**	2,836,062
Capital ratios		
CET-I capital ratio	**11.041%**	12.875%
Tier-I capital ratio	**11.041%**	12.875%
Total capital ratio	**14.608%**	16.336%

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

	31.12.2015 RM'000	31.12.2014 RM'000
Credit risk-weighted assets	**25,655,098**	20,158,062
Credit risk-weighted assets absorbed by PSIA	**(5,759,360)**	(3,841,305)
Market risk-weighted assets	**61,645**	124,357
Operational risk-weighted assets	**1,032,842**	918,886
Total risk-weighted assets	**20,990,225**	17,360,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

39 CAPITAL ADEQUACY (CONTINUED)

In accordance with BNM's "Guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent", the credit and market risks of the assets funded by the Restricted Profit Sharing Investment account (RPSIA) which qualifies as risk absorbent are excluded from the risk weighted capital ratio (RWCR) calculation. As at 31 December 2015, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM5,759 million (2014: RM3,841 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". Include the qualifying requlatory reserve under the Standardise Approach for non-impaired financing and advances of RM140 million (2014: Nil).

* 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.

Risk-weighted assets by each major risk category are as follows:

		31.12.2015 RM'000	31.12.2014 RM'000
(a)	Credit Risk		
	0%	**–**	–
	20%	**651,589**	906,597
	35%	**708,146**	378,441
	50%	**885,733**	469,891
	75%	**8,748,406**	8,397,351
	100%	**14,531,769**	9,426,517
	150%	**129,455**	579,265
		25,655,098	20,158,062
	Less: Credit risk weighted assets absorbed by PSIA	**(5,759,360)**	(3,841,305)
(b)	Market Risk Capital Adequacy Framework	**61,645**	124,357
(c)	Basic Indicator Operational Risk Capital Charge	**1,032,842**	918,886
		20,990,225	17,360,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

40 SEGMENT REPORTING

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

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

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

(a) Corporate and investment banking

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

(b) Business banking

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

(c) Retail banking

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

(d) Treasury

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the financial year ended 31 December 2015

40 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Total RM'000
31.12.2015					
External revenue	609,695	79,064	822,305	348,617	1,859,681
Inter-segment (expense)/revenue	(232,563)	23,231	(408,744)	618,076	–
Total revenue	377,132	102,295	413,561	966,693	1,859,681
Depositors' payout	(209,120)	(33,753)	(116,814)	(867,050)	(1,226,737)
Net income	168,012	68,542	296,747	99,643	632,944
Operating overheads	(38,432)	(26,775)	(128,851)	(28,903)	(222,961)
Depreciation of property, plant and equipment	(547)	(469)	(1,693)	(492)	(3,201)
Amortisation of computer software	(252)	(111)	(957)	(564)	(1,884)
Allowance for impairment on financing and advances	(2,214)	(32,365)	(21,594)	–	(56,173)
Segmental results	126,567	8,822	143,652	69,684	348,725
Profit before taxation and zakat					348,725
Zakat					(3,000)
Profit after zakat before taxation					345,725
Taxation					(90,872)
Net profit for the financial year					254,853

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

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Total RM'000
31.12.2015					
Segment assets	15,072,302	1,537,429	15,736,494	11,040,373	43,386,598
Unallocated assets					678,179
Deferred tax assets					11,964
Total assets					44,076,741
Segment liabilities	8,725,123	2,255,554	4,586,365	25,656,024	41,223,066
Unallocated liabilities					357,268
Total liabilities					41,580,334
Other segment items:					
Capital expenditure	104	70	1,225	631	2,030

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

40 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 and advances	41,836	(276)	(63,873)	–	(22,313)
Impairment losses made on other assets	(240)	384	(480)	(240)	(576)
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.

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Total RM'000
31.12.2014					
Segment assets	11,916,962	1,013,038	13,780,294	8,911,458	35,621,752
Unallocated assets					482,092
Deferred tax assets					9,942
Total assets					36,113,786
Segment liabilities	8,473,003	1,800,167	5,490,541	17,743,987	33,507,698
Unallocated liabilities					353,691
Total liabilities					33,861,389
Other segment items:					
Capital expenditure	194	156	2,047	1,393	3,790

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

41 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Bancatakaful Service Arrangement with Syarikat Takaful Malaysia Berhad ('STMB')

The Bank has on 26 August 2015 entered into an exclusive bancatakaful service arrangement agreement ('Bancatakaful Service Agreement') with STMB.

Pursuant to the terms of the Bancatakaful Service Agreement, STMB shall pay the Bank a total service fee of RM110 million and in consideration thereof, the Bank shall commit to a 10-year bancatakaful relationship with STMB to distribute Family and General takaful products developed by STMB.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 29 February 2016.

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 57 to 149 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2015 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
29 February 2016

STATUTORY DECLARATION

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

I, Khairul Hakeem Bin Mohamed Sahari the officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 57 to 149 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.

KHAIRUL HAKEEM BIN MOHAMED SAHARI

Subscribed and solemnly declared by the abovenamed Khairul Hakeem Bin Mohamed Sahari at Kuala Lumpur in Wilayah Persekutuan on 29 February 2016.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF RHB ISLAMIC 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 57 to 149, which comprise the statement of financial position as at 31 December 2015 and the income statement, statement of comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 42.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2015 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
29 February 2016

BASEL II PILLAR 3 DISCLOSURES

CONTENTS

LIST OF TABLES

STATEMENT BY MANAGING DIRECTOR

In accordance with the requirements of Bank Negara Malaysia's Guideline on Capital Adequacy Framework For Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), and on behalf of the Board 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 2015 are accurate and complete.

IBRAHIM BIN HASSAN
Managing Director

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2015

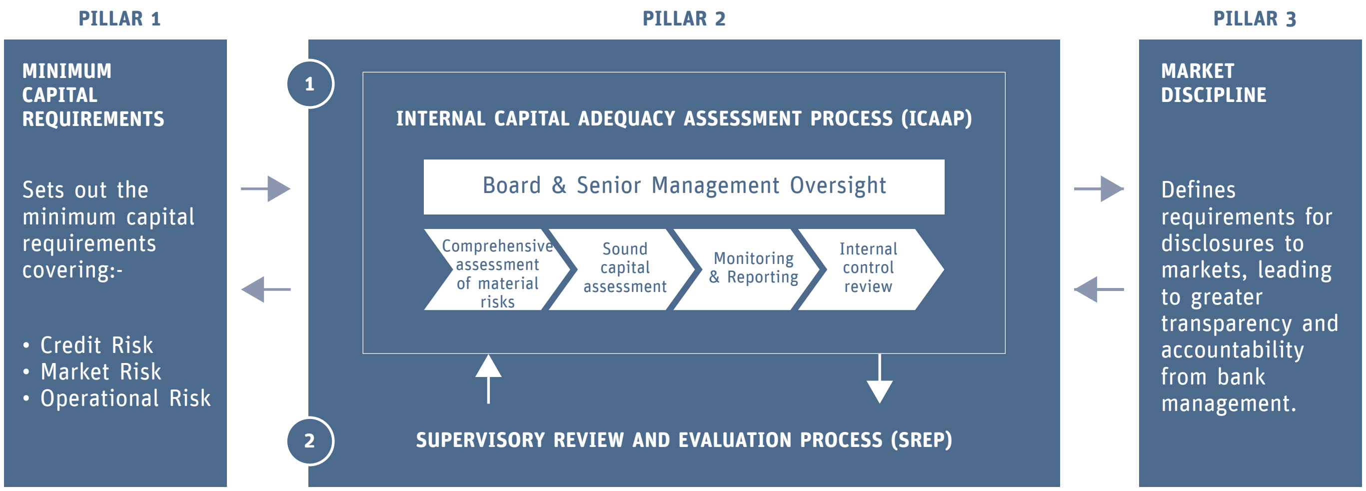
1.0 INTRODUCTION

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

BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) provide and specify the approaches for quantifying the risk-weighted assets for credit risk, market risk and operational risk.

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. 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:



BASEL II PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

1.0 INTRODUCTION (CONTINUED)

Pillar 1 provides guidelines for calculation of risk-weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume.

The table below lists the various methodologies applicable to the capital requirements calculation for the various types of risk under Pillar 1:

Type of Approaches

Credit Risk	Market Risk	Operational Risk
1. Standardised Approach (SA)	1. Standardised Approach (SA)	1. Basic Indicator Approach (BIA)
2. Foundation Internal Ratings-Based Approach	2. Internal Models Approach (IMA)	2. The Standardised Approach (TSA)
3. Advanced Internal Ratings-Based Approach		3. Advanced Measurement Approach (AMA)

For purposes of complying with regulatory requirements under Basel II Pillar 1, the approaches adopted by the Bank are summarised as follows:

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

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 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through a set of disclosure requirements that will allow market participants to assess information on banking institutions' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

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

This document covers the qualitative and quantitative information for financial year ended 31 December 2015 with comparative quantitative information of the preceding financial year 2014.

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 2015, after the notes to the Financial Statements.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Islamic Bank Berhad's information is presented at entity level and is referred to as "the Bank". The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31 December 2015.

3.0 CAPITAL MANAGEMENT

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

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

The management of capital involves capital strategy, capital planning, 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 Islamic Risk Management Committee (IRMC), Board Risk Committee (BRC) and the Board for approval.

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

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.

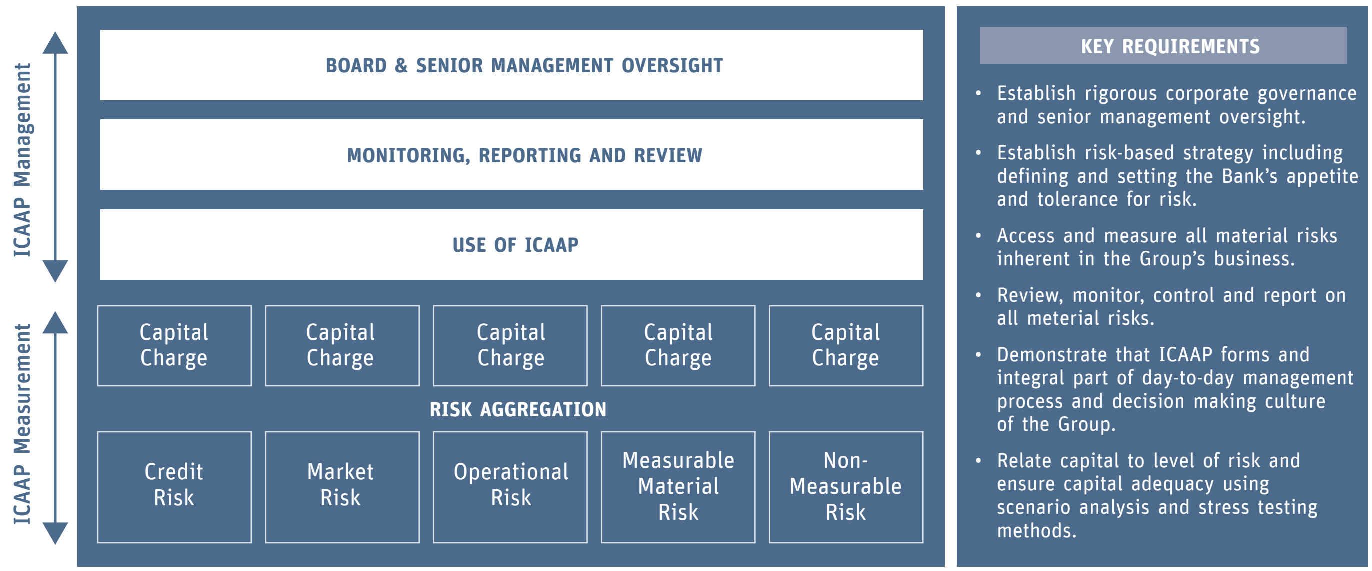
- **Dividend Pay-Out**

  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:



BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.2 Basel III Implementation

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

The Bank has implemented BNM's liquidity standards on Liquidity Coverage Ratio (LCR) effective from 1 June 2015 after reporting the LCR under observation since June 2012. BNM has adopted the phase-in arrangement for Malaysian banking institutions to comply with the minimum requirement of 60% in 2015 with incremental of 10% each year thereafter until 100% from 1 January 2019 onwards. Banking institutions continue to report on Net Stable Funding Ratio (NSFR) under observation. The result produced during the observation period facilitates the Bank's strategy in managing the appropriate balance sheet structure for achieving optimal NSFR.

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework 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 (CET I) Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
2013	3.5%	4.5%	8.0%
2014	4.0%	5.5%	8.0%
2015 onwards	4.5%	6.0%	8.0%

The capital ratios of the Bank as at 31 December 2015 and 31 December 2014 are as follows:

Table 1: Capital Adequacy Ratios

	RHB Islamic Bank	
	2015	**2014**
Before proposed dividends		
Common Equity Tier I Capital Ratio	**11.041%**	12.875%
Tier I Capital Ratio	**11.041%**	12.875%
Total Capital Ratio	**14.608%**	16.336%
After proposed dividends		
Common Equity Tier I Capital Ratio	**11.041%**	12.875%
Tier I Capital Ratio	**11.041%**	12.875%
Total Capital Ratio	**14.608%**	16.336%

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

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

3.0 CAPITAL MANAGEMENT (CONTINUED)

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

The following table shows the breakdown of RWA by risk types as at 31 December 2015 and 31 December 2014:

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

	RHB Islamic Bank	
Risk Types	**2015 RM'000**	**2014 RM'000**
Credit RWA	**25,655,098**	20,158,062
Credit RWA Absorbed by Profit Sharing Investment Account (PSIA)	**(5,759,360)**	(3,841,305)
Market RWA	**61,645**	124,357
Operational RWA	**1,032,842**	918,886
Total RWA	**20,990,225**	**17,360,000**

The following table shows the breakdown of the Bank's RWA by risk types and the corresponding capital requirements as at 31 December 2015 and 31 December 2014:

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

	RWA		Minimum Capital Requirements	
Risk Types	**2015 RM'000**	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Credit Risk, of which	**19,895,738**	16,316,757	**1,591,659**	1,305,341
Under Standardised Approach	**25,655,098**	20,158,062	**2,052,408**	1,612,645
Absorbed by PSIA under Standardised Approach	**(5,759,360)**	(3,841,305)	**(460,749)**	(307,304)
Market Risk				
Under Standardised Approach	**61,645**	124,357	**4,932**	9,948
Operational Risk				
Under Basic Indicator Approach	**1,032,842**	918,886	**82,627**	73,511
Total	**20,990,225**	**17,360,000**	**1,679,218**	**1,388,800**

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

The increase in Credit RWA is mostly due to growth in corporate portfolio.

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

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 39 to the Financial Statements for the terms of these capital instruments.

The following table represents the Bank's capital position as at 31 December 2015 and 31 December 2014:

Table 4: Capital Structure

	RHB Islamic Bank	
	2015 RM'000	**2014 RM'000**
Common Equity Tier I Capital/Tier I Capital		
Paid up ordinary share capital	**1,173,424**	1,173,424
Retained profits	**520,625**	553,560
Other reserves	**681,192**	553,765
Unrealised losses on AFS financial instruments	**(39,195)**	(28,352)
Less:		
Deferred tax assets	**(16,840)**	(15,497)
Other intangibles	**(687)**	(1,119)
Ageing Reserves and Liquidity Reserve	**(763)**	(551)
Total Common Equity Tier I Capital/Tier I Capital	**2,317,756**	**2,235,230**
Tier II Capital		
Subordinated sukuk	**500,000**	500,000
Collective impairment allowances and regulatory reserves^	**248,696**	100,832
Total Tier II Capital	**748,696**	**600,832**
Total Capital	**3,066,452**	**2,836,062**

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.

Includes the qualifying regulatory reserves for financing of the Bank of RM140,615,000 (31 December 2014: Nil).

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

5.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

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

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

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

OVERARCHING RISK MANAGEMENT PRINCIPLES

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

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

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

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

RISK GOVERNANCE AND ORGANISATION

The Board of Directors (Board) through the BRC/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, frameworks, policies and models. An IRMC was established to assist the Board of RHB Islamic Bank to focus on risk issues relevant and unique to RHB Islamic Bank.

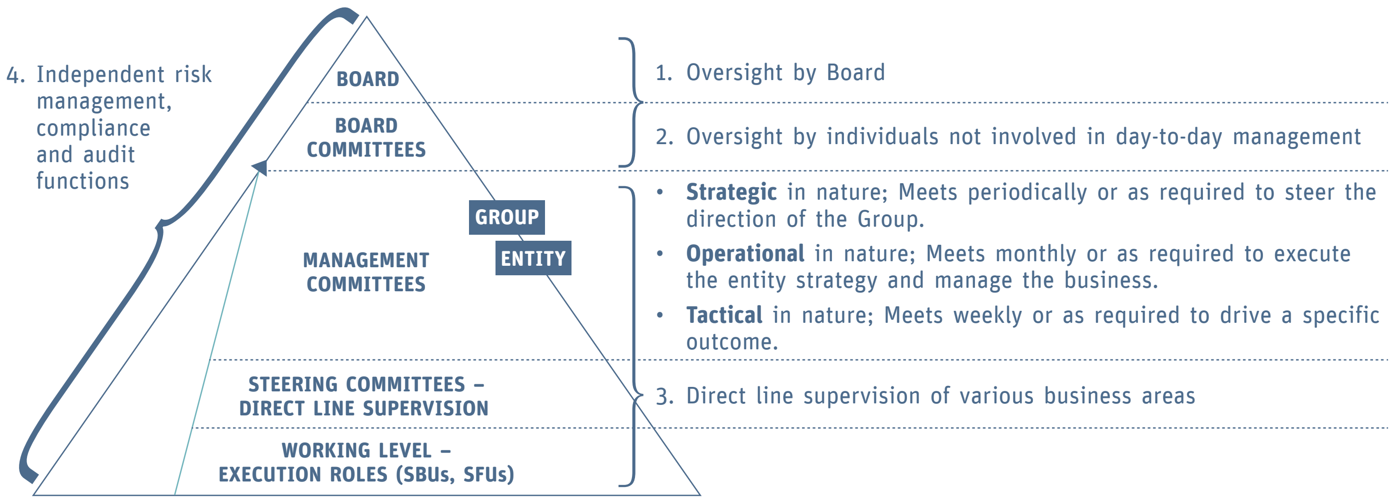
BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (Continued)

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



Principle 2: Clear Understanding of Risk Management Ownership

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

Principle 3: Institutionalisation of a Risk-Focused Organisation

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

Central Risk Management Function

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

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing a pro-active, balanced and risk-attuned culture within the Group;
- Advising Senior Management, the GCRC, BRC/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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Management Function (Continued)

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

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

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

Risk and Control Environment

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

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

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.

Principle 5: Optimisation of Risk-Adjusted Returns

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

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

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK

Credit Risk Definition

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's lending/financing, trade finance and its fundings, investment and trading activities from both on- and off-balance sheet transactions.

6.1 Credit Risk Management Oversight and Organisation

The Group Credit Committee (GCC) is the senior management committee that has been empowered to approve or reject all financial investments, counterparty credit, financing applications, credit proposals under Credit/Assets Recovery and credit renewals, up to the predefined threshold, subject to affirmation or veto by Board Credit Committee (BCC), if exceed the predefined threshold.

GCC will direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Bank's asset book. GCC also act as the body which, through the BRC, recommends to the respective Boards, on matters pertaining to credit risk (such as credit and underwriting evaluation/approval/procedure, and delegated financing authorities).

The BCC's main functions are affirming, imposing more stringent conditions 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 conditions on or vetoing impaired financing from Credit Recovery for amounts above the defined thresholds of the GCC. BCC also endorses policy financing and financing required by BNM to be referred to the respective Boards for approval.

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. The Bank also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the GCRC, IRMC and the Board. These reports include various credit risk aspects such as portfolio quality, expected losses, and concentration risk exposures by business portfolio. Such reporting allows Senior Management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

The 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 and the Group Credit Guidelines.

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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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, 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. Relevant credit guidelines are established to govern the credit risk via guidance on derivatives, hedging and investment related activities of the different exposures.

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:

The followings represent the dimensions considered in the credit risk measurement:

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

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (Continued)

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.

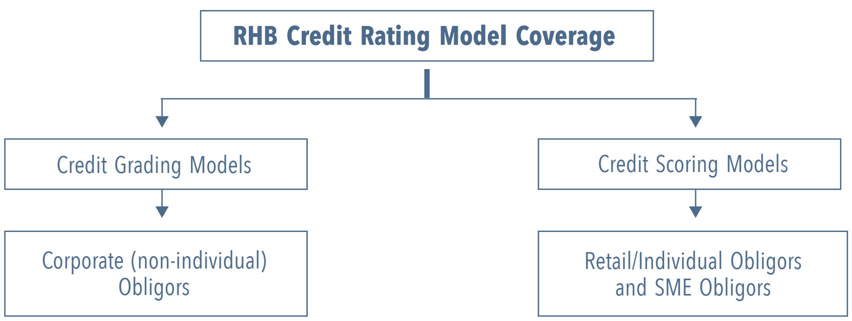
6.3 Internal Credit Rating Models

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 by Group Risk Operations with active participation by the relevant credit experts from the Bank's functional units and/or business units.

Internal rating model development and implementation process have been established to govern the development and validation of rating models and the application of these models. Specifically, all newly developed models prior to implementation, material changes of the rating systems and validation results must be endorsed by GCRC, IRMC and approved by Board. All models are also subject to independent validation by the Model Validation Team before implementation to ensure that all aspects of the model development process have been satisfied. In addition, the models are also subject to annual review and independent validation by the Model Validation Team to ensure that they are performing as expected.

Credit risk/rating models can be broadly classified into:

- Credit Grading Models
- Credit Scoring Models



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 to create further risk differentiation.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.3 Internal Credit Rating Models (Continued)

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.

Application of Internal Ratings

The three components of expected loss, the PD, LGD and EAD are used in variety of applications that measure credit risk across the entire portfolio.

- Credit Approval : PD models are used in the credit approval process in both retail and non-retail portfolios. In high-volume retail portfolios, application scorecard and behaviour scorecard are used as one of the risk management tools.
- Policy : Policies are established to govern the use of ratings in credit decisions and monitoring as well impairment.
- Reporting : Reports are generated to Senior Management on a monthly basis on the performance of the rating models to show the distribution of the credit exposures by risk rating and monitoring of their performance.
- Capital Management : The capital management and allocation plan takes into consideration the projected RWA computed based on internal rating.
- Risk Limits : The internal ratings are used in establishing the Group's various internal limits (such as industry risk limit).
- Risk Reward and Pricing : PD, EAD and LGD metrics are used to assess profitability of deals to allow for risk-informed pricing considerations and strategic decisions.

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.

6.0 CREDIT RISK (CONTINUED)

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

Counterparty Credit Risk

Counterparty Credit Risk is the risk that the entity with whom one has entered into a financial contract (the counterparty to the contract) will fail to fulfil their side of the contractual agreement (eg they default). Counterparty risk is typically defined as arising from two broad classes of financial products:

- Over-the-counter derivatives such as profit rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and financing.

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

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

6.5 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches

All credit exposures of the Bank are booked in Malaysia. The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2015 compared with 31 December 2014, 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;
- geographical distribution;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

Table 5a: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2015

RHB Islamic Bank Exposure Class	Gross Exposures/EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under the Standardised Approach						
On-Balance Sheet Exposures						
Sovereigns & Central Banks	9,425,482	9,425,482	2,835	–	2,835	227
Public Sector Entities	2,469,289	2,464,789	9,525	–	9,525	762
Banks, Development Financial Institutions & MDBs	705,886	705,886	140,190	–	140,190	11,215
Takaful Cos, Securities Firms & Fund Managers	279,009	279,009	279,009	–	279,009	22,321
Corporates	14,693,326	14,411,099	11,381,019	(4,873,200)	6,507,819	520,626
Regulatory Retail	12,543,492	12,435,722	9,734,076	(612,818)	9,121,258	729,701
Residential Mortgages	3,484,929	3,479,929	1,703,134	(99,583)	1,603,551	128,284
Higher Risk Assets	–	–	–	–	–	–
Other Assets	156,478	156,478	142,943	–	142,943	11,435
Defaulted Exposures	254,837	249,637	275,165	(17,494)	257,671	20,614
Total On-Balance Sheet Exposures	**44,012,728**	**43,608,031**	**23,667,896**	**(5,603,095)**	**18,064,801**	**1,445,185**
Off-Balance Sheet Exposures						
OTC Derivatives	334,574	334,574	210,504	–	210,504	16,840
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,087,572	2,064,253	1,773,785	(156,033)	1,617,752	129,420
Defaulted Exposures	1,961	1,961	2,913	(232)	2,681	214
Total Off-Balance Sheet Exposures	**2,424,107**	**2,400,788**	**1,987,202**	**(156,265)**	**1,830,937**	**146,474**
Total On and Off-Balance Sheet Exposures	**46,436,835**	**46,008,819**	**25,655,098**	**(5,759,360)**	**19,895,738**	**1,591,659**

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

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

RHB Islamic Bank Exposure Class	Gross Exposures/EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under the Standardised Approach						
On-Balance Sheet Exposures						
Sovereigns & Central Banks	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**

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

Table 6a: Exposures for Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2015

RHB Islamic Bank Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	–		–	–
Transaction related contingent items	153,039		76,520	50,494
Short term self liquidating trade related contingencies	82,857		16,571	6,114
NIFs and obligations under underwriting agreement	76,000		38,000	38,000
Foreign exchange related contracts	3,495,206	148,463	238,490	185,886
1 year or less	2,975,712	125,466	178,801	157,009
Over 1 year to 5 years	519,494	22,997	59,689	28,877
Over 5 years	–	–	–	–
Profit rate related contracts	3,775,000	12,785	96,085	24,617
1 year or less	850,000	4,055	5,955	1,191
Over 1 year to 5 years	2,425,000	8,622	60,022	12,904
Over 5 years	500,000	108	30,108	10,522
Other commitments, such as formal standby facilities and financing lines, with original maturity of over 1 year	3,693,518		1,846,759	1,598,329
Other commitments, such as formal standby facilities and financing lines, with original maturity of up to 1 year	–		–	–
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	2,335,561		111,683	83,762
Total	13,611,181	161,248	2,424,108	1,987,202

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

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

RHB Islamic Bank Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
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
NIFs and obligations under 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 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 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**

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2015

RHB Islamic Bank Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Takaful, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	7,047,661	2,389,762	-	-	9,437,423
Public Sector Entities	-	-	-	-	-	-	-	-	2,474,294	-	-	2,474,294
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	878,564	-	-	-	878,564
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	279,699	-	-	-	279,699
Corporates	208,009	532,947	718,366	580,452	1,678,844	747,077	4,643,918	6,146,602	723,955	-	-	15,980,170
Regulatory Retail	43,691	12,015	150,834	9,410	212,436	214,980	79,465	283,215	30,862	12,643,669	-	13,680,577
Residential Mortgages	-	-	-	-	-	-	-	-	-	3,549,630	-	3,549,630
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	156,478	156,478
Total	**251,700**	**544,962**	**869,200**	**589,862**	**1,891,280**	**962,057**	**4,723,383**	**14,635,741**	**5,618,873**	**16,193,299**	**156,478**	**46,436,835**

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

RHB Islamic Bank Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Takaful, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	4,451,415	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**

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2015

RHB Islamic Bank Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	**5,785,311**	**1,507,575**	**2,144,537**	**9,437,423**
Public Sector Entities	**350,611**	**1,864,439**	**259,244**	**2,474,294**
Banks, Development Financial Institutions & MDBs	**688,813**	**144,330**	**45,421**	**878,564**
Takaful Cos, Securities Firms & Fund Managers	**7**	**279,692**	**–**	**279,699**
Corporates	**2,338,714**	**5,981,433**	**7,660,023**	**15,980,170**
Regulatory Retail	**564,877**	**2,458,562**	**10,657,138**	**13,680,577**
Residential Mortgages	**2,302**	**36,698**	**3,510,630**	**3,549,630**
Higher Risk Assets	**–**	**–**	**–**	**–**
Other Assets	**–**	**–**	**156,478**	**156,478**
Total	**9,730,635**	**12,272,729**	**24,433,471**	**46,436,835**

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

RHB Islamic Bank Exposure Class	One year or less RM'000	More than one to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	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**

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

Standardised Approach

Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned. The following tables show the Bank's credit exposures for its portfolios with the corresponding risk weights and RWA under the Standardised Approach, after credit risk mitigation (CRM):

Table 9a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2015

RHB Islamic Bank	Exposure After Credit Risk Mitigation							Total Exposures
	Risk Weight (%)							
Exposure Class	0% RM'000	20% RM'000	35% RM'000	50% RM'000	75% RM'000	100% RM'000	150% RM'000	RM'000
Exposures under Standardised Approach								
Sovereigns & Central Banks	9,411,307	26,116	–	–	–	–	–	9,437,423
Public Sector Entities	2,417,162	52,632	–	–	–	–	–	2,469,794
Banks, Development Financial Institutions & MDBs	4,860	855,757	–	17,947	–	–	–	878,564
Takaful Cos, Securities Firms & Fund Managers	–	–	–	–	–	279,699	–	279,699
Corporates	776,648	2,318,596	–	835,269	–	11,706,968	50,725	15,688,206
Regulatory Retail	50,007	4,846	–	13,185	11,621,112	1,834,758	30,117	13,554,025
Residential Mortgages	–	–	2,023,273	905,066	43,429	567,401	5,461	3,544,630
Higher Risk Assets	–	–	–	–	–	–	–	–
Other Assets	13,535	–	–	–	–	142,943	–	156,478
Total Exposures after Credit Risk Mitigation	12,673,519	3,257,947	2,023,273	1,771,467	11,664,541	14,531,769	86,303	46,008,819
Total Risk-Weighted Assets	–	651,589	708,146	885,733	8,748,406	14,531,769	129,455	25,655,098

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

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

Standardised Approach (Continued)

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

RHB Islamic Bank	Exposure After Credit Risk Mitigation							Total
	Risk Weight (%)							
Exposure Class	0% RM'000	20% RM'000	35% RM'000	50% RM'000	75% RM'000	100% RM'000	150% RM'000	Exposures RM'000
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 Credit Risk Mitigation	**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	**–**	**906,597**	**378,441**	**469,891**	**8,397,351**	**9,426,517**	**579,265**	**20,158,062**

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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 the standards prescribed by BNM. Approved ECAIs are as follows:

- Standard & Poor's (S&P);
- Moody's Investor Services (Moody's);
- Fitch Ratings (Fitch);
- Malaysian Rating Corporation Berhad (MARC);
- Rating Agency Malaysia (RAM); and
- Rating and Investment Information, Inc (R&I).

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings (Continued)

The following tables show the Bank's credit exposures as at 31 December 2015 compared with 31 December 2014 position, according to the ratings by ECAIs:

Table 10a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2015

RHB Islamic Bank Ratings of Corporates by Approved ECAIs Exposure Class	Moody's S&P Fitch RAM MARC R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A- A+ to A- RM'000	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB- BBB+ to BB- RM'000	B1 to C B+ to D B+ to D B to D B1 to D B+ to D RM'000	Unrated Unrated Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		–	2,203,357	–	–	266,437
Takaful Cos, Securities Firms & Fund Managers		–	–	–	–	279,699
Corporates		2,935,918	32,568	–	–	12,491,340

Short Term Ratings of Corporates by Approved ECAIs	Moody's S&P Fitch RAM MARC R&I	P-1 A-1 F1+, F1 P-1 MARC-1 a-1+, a-1 RM'000	P-2 A-2 F2 P-2 MARC-2 a-2 RM'000	P-3 A-3 F3 P-3 MARC-3 a-3 RM'000	Others Others B to D NP MARC-4 b, c RM'000	Unrated Unrated Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures						
Corporates		127,136	101,244	–	–	–

Ratings of Sovereigns and Central Banks by Approved ECAIs Exposure Class	Moody's S&P Fitch R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A+ to A- RM'000	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB+ to BBB- RM'000	Ba1 to B3 BB+ to B- BB+ to B- BB+ to B- RM'000	Caa1 to C CCC+ to D CCC+ to D CCC+ to C RM'000	Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	9,437,423	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs Exposure Class	Moody's S&P Fitch RAM MARC R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A- A+ to A- RM'000	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB- BBB+ to BBB- RM'000	Ba1 to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B- BB+ to B- RM'000	Caa1 to C CCC+ to D CCC+ to D C1 to D C+ to D CCC+ to C RM'000	Unrated Unrated Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		665,107	210,203	3,254	–	–	–

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings (Continued)

Table 10b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2014

RHB Islamic Bank Ratings of Corporates by Approved ECAIs Exposure Class	Moody's S&P Fitch RAM MARC R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A- A+ to A- RM'000	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB- BBB+ to BB- RM'000	B1 to C B+ to D B+ to D B to D B1 to D B+ to D RM'000	Unrated Unrated Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		–	2,203,357	–	–	226,467
Takaful Cos, Securities Firms & Fund Managers		–	–	–	–	104,522
Corporates		3,033,246	500,047	–	7,027	8,185,410

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

Ratings of Sovereigns and Central Banks by Approved ECAIs Exposure Class	Moody's S&P Fitch R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A+ to A- RM'000	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB+ to BBB- RM'000	Ba1 to B3 BB+ to B- BB+ to B- BB+ to B- RM'000	Caa1 to C CCC+ to D CCC+ to D CCC+ to C RM'000	Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	6,527,019	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs Exposure Class	Moody's S&P Fitch RAM MARC R&I	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A- A+ to A- RM'000	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB- BBB+ to BBB- RM'000	Ba1 to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B- BB+ to B- RM'000	Caa1 to C CCC+ to D CCC+ to D C1 to D C+ to D CCC+ to C RM'000	Unrated Unrated Unrated Unrated Unrated Unrated RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		789,114	629,077	6,113	37	–	–

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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 financing exposures. Where possible, the Bank enters into International Swaps and Derivatives Association (ISDA) Master Agreement with its derivative and swap counterparties as the master agreement provides the legal certainty that the credit exposures between counterparties will be netted.

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

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

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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 2015 compared with 31 December 2014:

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2015

RHB Islamic Bank Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	9,425,482	–	–
Public Sector Entities	2,469,289	2,417,162	4,500
Banks, Development Financial Institutions & MDBs	705,886	4,860	–
Takaful Cos, Securities Firms & Fund Managers	279,009	–	–
Corporates	14,693,326	828,753	282,228
Regulatory Retail	12,543,492	54,853	107,770
Residential Mortgages	3,484,929	–	5,000
Higher Risk Assets	–	–	–
Other Assets	156,478	–	–
Defaulted Exposures	254,837	–	5,199
Total On-Balance Sheet Exposures	44,012,728	3,305,628	404,697
Off-Balance Sheet Exposures			
OTC Derivatives	334,574	–	–
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,087,572	7,733	23,319
Defaulted Exposures	1,961	–	–
Total Off-Balance Sheet Exposures	2,424,107	7,733	23,319
Total On and Off-Balance Sheet Exposures	46,436,835	3,313,361	428,016

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

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 2014

RHB Islamic Bank Exposure Class	Gross Exposures Before Credit Risk Mitigation RM'000	Gross Exposures Covered by Guarantees/ Credit Derivatives RM'000	Gross Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	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 Derivatives	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**

Credit Concentration Risk

The risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

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

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (Continued)

Credit Concentration Risk (Continued)

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 Risk & 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.

For these cases, the Bank's Credit Monitoring department will work closely with the Area Relationship Managers (ARMs) to rehabilitate the accounts after discussion with the customer to determine the root cause of the problem and this may result in rescheduling, restructuring or "exit relationship" strategies to be applied. For the larger accounts, regular position update meetings are held with ARMs to review or revise these strategies. The EAM guidelines were refined in 2014, to better identify, monitor and resolve such accounts. In 2015, dedicated teams were established (at business units as well as credit evaluation) to manage the watch list portfolios. These teams are tasked with identifying and implementing strategies to address lending relationships under EAM.

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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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 this guidelines are in line with those applicable under the International Financial Reporting Standards compliant framework, the Malaysia Financial Reporting Standards 139.

The customer assessed under Impairment Allowances (IA) shall be classified as impaired under any one of the following situations:

1. When the principal or profit or both, of any facility(s) of the customer is past due for more than 90 days or 3 months.
2. In the case of revolving facilities (eg overdraft facilities), the customer of the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months.
3. Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the financing exhibits weaknesses (refer to impairment trigger) that would render it to be classified as impaired.
4. Where repayments of the financing are scheduled on intervals of 3 months or longer, the customer is classified as impaired as soon as a default occurs, unless the customer or the financing does not exhibit any weakness (refer to impairment trigger) that would render it to be classified as impaired.
5. Upon occurrence of any one or more Mandatory Status Triggers (MSTs) or any two or more Ancillary Status Triggers (ASTs). These MSTs and ASTs are pre-defined trigger events approved by the Bank to facilitate impairment classification.

Note: For R&R facilities, the customer shall be classified as impaired in accordance with paras 1 to 4 above based on the revised or restructured terms.

Individual Assessment – Impairment Triggers

For 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 occurred. Consequently, these customers will be classified as impaired even though no impairment allowance may be required after impairment assessment.

Individual Impairment Allowances

Customers under individual assessment and triggered either by any one of the MSTs or any two of the ASTs will be classified as impaired. Consequently, impairment assessment is to be carried out on these impaired customers, based on reasonable and well documented estimates of the future cashflows/realisations of collateral that is expected to recover from the impaired customers i.e net present value of future cashflows are discounted based on original effective profit rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

Collective Impairment Allowances

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

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

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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 status 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 is being past due by 90 days or 3 months or less.
2. In the case of revolving facilities (e.g. overdraft facilities), the facility shall be re-classified as non-impaired where the overdue outstanding amount in excess of the approved limit has improved to 90 days or 3 months
3. Where repayments of the financings are scheduled on intervals of 3 months or longer, the financing is re-classified as non-impaired as soon as the overdue scheduled repayments are settled.

Write-Off of Impaired financing

All financing that satisfy any one of the following criteria, may be recommended for write-off:

1. Deemed irrecoverable, worthless and with slim prospect of recovery.
2. Waiver/discount already given under approved composite settlement schemes.
3. Abandoned project with no sign of revival. The definition of abandoned project must be in compliance with the definition stated under valuation for abandoned projects.
4. For retail and scored financing, the write off may be expedited for those with ageing of 12 months and above, provided legal action has reached at least writ of summon filed.
5. In the case of credit card and unsecured personal financing, aging is 6 months and above and the write-off is automatic.

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

This policy of impairment financing write-off is intended to provide a timely and consistent methodology for financing to be written-off and to reflect the true value of assets in the Bank's books.

For year 2015 and 2014 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 2015 compared with 31 December 2014:

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (Continued)

Write-Off of Impaired financing (Continued)

Table 12a: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2015

RHB Islamic Bank Industry Sector	Impaired Advances/ Financing RM'000	Past Due Financing RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	**27**	**617**	**–**	**3,886**
Mining & Quarrying	**–**	**35**	**–**	**1,807**
Manufacturing	**33,476**	**10,738**	**3,804**	**19,973**
Electricity, Gas & Water Supply	**44,181**	**–**	**–**	**553**
Construction	**32,974**	**15,356**	**10,239**	**12,355**
Wholesale, Retail Trade, Restaurants & Hotels	**41,559**	**7,717**	**5,213**	**22,319**
Transport, Storage & Communication	**1,233**	**3,465**	**–**	**10,718**
Finance, Takaful, Real Estate & Business	**11,135**	**15,446**	**–**	**30,549**
Education, Health & Others	**11,309**	**583**	**3,393**	**6,202**
Household	**186,487**	**736,751**	**–**	**85,424**
Others	**355**	**–**	**–**	**5,867**
Total	**362,736**	**790,708**	**22,649**	**199,653**

Note: For year 2015, all impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia.

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

RHB Islamic Bank 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**

Note: For year 2014, all impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (Continued)

Write-Off of Impaired financing (Continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2015 compared with 31 December 2014:

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

RHB Islamic Bank	Twelve Months Period Ended 2015		Twelve Months Period Ended 2014	
Industry Sector	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-Offs RM'000	Net Charges/ (Write-back) for Individual Impairment Allowances RM'000	Write-Offs RM'000
Agriculture	–	–	–	–
Mining & Quarrying	–	–	–	–
Manufacturing	4	2,686	(264)	(3,970)
Electricity, Gas & Water Supply	–	–	–	–
Construction	(2,076)	215	(9,951)	(1,426)
Wholesale, Retail Trade, Restaurants & Hotels	(602)	1,305	857	(4,659)
Transport, Storage & Communication	–	–	–	–
Finance, Takaful, Real Estate & Business	–	360	(15,146)	(55,194)
Education, Health & Others	34	–	2,966	(166)
Household	–	48,698	–	(27,573)
Others	–	140	–	–
Total	**(2,640)**	**53,404**	**(21,538)**	**(92,988)**

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (Continued)

Write-Off of Impaired financing (Continued)

The following tables show the reconciliation of changes to financing impairment allowances as at 31 December 2015 compared with 31 December 2014:

Table 14: Reconciliation of Changes to Financing Impairment Allowances

RHB Islamic Bank Individual Impairment Allowances	2015 RM'000	2014 RM'000
Balance as at the beginning of financial year	**25,289**	111,703
Net allowance/(written-back) made during the year	**(2,640)**	(21,538)
Amount written off	**–**	(63,135)
Reclassification (to)/from collective impairment allowance	**–**	(1,741)
Balance as at the end of financial year	**22,649**	**25,289**

RHB Islamic Bank Collective Impairment Allowance	2015 RM'000	2014 RM'000
Balance as at the beginning of financial year	**187,307**	145,769
Net allowance/(written-back) made during the year	**65,749**	69,650
Amount written off	**(53,403)**	(29,853)
Reclassification from/(to) individual impairment allowance	**–**	1,741
Balance as at the end of financial year	**199,653**	**187,307**

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 into financial instruments such as investment papers and 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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

7.0 MARKET RISK (CONTINUED)

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 specific business units within the allocated limits. All trading positions are monitored independently on a daily basis and in accordance to the established escalation procedures and the key actions to be undertaken.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the 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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

7.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2015 and 31 December 2014 are shown in the tables below:

Table 15a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2015

RHB Islamic Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirements RM'000
Profit Rate Risk	**3,031,492**	**3,002,434**	**27,828**	**2,226**
Foreign Currency Risk	**3,239**	**33,817**	**33,817**	**2,706**
Total			**61,645**	**4,932**

Note:
For year 2015, RHB Islamic Bank did not have any exposure under
- equity risk, commodity risk, inventory risk and options risk, and
- market risk exposure absorbed by PSIA.

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

RHB Islamic Bank Market Risk	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets 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**

Note:
For year 2014, RHB Islamic Bank did not have any exposure under
- equity risk, commodity risk, inventory risk and options risk, and
- market risk exposure absorbed by PSIA.

BASEL II PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

8.0 LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Group is unable to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

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

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

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

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

The Group has adopted the BNM's liquidity standards on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high-quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Group continues to report NSFR under the Basel III observation reporting to BNM.

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

BASEL II
PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Rate of return risk in the banking book refers to the risk to the Group's earnings and economic value of equity due to the adverse movements in benchmark rates. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Rate of return risk in the banking book comprises:

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

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess rate of return risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis.

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

In addition, the Group ALM Policy is established to provide 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 Group. The Group regularly considers the economics and necessity of increasing or reducing its rate of return risk hedges.

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

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

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

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 2015 and 31 December 2014 are shown in the following tables:

Table 16a: Rate of Return Risk in the Banking Book as at 31 December 2015

RHB Islamic Bank	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	
Currency	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	**(25,970)**	**25,970**	**(329,652)**	**329,652**
USD – US Dollar	**531**	**(531)**	**(123)**	**123**
Others[1]	**106**	**(106)**	**328**	**(328)**
Total	**(25,333)**	**25,333**	**(329,447)**	**329,447**

Note:
1. Inclusive of GBP, EUR, SGD, etc
2. The earnings and economic values were computed based on the standardised approach 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.

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

RHB Islamic Bank	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	
Currency	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**

Note:
1. Inclusive of GBP, EUR, SGD, etc
2. The earnings and economic values were computed based on the standardised approach 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.

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

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 Group's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in benchmark rates than is offered by the earnings perspective.

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

10.0 OPERATIONAL RISK

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

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

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

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

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

10.0 OPERATIONAL RISK (CONTINUED)

Operational Risk Management Function and Organisation

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

Regular operational risk reporting is made to the Senior Management, 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.

Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The five (5) processes are as follows:

1. Establish the context;
2. Risk identification;
3. Risk analysis;
4. Risk mitigating; and
5. Risk monitoring.

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following ORM tools are being used:

- **Risk and Control Self-Assessment (RCSA)**

  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational Risk Management.

- **Key Risk Indicators (KRI)**

  KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal; once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident Management and Loss Data Collection (IMLDC)**

  IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also be useful for reviewing the effectiveness of the RCSA and KRIs.

10.0 OPERATIONAL RISK (CONTINUED)

Risk Mitigation and Controls

Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Business Continuity Management**

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

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

- **Outsourcing**

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

- **Takaful Management**

  The Bank considers risk transfer by means of Takaful to mitigate operational risk. The Bank has a programme of Takaful designed to reduce its exposure to liability and to protect its assets. The Bank purchases Takaful from leading Takaful providers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party Takaful providers and will financially mitigate the economic consequences of risks.

Technology Risk

Technology Risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

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

New Product and Services Approval Process

The Bank has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

10.0 OPERATIONAL RISK (CONTINUED)

Legal Risk

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

Capital Treatment for Operational Risk

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2015 and 31 December 2014, are shown below:

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

	RHB Islamic Bank	
Operational Risk	**2015 RM'000**	**2014 RM'000**
Risk-Weighted Assets	**1,032,842**	918,886
Minimum Capital Requirements	**82,627**	73,511

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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

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. It also undermines public confidence in the Group, affecting the share price.

Reputation, being largely based on people's perception and expectations, is intangible in nature and thus cannot be easily analysed or quantified. Hence, an integral component of reputational risk management is to understand and meet the expectations of stakeholder.

The stakeholders who are critical to the Group are mainly our customers, employees, and shareholders; others may include regulators, strategic partners, suppliers, outsourced service providers, and counterparties. The ability to maintain the expectations of these stakeholders would contribute significantly in the dynamic context of future strategy towards managing competition and achieving corporate goals.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Policy.

The key elements for management of reputational risk include:

- Prompt and effective communication with all stakeholders;
- Strong and consistent enforcement of controls relating to governance, business and legal compliance;
- Continuous monitoring of threats to reputation;
- Ensuring ethical practices throughout the Group; and
- Establishing crisis management plans and ensuring these are continuously updated.

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

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

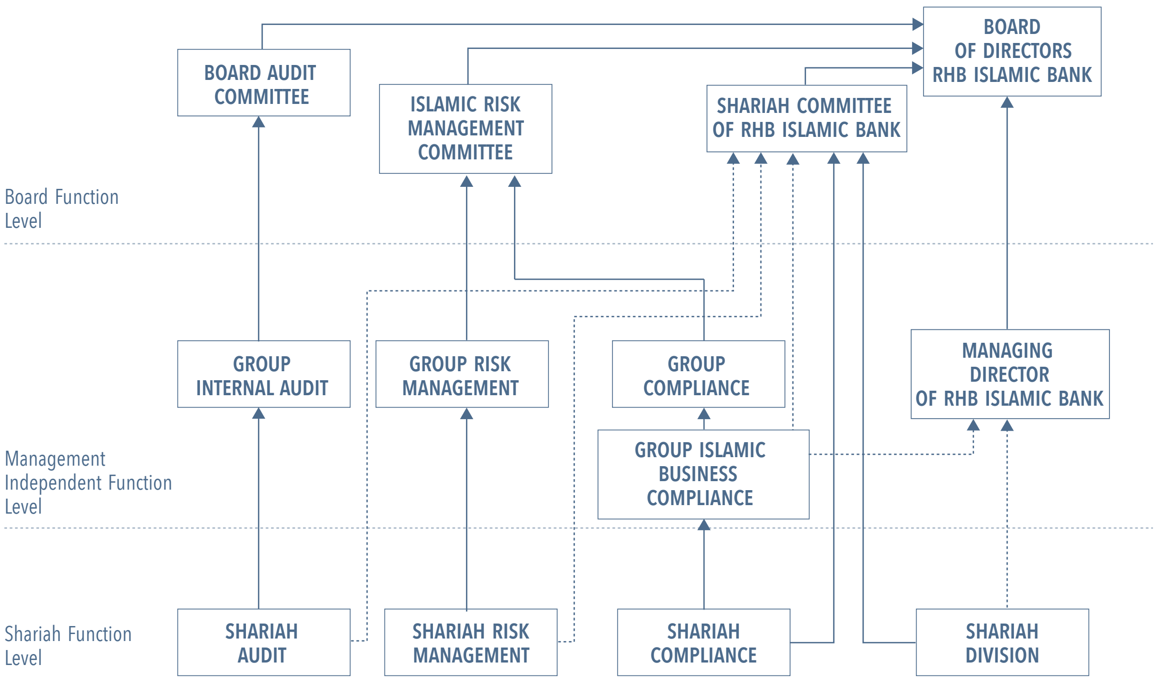
- Ensure that the planning, development, and implementation of the Islamic Bank's products, services and conduct of business are in accordance with Shariah principles;
- Ensure that the Bank's operations do not contravene any of the Shariah principles and authorities' regulations related to the Shariah; and
- Act as a guide on the Bank's expectations to all personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

BASEL II PILLAR 3 DISCLOSURES (continued)

as at 31 December 2015

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

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.

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, Group 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.

BASEL II
PILLAR 3 DISCLOSURES (continued)
as at 31 December 2015

13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

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

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 2015.

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.

GLOSSARY OF TERMS

TABLE 18	GLOSSARY OF TERMS
AMA	Advanced Measurement Approach
ARMs	Area Relationship Managers
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
DFIs	Development Financial Institutions
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EUR	Euro Dollar
EVE	Economic Value of Equity
Fitch	Fitch Ratings
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
IMA	Internal Models Approach
IMLDC	Incident Management and Loss Data Collection
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

GLOSSARY OF TERMS (continued)

TABLE 18	GLOSSARY OF TERMS
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody's	Moody's Investors Service
MYR	Malaysian Ringgit
NIFs	Notes Issuance Facilities
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Profitability 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
TSA	The Standardised Approach
VaR	Value-at-Risk

BRANCH NETWORK

ISLAMIC BANKING

MALAYSIA

KUALA LUMPUR

Cawangan Utama – Kuala Lumpur
No. 19A-1-1 & 19A-1-2
Level 1 UOA Centre
No. 19 Jalan Pinang
50450 Kuala Lumpur
Tel : 603 9206 8118
Fax : 603 2161 0599

Cawangan Jalan Raja Laut
Lot G-04, Ground Floor
Bangunan KWSP
No. 5, Jalan Raja Laut
50350 Kuala Lumpur
Tel : 603 9206 8118
Fax : 603 2693 7300

SELANGOR

Cawangan Bandar Baru Bangi
No. 39-G-1, Jalan Medan
Pusat Bandar 4
43650 Bandar Baru Bangi, Selangor
Tel : 603 8922 2192
Fax : 603 8926 3343

Cawangan Taman Bayu Tinggi, Klang
No. 1, Jalan Bayu Tinggi 6
Taman Bayu Tinggi
41200 Klang, Selangor
Tel : 603 3322 1216
Fax : 603 3325 9522

Cawangan Kelana Jaya
A-G-03, Jalan SS6/5A
Dataran Glomac
Pusat Bandar Kelana Jaya
47301 Petaling Jaya, Selangor
Tel : 603 7803 0255
Fax : 603 7805 7600

Cawangan Laman Seri, Shah Alam
Lot 17-1 & 17-2
No. 1, Laman Seri Business Park
Seksyen 13
40100 Shah Alam, Selangor
Tel : 603 5510 3491
Fax : 603 5511 2422

KEDAH

Cawangan Sungai Petani
Lot No. 41
Jalan Perdana Heights 2/2
Perdana Heights
08000 Sungai Petani, Kedah
Tel : 604 422 8088
Fax : 604 422 7088

PULAU PINANG

Cawangan Auto City, Prai
1808-B, Jalan Perusahaan Auto-City
North South Highway
Juru Interchange
13600 Prai, Pulau Pinang
Tel : 604 508 0500
Fax : 604 501 6700

JOHOR

Cawangan Taman Flora Utama
Ground Floor, No. 1 & 2
Jalan Flora Utama 1
Taman Flora Utama
83000 Batu Pahat, Johor
Tel : 607 433 6777
Fax : 607 433 4848

Cawangan Taman Setia Tropika
No. 1, Jalan Setia Tropika 1/30
Taman Setia Tropika
81200 Johor Bahru, Johor
Tel : 607 238 0078
Fax : 607 238 0012

KELANTAN

Cawangan Kubang Kerian
Lot 1679
Jalan Raja Perempuan Zainab 2
Bandar Baru Kubang, Kerian
16150 Kota Bharu, Kelantan
Tel : 609 764 0221/0222/0223
Fax : 609 764 0700

TERENGGANU

Cawangan Kuala Terengganu
No. 20, Pusat Niaga Paya Keladi
20000 Kuala Terengganu, Terengganu
Tel : 609 630 5577
Fax : 609 630 5533

SABAH

Cawangan Kota Kinabalu
Lot BG-01, Ground Floor Block B
Bangunan KWSP No. 49
Jalan Karamunsing
88100 Kota Kinabalu, Sabah
Tel : 6088 245 777
Fax : 6088 234 499

SARAWAK

Cawangan Jalan Satok
Ground Floor, 474 & 475, Section 6
KTLD, 192-E & 192-F, Jalan Satok
93400 Kuching
Sarawak
Tel : 6082 258 800
Fax : 6082 243 900

www.rhbgroup.com

RHB Group @RHBGroup RHB Group RHBGroup

RHB Islamic Bank Berhad (680329-V)
Level 9, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Tel : 603-9287 8888 Fax : 603-9281 9314