ANNUAL REPORT **2016**

RHB

RHB Islamic Bank Berhad

DRIVING SUSTAINABLE PERFORMANCE

TOGETHER WE PROGRESS

DRIVING SUSTAINABLE PERFORMANCE

With a strong presence in the ASEAN region, our focus is on driving performance as we look to improve revenue and productivity by identifying new opportunities and implementing strategies that create measurable improvements in sustainability and business performance.

As we progress on our journey to becoming a Leading Multinational Financial Services Group, we will continue to invest for the future, particularly in our people, technology and digital capabilities. Investments in our digital environment are aimed at delivering customer-centric innovations that supports a fast, simple and seamless banking experience as well as fuels business growth for the organisation.

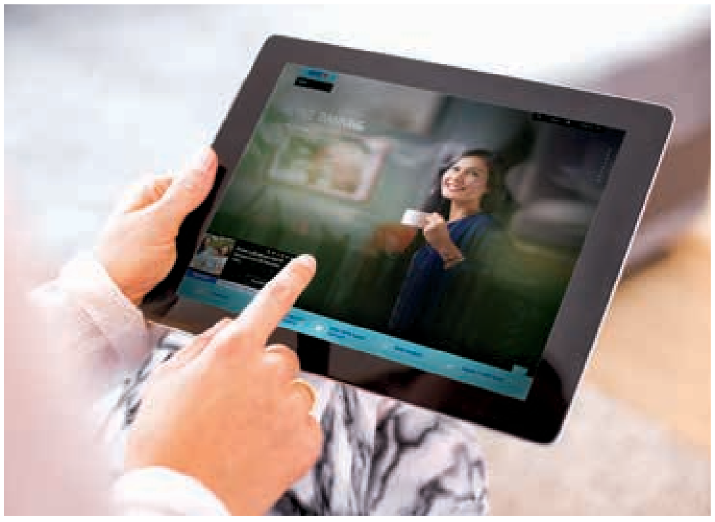
Working with our customers, business partners and shareholders, we are committed to a sustainable future as we drive RHB Banking Group towards being a regional powerhouse in ASEAN.

Together, we progress.

What's Inside

Governance

Overview



Financial Statements

Branch Network

ASPIRATIONS, VISION & VALUES

PROFESSIONAL
- Committed
- High level of proficiency, competency and reliability

RESPECT
- Courteous
- Humble

INTEGRITY
- Honest
- Ethical
- Uphold a high standard of governance

DYNAMIC
- Proactive
- Responsive
- Forward thinking

EXCELLENCE
- Continuously achieve high standards of performance and service deliverables

Our Vision by 2020...

TO BE A LEADING MULTINATIONAL FINANCIAL SERVICES GROUP

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

OUR STRATEGY STATEMENT

To be a multinational regional financial services provider that is committed to deliver complete solutions to our clients through differentiated segment offerings and an ecosystem that supports a simple, fast and seamless customer experience, underpinned by our cohesive and inspired workforce and relationships built with our stakeholders

OUR BRAND PROMISE

Together We Progress
- Being your trusted partner
- Delivering simple, fast and seamless experiences
- Providing solutions that help achieve your goals
- Nurturing future generations

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2016 RM'000	2015 RM'000	2014 RM'000	2013 RM'000	2012 RM'000
RESULTS					
Operating revenue	**2,238,504**	1,859,681	1,455,197	1,211,922	1,136,990
Net income	**683,731**	576,771	530,971	446,496	398,955
Profit before zakat and taxation	**431,657**	348,725	303,650	218,276	208,611
STATEMENT OF FINANCIAL POSITION					
Shareholders' equity	**2,928,442**	2,496,407	2,252,397	2,027,132	1,693,673
Total assets	**48,116,641**	44,076,741	36,113,786	29,131,089	25,609,662
Gross financing and advances	**34,087,124**	31,124,322	25,503,231	18,721,218	16,266,361
Total deposits	**42,472,593**	39,589,255	31,770,545	25,461,734	21,889,173
FINANCIAL RATIOS					
Return on average equity (%)	**11.97**	10.73	10.48	8.95	10.27
Return on average assets (%)	**0.70**	0.64	0.69	0.61	0.65
Risk Weighted Capital Ratio (%)	**14.002**	14.608	16.336	14.424	14.699[N1]
Core Capital Ratio (%)	**10.868**	11.041	12.875	13.864	13.971[N1]

N1: Restated in accordance with BNM's Capital Adequacy Framework for Islamic Banks (capital components).

SUMMARY OF FIVE-YEAR FINANCIAL HIGHLIGHTS

PROFIT BEFORE ZAKAT AND TAXATION

Year	(RM'000)
2016	431,657
2015	348,725
2014	303,650
2013	218,276
2012	208,611

SHARE CAPITAL

Year	(RM'000)
2016	1,273,424
2015	1,173,424
2014	1,173,424
2013	1,173,424
2012	973,424

SHAREHOLDER'S EQUITY

Year	(RM'000)
2016	2,928,442
2015	2,496,407
2014	2,252,397
2013	2,027,132
2012	1,693,673

TOTAL ASSETS

Year	(RM'000)
2016	48,116,641
2015	44,076,741
2014	36,113,786
2013	29,131,089
2012	25,609,662

GROSS FINANCING AND ADVANCES

Year	(RM'000)
2016	34,087,124
2015	31,124,322
2014	25,503,231
2013	18,721,218
2012	16,266,361

TOTAL DEPOSITS

Year	(RM'000)
2016	42,472,593
2015	39,589,255
2014	31,770,545
2013	25,461,734
2012	21,889,173

CORPORATE INFORMATION

As at 14 February 2017

BOARD OF DIRECTORS

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

Datuk Haji Faisal Siraj
Non-Independent Non-Executive Director

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

Dato' Mohd Ali Mohd Tahir
Independent Non-Executive Director
(Resigned with effect from 28 February 2017)

Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
Independent Non-Executive Director

Dato' Adissadikin Ali
Managing Director/Chief Executive Officer

BOARD RISK COMMITTEE#

Tan Sri Saw Choo Boon
Senior Independent Non-Executive Director/ Chairman

Patrick Chin Yoke Chung
Non-Independent Non-Executive Director

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

Chin Yoong Kheong
Independent Non-Executive Director

BOARD NOMINATING & REMUNERATION COMMITTEE#

Tan Sri Saw Choo Boon
Senior Independent Non-Executive Director/ Chairman

Tan Sri Azlan Zainol
Non-Independent Non-Executive Director

Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
Independent Non-Executive Director

Ong Seng Pheow
Independent Non-Executive Director

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

BOARD AUDIT COMMITTEE#

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

Tan Sri Saw Choo Boon
Senior Independent Non-Executive Director

Ong Seng Pheow
Independent Non-Executive Director

Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
Independent Non-Executive Director

BOARD TECHNOLOGY COMMITTEE#

Chin Yoong Kheong
Independent Non-Executive Director/Chairman

Ong Seng Pheow
Independent Non-Executive Director

Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
Independent Non-Executive Director

BOARD CREDIT COMMITTEE#

Patrick Chin Yoke Chung
Non-Independent Non-Executive Director/Chairman

Abdul Aziz Peru Mohamed
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

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

ISLAMIC RISK MANAGEMENT COMMITTEE^

Dato' Mohd Ali Mohd Tahir
Independent Non-Executive Director/ Chairman
(Resigned with effect from 28 February 2017)

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

Datuk Haji Faisal Siraj
Non-Independent Non-Executive Director

SHARIAH COMMITTEE

Dr Ghazali Jaapar *(Chairman)*

Professor Dr Joni Tamkin Borhan

Assoc. Prof. Dr. Amir Shaharuddin

Mohd Fadhly Md Yusoff

Wan Abdul Rahim Kamil Wan Mohamed Ali

Shabnam Mohamad Mokhtar

Notes:
- \# The Committee is shared with the relevant subsidiaries of the Group.
- ^ The Committee resides at RHB Islamic Bank Berhad.

GROUP SENIOR MANAGEMENT & GROUP INTERNAL AUDIT

Dato' Khairussaleh Ramli
Group Managing Director/Chief Executive Officer

Syed Ahmad Taufik Albar
Group Chief Financial Officer

U Chen Hock
Head, Group Retail Banking

Datin Amy Ooi Swee Lian
Head, Group Business & Transaction Banking

Dato' Adissadikin Ali
Managing Director/Chief Executive Officer – RHB Islamic Bank Berhad

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

Kong Shu Yin
Managing Director, RHB Insurance Berhad

Mike Chan Cheong Yuen
Country Head, Singapore and Chief Executive Officer, RHB Bank Singapore

Christopher Loh Meng Heng
Group Chief Strategy Officer

Mohd Rashid Mohamad
Group Treasurer

Rohan A/L Krishnalingam
Group Chief Operations Officer

Patrick Ho Kwong Hoong
Group Chief Risk Officer

Jamaluddin Bakri
Group Chief Human Resource Officer

Norazzah Sulaiman
Group Chief Marketing & Communications Officer

Wong Yih Yin
Group Chief Internal Auditor

COMPANY SECRETARY

Azman Shah Md Yaman
(LS 0006901)

REGISTERED OFFICE

Level 9, Tower One
RHB Centre, Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603 9287 8888
Fax : 603 9281 9314
Website : www.rhbgroup.com

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, Malaysia
Tel : 603-2171 5000
Fax : 603-2171 5001
Swift : RHBAMYKL
Call Centre : 603-9206 8118
(Peninsular Malaysia – 24 hours)
6082 276 118
(Sabah & Sarawak – 7 a.m. to 7 p.m.)

COMPANY NO.

680329-V

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat, Kuala Lumpur Sentral
50470 Kuala Lumpur
P. O. Box 10192, 50706 Kuala Lumpur
Tel : 603 2173 1188
Fax : 603 2173 1288

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1, Jalan PJU 1A/46
47301 Petaling Jaya, Selangor
Tel : 603 7849 0777
Fax : 603 7841 8151/8152

GROUP CORPORATE STRUCTURE

As at 14 February 2017

RHB Bank Berhad

COMMERCIAL BANKING GROUP

- 100.00% RHB Islamic Bank Berhad
- 100.00% RHB Bank (L) Ltd
  - 100.00% RHB International Trust (L) Ltd
    - 100.00% RHB Corporate Services Sdn Bhd
- 100.00% RHB Leasing Sdn Bhd
- 100.00% RHB Capital Nominees (Tempatan) Sdn Bhd
  - 100.00% RHB Capital Nominees (Asing) Sdn Bhd
- 100.00% RHB Capital Properties Sdn Bhd
- 100.00% Utama Assets Sdn Bhd
- 100.00% RHB Bank Nominees Pte Ltd (Singapore)
- 100.00% Banfora Pte Ltd (Singapore)
- 100.00% RHB Investment Ltd (Singapore)
- 100.00% RHB Trade Services Limited (Hong Kong)
- 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 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 Indochina Securities PLc.

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) RHB Futures and Options Sdn Bhd with direct shareholdings of 20.00% each.
- (7) RHB Bank Berhad became the holding company of RHB Investment Bank Berhad, RHB Insurance Berhad, RHB Equities Sdn Bhd, RHB Kawal Sdn Bhd, RHB Capital (Jersey) Limited, RHB Property Management Sdn Bhd and RHBF Sdn Bhd on 14 April 2016.
  RHB Bank Berhad also holds direct shareholding of 20% in RHB Trustees Berhad and Malaysian Trustees Berhad as well as 59.95% in RHB Finexasia.Com Sdn Bhd w.e.f. 14 April 2016.
  RHB Bank Berhad became the ultimate holding company of the Group on 13 June 2016.

- 100.00% RHB Futures and Options Sdn Bhd*
  - 40.05% RHB Finexasia.Com Sdn Bhd (59.95%)
    - 100.00% RHB Stock 188.Com Sdn Bhd*
  - 49.00% Vietnam Securities Corporation[5]
- 100.00% RHB Research Sdn Bhd*
- 100.00% RHB International Asset Management Sdn Bhd*
- 100.00% RHBIB Nominees (Tempatan) Sdn Berhad*
- 100.00% RHBIB 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% RHBIM 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 Property Management Sdn Bhd
- 100.00% RHBF Sdn Bhd*
- 100.00% RHB Kawal Sdn Bhd

PROFILE OF THE SHARIAH COMMITTEE

DR. GHAZALI JAAPAR

Chairman, Shariah Committee of RHB Islamic Bank
Aged 46, Male, Malaysian

Date Appointed: 01 April 2011		**Date of Last Re-appointment:** 01 April 2015
Number of Shariah Committee Meetings Attended in the Financial Year: 8/9		**Present Membership of Shariah Committee in Other Institutions:** HSBC Amanah Takaful
Qualifications:	➤ B.A. Shariah (Hons.), University of Malaya, Kuala Lumpur ➤ Master of Comparative Law, International Islamic University Malaysia, Kuala Lumpur ➤ Ph.D. Islamic Jurisprudence, University of Birmingham, United Kingdom	

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 Law of Transaction, Islamic Legal Maxims, *Siyasah Shar'iyyah* (Shariah-oriented policy). He had participated in various workshops, seminars and conferences on Islamic finance locally and abroad.

PROFESSOR DR. JONI TAMKIN BORHAN

Member, Shariah Committee of RHB Islamic Bank Berhad
Aged 50, Male, Malaysian

Date Appointed: 01 April 2005		**Date of Last Re-appointment:** 01 April 2015
Number of Shariah Committee Meetings Attended in the Financial Year: 9/9		**Present Membership of Shariah Committee in Other Institutions:** MAA Takaful Berhad
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	

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 (Mac – May 2002).

ASSOC. PROF. DR. AMIR SHAHARUDDIN

Member, Shariah Committee of RHB Islamic Bank Berhad
Aged 39, Male, Malaysian

Date Appointed: 01 April 2011		**Date of Last Re-appointment:** 01 April 2015
Number of Shariah Committee Meetings Attended in the Financial Year: 9/9		**Present Membership of Shariah Committee in Other Institutions:** Malaysian Airport Consultancy Berhad, Malaysian Electronic Payment System (MEPS)
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	

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, Universiti Sains Islam Malaysia (USIM) since December 2013. He has published numerous articles in refereed journals including Journal of Muamalat and Islamic Finance Research, Arab Law Quarterly and ISRA International Journal of Islamic Finance. He has written articles in Islamic Banking & Finance, Zakat, Islamic Law Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims and Siyasah Shar'iyyah (Shariah-oriented policy) for forums and seminars. 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

Member, Shariah Committee of RHB Islamic Bank Berhad
Aged 68, Male, Malaysian

Date Appointed: 13 April 2013	**Date of Last Re-appointment:** 01 April 2015
Number of Shariah Committee Meetings Attended in the Financial Year: 9/9	
Qualifications:	➤ Professional Member, Institute of Statisticians, United Kingdom ➤ Post Graduate Degree in Islamic Banking & Economics, International Institute of Islamic Banking & Economics, Turkish Cyprus (in association with Al Azhar University, Cairo)

Skills, Experience and Expertise:

Wan Abdul Rahim Kamil is experienced in Islamic Banking, Islamic capital market and various areas of operations including Corporate Financing and Syndication, Debt Capital Market and Corporate Advisory. Attached to Aseambankers (Malaysia) Berhad in Corporate Finance in 1977 before moving to Bank Islam Malaysia Berhad in 1983. Appointed as the Chief Executive Officer of ABRAR Discounts Berhad between 1994 to 2006 and later became consultant and trainer of Islamic Capital Market. He is frequently invited as speaker and trainer for various seminars and workshops by World Bank, Bank Negara Malaysia (BNM), Securities Industries Development Corporation (SIDC), Islamic Banking and Finance Institute Malaysia (IBFIM) among others. 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 was awarded the "Outstanding Leadership in Islamic Finance" by London Sukuk 2011 organised by ICG Events and UK Trade and Industry Ministry, United Kingdom.

MOHD FADHLY MD. YUSOFF

Member, Shariah Committee of RHB Islamic Bank Berhad
Aged 46, Male, Malaysian

Date Appointed: 13 April 2013		**Date of Last Re-appointment:** 01 April 2015
Number of Shariah Committee Meetings Attended in the Financial Year: 8/9		**Present Membership of Shariah Committee in Other Institutions:** Sun Life Malaysia Takaful Bhd, Apex Investment Services Berhad, National Farmers Organization (NAFAS), Opus Asset Management Sdn Bhd, Universiti Tenaga Nasional
Qualifications:	➤ Bachelor of Syariah (1st Class Honours), University of Malaya	

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 Organisation of Securities Commission (IOSCO) Task Force on Islamic Capital Market, Islamic Financial Services Board's (IFSB) Governance of Islamic Investment Funds Working Group, technical member for the publication of *Resolutions of the Securities Commission Shariah Advisory Council* and Islamic Capital Market educational and promotional programmes.

SHABNAM MOHAMAD MOKHTAR

Member, Shariah Committee of RHB Islamic Bank Berhad
Aged 39, Female, Malaysian

Date Appointed: 01 May 2015 ***(New Appointment)***	**Date of Last Re-appointment:** NIL
Number of Shariah Committee Meetings Attended in the Financial Year: 9/9	
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.

BOARD BALANCE & COMPOSITION

Board Balance & Composition

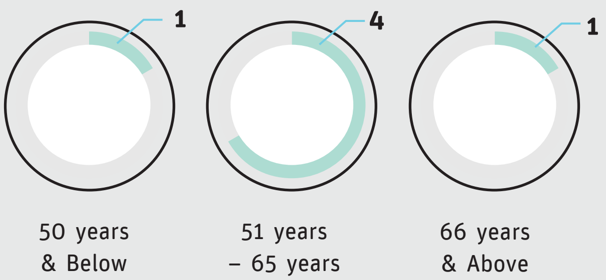
1 NON-INDEPENDENT NON-EXECUTIVE CHAIRMAN
- Tuan Haji Md Ja'far Abdul Carrim

1 NON-INDEPENDENT NON-EXECUTIVE DIRECTOR
- Datuk Haji Faisal Siraj

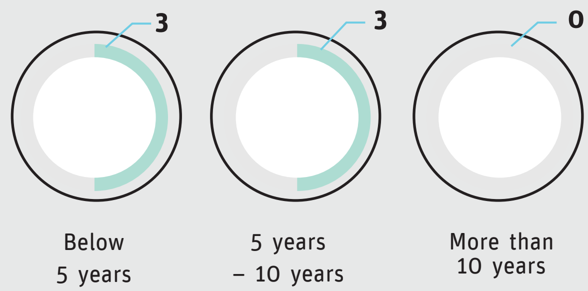
3 INDEPENDENT NON-EXECUTIVE DIRECTORS
- Dato' Mohd Ali Mohd Tahir
- Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
- Dato' Abd Rahman Dato' Md Khalid

1 NON-INDEPENDENT EXECUTIVE DIRECTOR
- Dato' Adissadikin Ali

Age Group



Tenure of Service in the Bank



Nationality

Ethnicity

6

Malay

PROFILE OF THE BOARD OF DIRECTORS

As at 14 February 2017

TUAN HAJI MD JA'FAR ABDUL CARRIM

Non-Independent Non-Executive Chairman

Nationality: **Malaysian**, Age: **61**, Gender: **Male**,
Date of Appointment: **10 August 2009**,
Length of Service in the Bank: **7 years 6 months**,
Date of Last Re-Election: **5 May 2014**

BOARD COMMITTEE MEMBERSHIPS:

- Board Credit Committee
- Board Risk Committee
- Islamic Risk Management Committee

OTHER DIRECTORSHIPS:

Listed Entities:

- Nil

Public Companies:

- RHB Insurance Berhad

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:

- 16/16

QUALIFICATIONS:

- 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.

DECLARATION:

- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATUK HAJI FAISAL SIRAJ
Non-Independent Non-Executive Director

Nationality: **Malaysian**, Age: **71**, Gender: **Male**, Date of Appointment: **3 December 2007***, Length of Service in the Bank: **9 years 2 months**, Date of Last Re-Election: **11 May 2016**

* *3 December 2016 (Re-designated as Non-Independent Non-Executive Director)*

BOARD COMMITTEE MEMBERSHIPS:
- Islamic Risk Management Committee

OTHER DIRECTORSHIPS:
Listed Entities:
- Nil

Public Companies:
- RHB Insurance Berhad
- RHB Capital Berhad (in Members' Voluntary Winding Up)

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 16/16

QUALIFICATIONS:
- 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.

DECLARATION:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATO' MOHD ALI MOHD TAHIR
Independent Non-Executive Director

Nationality: **Malaysian**, Age: **65**, Gender: **Male**, Date of Appointment: **1 January 2011**, Length of Service in the Bank: **6 years 2 months***, Date of Last Re-Election: **29 April 2015**

* *Resigned with effect from 28 February 2017*

BOARD COMMITTEE MEMBERSHIPS:
- Islamic Risk Management Committee (Chairman)

OTHER DIRECTORSHIPS:
Listed Entities:
- Nil

Public Companies:
- Nil

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 15/16

QUALIFICATIONS:
- Diploma in Investment Analysis from Malaysia Association of Productivity
- Diploma in Banking from Institute of Bankers, United Kingdom

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.

DECLARATION:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATO' SRI HAJI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR
Independent Non-Executive Director

Nationality: **Malaysian**, Age: **54**, Gender: **Male**, Date of Appointment: **6 October 2015**, Length of Service in the Bank: **1 year 4 months**, Date of Last Re-Election: **11 May 2016**

BOARD COMMITTEE MEMBERSHIPS:
- Board Nominating Board Risk Committee
- Board Credit Committee
- Board Audit Committee
- Board Technology Committee

OTHER DIRECTORSHIPS:

Listed Entities:
- RHB Bank Berhad

Public Companies:
- Nil

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 14/16

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

SKILLS AND EXPERIENCE:
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir 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 Haji Syed Zainal Abidin Syed Mohamed Tahir 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 Haji Syed Zainal Abidin Syed Mohamed Tahir received various awards during his stint in the automotive industries.

DECLARATION:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATO' ABD RAHMAN DATO' MD KHALID
Independent Non-Executive Director

Nationality: **Malaysian**, Age: **61**, Gender: **Male**, Date of Appointment: **2 January 2017**, Length of Service in the Bank: **1 month**, Date of Last Re-Election: **N/A**

BOARD COMMITTEE MEMBERSHIPS:
- Board Credit Committee

OTHER DIRECTORSHIPS:

Listed Entities:
- Nil

Public Companies:
- Nil

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- N/A

QUALIFICATIONS:
- Diploma in Business Studies from Mara Institute of Technology

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

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

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

DECLARATION:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

DATO' ADISSADIKIN ALI
Non-Independent
Executive Director

Nationality: **Malaysian**, Age: **45**,
Gender: **Male**, Date of Appointment:
1 August 2016, Length of Service in
the Bank: **6 months**, Date of Last
Re-Election: **N/A**

BOARD COMMITTEE MEMBERSHIPS:
- Nil

OTHER DIRECTORSHIPS:
Listed Entities:
- Nil

Public Companies:
- Nil

NO. OF BOARD MEETINGS ATTENDED IN THE FINANCIAL YEAR:
- 9/9

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

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

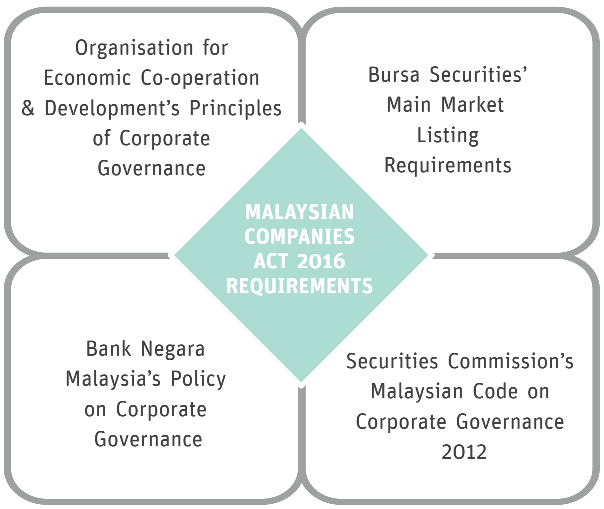
He was appointed the President/Chief Executive Officer of Export-Import Bank of Malaysia (EXIM) in October 2010 and served until June 2015. Prior to joining RHB Banking Group in August 2016, he was the Chief Executive Officer at Alkhair International Islamic Bank Berhad, the first foreign Islamic Bank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

DECLARATION:
- Conflict of interest with the company: Nil
- Family relationship with any director and/or major shareholder: Nil
- List of conviction for offences within the past 5 years: Nil
- Particulars of any public sanction or penalty imposed by the relevant bodies during the financial year: Nil

> **GOOD GOVERNANCE IS A CRITICAL COMPONENT OF SOUND FINANCIAL INSTITUTIONS AND PLAYS A KEY ROLE IN MAINTAINING PUBLIC CONFIDENCE IN THE FINANCIAL SYSTEM**
>
> *– Bank Negara Malaysia's public statement released on 3 August 2016.*

STATEMENT ON CORPORATE GOVERNANCE

The Board of RHB Islamic Bank Berhad ("RHBIB" or "Company") fully supports adoption of best practices in good corporate governance beyond regulatory requirements. RHBIB, recognises that enterprise governance, which is a balancing act of steering the RHB Banking Group's ("Group") performance while it conforms to best practices, whether in accordance with mandatory or voluntary requirements, is the turnkey to strengthen and ensure long-term sustainability in the Group-wide governance arrangements. Under the enterprise governance umbrella, the Company continuously strives to sustain and stimulate value creation by subscribing the broad principles set out in the following essential requirements and practices:



COMMITMENT TO CONFORMANCE

RHBIB is fully committed to protect the interests of all its stakeholders by applying good corporate governance practices, including greater transparency and sustainable disclosure. This office norm subsequently being translated into corporate culture as manifested top-down across the internal stakeholders, from the Board of Directors, down to the Senior Management and subsequently touches the rest of its Employees. A dedicated Business Risk and Compliance Officer is then employed in each respective business and functional units or branches to act as a focal point for line departments to relay matters relating to regulatory and internal requirements. This control function further formalised an in-house gatekeeper embedded into the existing enterprise risk management framework and covers all streams of businesses and functional arms of the Company within the Group.

The continuous enhancement in the Company's corporate governance deck has shown significant results in the way RHB Banking Group operates. Greater emphasis is placed by the Board of Directors on its fiduciary duty as the guardian of public deposits, customers' investments and account holders' policies, through sustainable boardroom scrutiny, decision-making and directives has gained more trust and in return, builds lasting commercial relationship with the Company's business partners. More rewardingly, this effort was externally assured by reputable and independent third parties' assessments which currently positioned the then ultimate holding company, RHB Capital Berhad, among **Top 6** of Malaysian Public Listed Companies ("PLCs") and **Top 50** of Association of Southeast Asian Nations ("ASEAN") Publicly Listed Companies, in terms of quality disclosures and scope of corporate governance practices.

During calendar year 2016, the Group's good corporate governance practices were externally verified and assured via the following recognitions:

- '**Merit Award** for Corporate Governance Disclosures' accorded by the Minority Shareholder Watchdog Group ("MSWG") on 15 December 2016. This merit award has been won for two consecutive years and earned 6th position in ranking among Malaysian PLCs under MSWG-ASEAN scorecard methodology, based on the Organisation for Economic Co-operation and Development ("OECD")'s Principles of Corporate Governance.
- **Enlisted** on the FTSE4Good Bursa Malaysia Index effective 19 December 2016 for good demonstration of Environmental, Social & Governance ("E.S.G.") practices.
- **Silver Award** for 'Best Annual Report in Bahasa Malaysia' during the National Annual Corporate Report Awards ("NACRA") Ceremony 2016 on 1 December 2016.
- **Platinum winner** for 'Excellence in Governance, Corporate Social Responsibility & Investor Relations Benchmarking 2016' under The Asset Corporate Awards.
- **Silver winner** for 'Best Governed and Most Transparent Company' category during The Pinnacle Group's Global Good Governance Awards Ceremony 2016.

Excellence in corporate governance is central towards promoting the Company's financial services amongst the ASEAN and Greater China economic community ventured. This compliance culture fosters the Group's Directors, Senior Management and the rest of the Employees to embrace professional business ethics and be self-adherence to internal and external requirements.

MERIT AWARD FOR CG DISCLOSURES (BY RANK)

- › Bursa Malaysia Bhd
- › Telekom Malaysia Bhd
- › Axiata Group Bhd
- › Malayan Banking Bhd
- › Sime Darby Bhd
- › RHB Capital Bhd
- › Allianz Malaysia Bhd
- › Petronas Dagangan Bhd
- › Tenaga Nasional Bhd
- › LPI Capital Bhd

9 December 2016

YBhg Dato' Khairussaleh Bin Ramli
Managing Director
RHB Bank Berhad
Level 9, Tower One,
RHB Centre, Jalan Tun Razak
50400 KUALA LUMPUR

YBhg Dato'

INCLUSION IN THE FTSE4GOOD BURSA MALAYSIA INDEX

Bursa Malaysia is delighted to inform you that RHB BANK BERHAD has met the globally recognised standards for inclusion in the FTSE4Good Bursa Malaysia Index. The FTSE4Good Bursa Malaysia Index is designed to measure the performance of companies demonstrating good Environmental, Social and Governance (ESG) practices.

FTSE4Good

"FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that RHB Bank has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products."

OVERVIEW
GOVERNANCE
FINANCIAL STATEMENTS

COMMITMENT TO PERFORMANCE

RHB Banking Group embarks its aspirations of becoming a **Leading Multinational Financial Services Group** towards the year 2020. This vision commits the Company to deliver complete solutions to its clients through differentiated segment offerings and an ecosystem that supports simple, fast and seamless customer experience, embossed in its latest strategy statement. In achieving the Group's short, medium and long-term strategic objectives, this mission intent is translated into the Group's Core **Shared Values** namely P.R.I.D.E. (**P**rofessional, **R**espect, **I**ntegrity, **D**ynamic & **E**xcellence), the Company's Annual Balanced Scorecard, Individual Sustainable Key Performance Indicators and also the Group's I.G.N.I.T.E. 2017 principles it currently adopts; namely **Innovative** in approach, **Growth** oriented, **Nimble** in action, **Impactful** in outcomes, **Teamwork** to succeed and **Excellence** in delivery.

Apart from the governance element already considered, the Board of RHBIB is now venturing into the adoption and integration of the Economic, Environment and Social ("EES") elements into the Group's business strategies to further create sustainable business operations and shares value. **Together we progress**; the Group's primary tagline, basically promoting the idea of the Company, walking hand-in-hand with its stakeholders, whether internal or external parties, towards achieving sustainable operations as the Company runs and manages its business in an orderly fashion. The other commercial tagline, namely **driving performance** include utilisation of the Group's current capitals (financial, manufactured, intellectual, human, social relationship and natural) at optimal level to improve its integrated value chain while safeguarding its own assets and the environment for future generation.

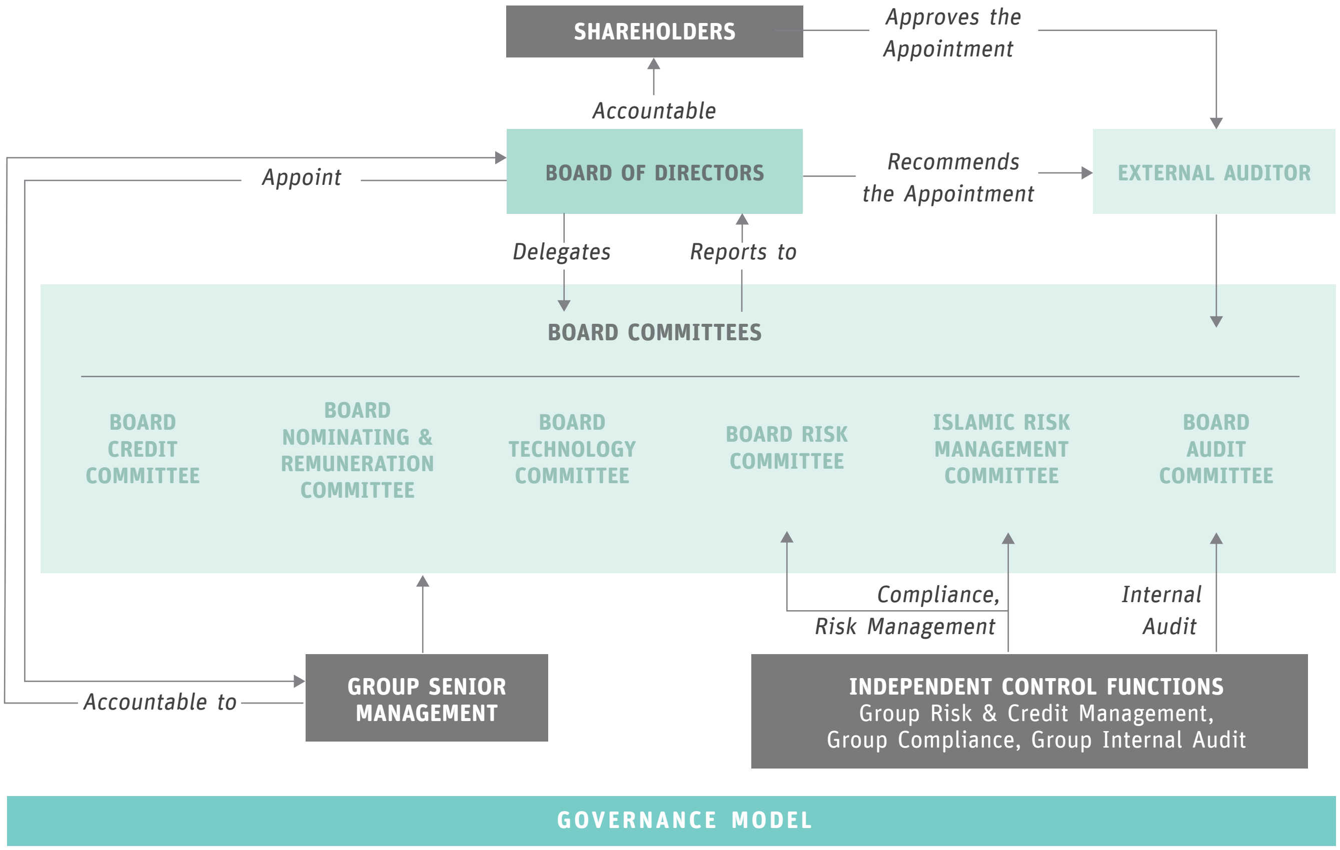
In leading the organisation and ensuring that all the Group's strategic objectives and business scorecards are met within the approved risk appetite, the Board is bound by its Charter, Terms of Reference ("ToR") for its various Board Committees, Group Code of Ethics & Business Conduct for Directors,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

Excellence in the Company's corporate and business governance are keys to reflect the overall good governance in practice and portray the overall picture of the Company's sustainability in the long run. In this respect, the Group is ranked **Top 10** among 920 Malaysian PLCs and **Top 3** among the Malaysian banks, in terms of overall good corporate governance and excellent financial performance, based on the latest MSWG-ASEAN Corporate Governance Scorecard 2016 assessment.

GROUP'S CORE SHARED VALUES
P.R.I.D.E. (PROFESSIONAL, RESPECT, INTEGRITY, DYNAMIC & EXCELLENCE)

LEADING MULTINATIONAL
FINANCIAL SERVICES GROUP

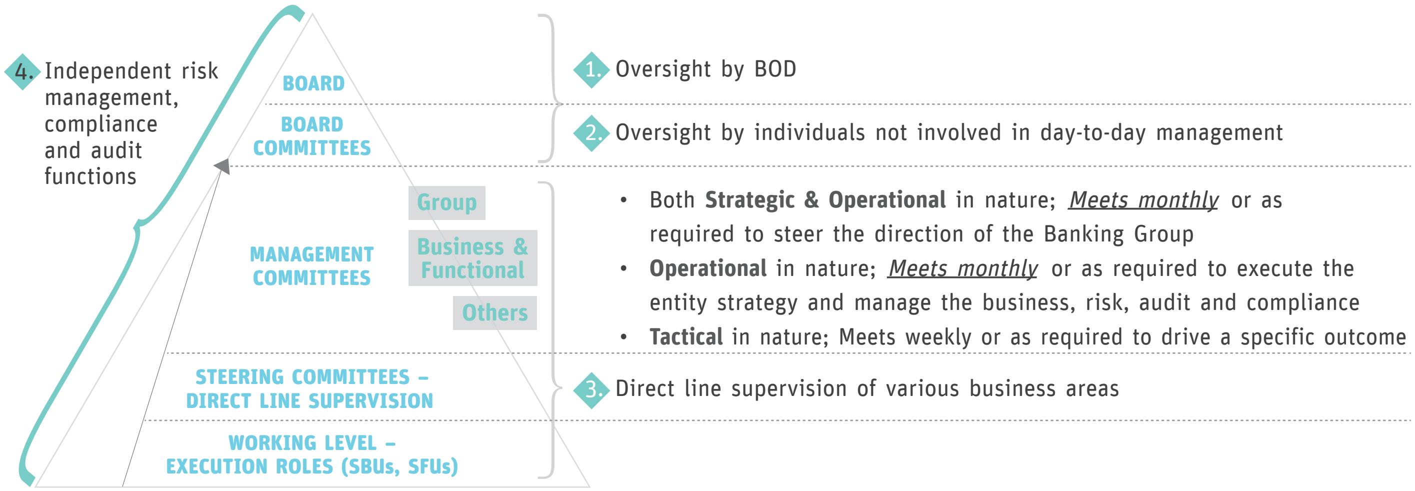
GOVERNANCE MODEL & FRAMEWORK



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. 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 Shareholders, Board & Board Committees, Senior Management, External & Internal Auditors and other Independent Control Functions.

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

Governance Framework



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

THE BOARD OF DIRECTORS

Board Charter

The Board Charter sets out the key corporate governance principles adopted by the respective Boards in each of the major operating entities within the Group, clearly defines the roles and responsibilities of Boards, Chairperson, Senior Independent Non-Executive Director and the Group Managing Director/Managing Director ("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.

Functions and matters of **strategic importance reserved** for the Board for deliberation and decision-making are mainly on the following:

- Business and operating strategies
- New or changes to existing business plans
- New investments or divestments
- Mergers and acquisitions
- Expansion or entry into new markets, geographies or regions
- Corporate restructuring or reorganisation
- Set-up of new subsidiaries
- Joint ventures, partnership or strategic alliance
- Acquisition or disposal of significant assets
- Progress and updates on I.G.N.I.T.E. 2017 initiatives

Within these boundaries, the respective Boards discusses, sets and agrees with the Management on the annual balanced scorecard, key performance indicators and the risk appetite that are to be duly executed and achieved by the Management. The performance and progress of the Management are 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 interest of the Company's shareholders and other stakeholders, and ensure the Company adheres to the highest standards of corporate governance.

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

(a) Governing the Company's and the Group'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. The Management's performance is monitored against the Balanced Scorecard on a regular basis. Interventions and regular reviews may be held to ensure that the execution of plans is aligned with the set objectives and goals.

The Board also governs the Company's risk management, internal controls and human resource ("HR") management through the delegation of certain decision making and/or oversight responsibilities to various Board Committees, namely the Board Audit Committee, Board Risk Committee and Board Nominating & Remuneration Committee. At the highest executive level, the Group MD assumes the overall responsibilities of executing the Group's strategies and plans in line with the Board's direction, oversees the listed entity's operations and drives the Group's businesses and performance towards achieving the Group's vision and goals.

In carrying out his tasks, the Group MD is supported by Group Management Committee ("GMC") which comprises the Group MD as the Chairman, the Chief Executive Officers/Managing Directors of the relevant key operating subsidiaries and key Senior Management of the Group.

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

In addition, the Group's Chief 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 businesses 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 businesses and operations under local jurisdictions. Areas for improvement, non-compliance incidents 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 where any direction or decision is required expeditiously from the Board between the scheduled meetings.

As part of the Group's initiatives to continuously improve employee engagement and employee value propositions, a combined employee engagement study via "Employee Engagement Survey" and "Internal Customer Effectiveness Survey" was conducted in October 2016 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. From this engagement, the Group targets to acquire valuable information from the employees to craft sustainable improvements in primary aspects of strategies and operations.

Other initiatives undertaken by the Group include a survey entitled "RHB Compliance Culture and Behavioural Assessment" initiated to improve the current state of the Group's compliance culture and behavioural maturity. The survey was conducted in November 2016 as part of the group-wide Compliance Risk Assessment to benchmark against industry-leading practices to improve Group's overall compliance effectiveness and the efficacy in meeting compliance requirements.

(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 two Independent Non-Executive Directors ("INEDs") and two Non-Independent Non-Executive Directors ("NINEDs"), representing the Group's respective entities. Matters deliberated at BRC meetings are presented to the Board on a monthly basis.

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

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

The Company and the Group maintain and review 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 Group'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 and the Group's systems of risk management is contained in the Risk Management Statement set out on pages 042 to 047 of this Annual Report.

pg_ to pg_

(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 and the Group'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 to recommend remuneration and human resource ("HR") strategies such as employee value propositions, retention strategies, performance management and succession planning.

The BNRC also approves changes to Group HR policies in line with the HR strategy and direction set by the Board. Additionally, the BNRC supports the Board in reviewing and assessing the appointment of Directors, Board Committee members, 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, the BNRC has considered the renewal of various service contracts and new appointments for key management positions, based on their profiles, professional achievements and personal assessments. These nominations 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 also 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 smooth transitions of key personnel into critical positions, and ensured 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 were the salary and grading structure, retention plans and incentive schemes for key Senior Management as well as numerous employee value propositions.

(d) Effective Communication

The Board recognises the importance of developing a healthy relationship with the investment community. To create shareholder value and improve communication with investors, the Investor Relations team implemented a comprehensive engagement programme in 2016 consisting of proactive and regular sessions with research analysts and institutional investors for timely and fair dissemination of information on the Group's vision and strategies, overall operations, and business and financial performance.

The key spokespersons and representatives for Investor Relations of the Group are the Group MD and the Group Chief Financial Officer.

(e) Internal Control

The Board is responsible for ensuring the adequacy and integrity of the Company's and Group'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 and the Group's internal control system. Details pertaining to the Company's and the Group's internal control system and review of its adequacy and effectiveness are set out in the Statement on Risk Management and Internal Control on pages 042 to 047 of this Annual Report.

Board Composition and Balance

The Board of RHBIB is currently represented by **five** Members, comprising a Non-Independent Non-Executive Chairman, two INEDs, one NINED and the MD/CEO, as follows:

BOARD COMPOSITION:

- 1 Non-Independent Non-Executive (NINE) Chairman
  - Tuan Haji Md Ja'far Abdul Carrim
- 1 NINED
  - YBhg Datuk Haji Faisal @ Ibrahim bin Siraj
- 2 INEDs
  - YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir
  - YBhg Dato' Mohd Ali Mohd Tahir
- 1 MD/CEO
  - YBhg Dato' Adissadikin Ali

YBhg Datuk Haji Faisal @ Ibrahim bin Siraj, who was formerly an INED had been re-designated as a NINED with effect from 3 December 2016 following his re-appointment as Director of RHBIB.

Current Independent Directors of the Company account for 40% of the Board. BNM's requirements of majority (>50%) of Board Members being independent must be complied with by year 2019, and the Board will endeavour to fulfil the criteria of independence as defined in BNM's Policy on Corporate Governance.

The presence of INEDs ensures an effective check and balance in the functioning of the Board. They 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.

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 participation.

During calendar year 2016 and the beginning of year 2017, the Company welcomed two new directors on the Board, namely YBhg Dato' Adissadikin Ali and YBhg Dato' Abd Rahman Dato' Md Khalid who served as MD and INED from 1 August 2016 and 2 January 2017, respectively.

In view of the enforcement of the new Companies Act 2016 on 31 January 2017 and the on-going requirements of the Malaysian Code on Corporate Governance ("MCCG") 2012, RHBIB recognises that organisation is best served by a constantly evolving board of directors, with staggered terms and a healthy combination of fresh perspective and experienced board members. Upon reaching the tenure of nine years, the INED shall discontinue to serve on the Board and therefore retire at the next Company's AGM or when a new incumbent is available to replace him, as the case may be. While RHBIB plans to adhere strictly to the nine years cap for the tenure of Independent Director in future, the **age limits** at 70 and 73 set for the Group's Non-Executive Directors ("NED") is abolished in consistent with the new Companies Act 2016. The Internal Guidelines will be revisited to strictly enforce the requirement of the nine years' tenure and align the removal of the age restriction pursuant to the Companies Act 2016.

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 BNM's Policy on Corporate Governance.

All Independent Directors are either 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.

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 unbiased 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.

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 for the Group ("Internal Guidelines"). The Board believes the tenure of INEDs should balance experience and learning with the need for renewal and fresh perspectives.

Roles of the Chairman and Managing Director/ Chief Executive Officer

The distinct and separate roles and responsibilities of the Chairman and MD/CEO 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 requirement of the Companies Act 2016, and that shareholders have adequate opportunity to air their views and obtain answers to their queries.

The MD, YBhg Dato' Adissadikin Ali, who has extensive financial experience and knowledge, was appointed effective 1 August 2016 to execute the overall responsibilities of implementing the Company's strategies in line with the Board's direction, overseeing the listed entity's operations and driving the Company's businesses and performance towards achieving the Company's vision and goals. YBhg Dato' Adissadikin Ali leads RHBIB's Senior Management in the execution of the RHBIB's strategic initiatives.

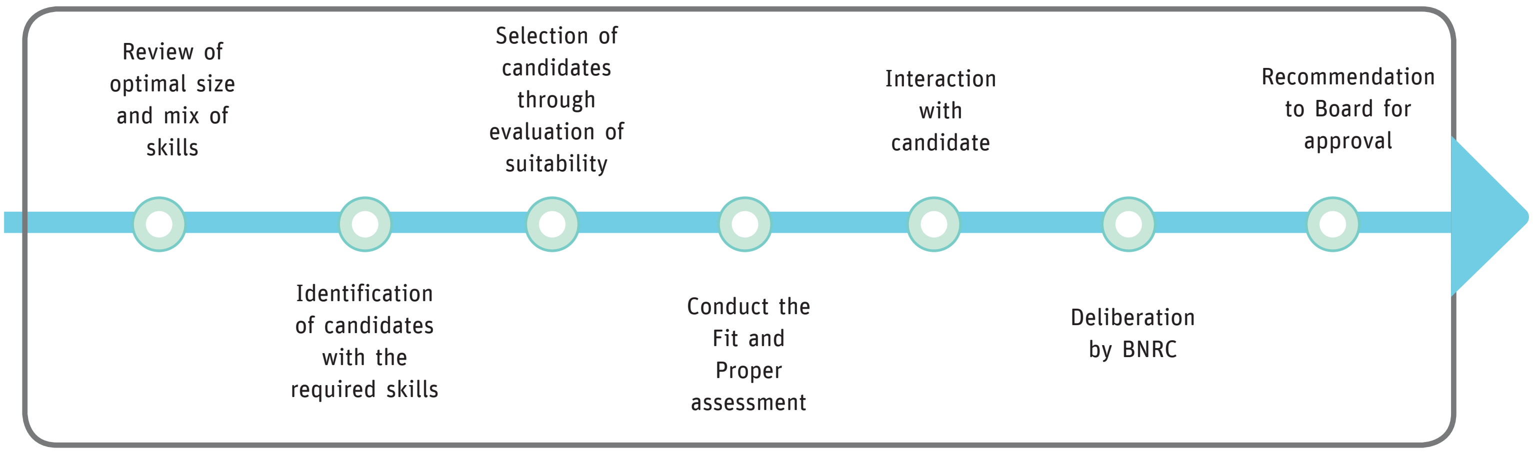
Nomination Framework

New Director nominees are assessed by the BNRC in accordance with the 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. The 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.

A set of questionnaire is given to new Board candidates to complete. One of the important areas assessed from the questionnaire is on time commitment, where the Company expects its Directors to devote appropriate time for Board/Board Committees meetings, relevant training and others. New directors need to make written declaration on their time commitment as indicated by the Company. One of the pre-requisite for a new candidate is the number of directorships held in public listed companies to ensure that the director is able to participate and perform his duties adequately, while existing directors are assessed on their meetings attendance records to reflect their time commitment.

Nomination Framework



These assessments are reviewed on an annual basis. The Fit and Proper Policy outlines the following criteria in assessing the suitability of new and existing candidates:

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

Directors' Appointment and Assessment

(a) Appointment of Directors

The Group leverages on the industry talent pool, FIDE Forum's Directors' Register and the Group's Independent Directors' network to source for new candidates for Board appointments, as overseen by the BNRC. This is the approach taken during calendar year 2016 and the beginning of year 2017 for nomination of the Company's new directors, namely YBhg Dato' Adissadikin bin Ali and YBhg Dato' Abd Rahman Dato' Md Khalid.

The Chairman and/or members of the BNRC conducts interaction sessions 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 expectation on the time commitment and contribution from the Directors will also be clearly communicated to the proposed candidates.

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

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

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

(b) Board Effectiveness Evaluation ("BEE")

Since 2006, the Group has undertaken the BEE exercise on the Boards and Board Committees to assess their effectiveness and that of individual Directors. 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 based on a combination of self and peer assessment performed via a customised questionnaire. To ensure integrity and independence of the appraisal process, Messrs PricewaterhouseCoopers Consulting Services Sdn Bhd ("PwCCS") was engaged to collate and tabulate the results of the evaluation. The BEE also includes in-depth interviews with Directors and Senior Management by PwCCS to encompass areas which fall outside the realm of the written assessment. The detailed BEE results are discussed with the Chairmen of the BNRC and Boards.

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

Part A: Board Evaluation

1. Board responsibilities
2. Board composition
3. Board remuneration
4. Board Committees: evaluation and self-evaluation
5. Board conduct
6. Board interaction and communication with management and stakeholders
7. Chairman
8. Group Managing Director/Managing Director/Chief Executive Officer
9. Board administration and process

Part B: Directors' Self and Peer Evaluation

1. Self-evaluation
2. Independent Directors assessment

Each Director and Board Committee member is required to perform an online self and peer assessment for the year in review. Upon completion, individual results together with a peer average rating on each area of assessment will be provided to each Director and Board Committee member for their information and further improvement. The latest BEE results have been presented to BNRC and the Board in March 2017 to identify and address areas for improvement.

MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

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

Key matters discussed by the Board are mainly strategic of nature, but from time-to-time, some material operational issues are also being discussed which need special attention and urgent direction.

For the financial year ended 31 December 2016, the Board is satisfied with the time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of RHBIB. The Board convened 16 meetings for the financial year ended 31 December 2016 and all the Directors have complied with the required minimum Board meetings attendance of 75% under BNM's latest Policy on Corporate Governance and as adopted by the Company.

Details on the independent status of the Board of Directors, their roles in Board Committees and their attendance at the aforesaid meetings in 2016 are set out below:

Name of Company Director	Position/ Independent Status	Date of Board Appointment	No. of Meetings Attended**						
			Board Meeting	**IRMC[1] Meeting**	**BRC[2] Meeting**	**BNRC[3] Meeting**	**BAC[4] Meeting**	**BCC[5] Meeting**	**BTC[6] Meeting**
Tuan Haji Md Ja'far Abdul Carrim	Chairman/ Non-Independent Non-Executive Director (NINED)	10 August 2009	16/16 *(Chairman)*	13/13	12/12	3/3 *(Ceased as member w.e.f. 27 June 2016)*	–	36/37	–
YBhg Datuk Haji Faisal Siraj	Non-Independent Non-Executive Director (NINED)	3 December 2007	16/16	12/13	–	3/3 *(Ceased as member w.e.f. 27 June 2016)*	5/5 *(Ceased as member w.e.f. 15 June 2016)*	–	–
YBhg Dato' Mohd Ali Mohd Tahir	Independent Non-Executive Director (INED)	1 January 2011	15/16	13/13 *(Chairman)*	–	–	–	–	–
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	Independent Non-Executive Director (INED)	6 October 2015	14/16	–	5/6 *(Ceased as member w.e.f. 27 June 2016)*	4/5 *(Appointed as member w.e.f. 27 June 2016)*	8/8 *(Appointed as member w.e.f. 15 June 2016)*	27/37	3/4 *(Appointed as member w.e.f. 11 May 2016)*
YBhg Dato' Adissadikin Ali	Managing Director/ Chief Executive Officer	1 August 2016	9/9	–	–	–	–	–	–
YBhg Dato' Abd Rahman Dato' Md Khalid	Independent Non-Executive Director (INED)	2 January 2017	N/A	–	–	–	–	–	–
Mr Charles Lew Foon Keong	Independent Non-Executive Director (INED)	14 October 2008 *(Retired as Director at AGM on 11 May 2016)*	5/5	–	–	–	–	–	2/2

Name of Company Director	Position/ Independent Status	Date of Board Appointment	No. of Meetings Attended**						
			Board Meeting	IRMC[1] Meeting	BRC[2] Meeting	BNRC[3] Meeting	BAC[4] Meeting	BCC[5] Meeting	BTC[6] Meeting
Tuan Haji Ibrahim Hassan	Managing Director/Chief Executive Officer	2 September 2013 *(Resigned as Director w.e.f. 1 August 2016)*	8/8						

Notes:
1-6 Abbreviations used denote various main Board Committees.
*** Calculated based on the tenure with RHBIB.*

For the Directors' convenience, an annual meeting schedule for Board and Board Committee meetings and the AGM is circulated to the Directors before the beginning of every year. Since 2014, the Group embarked on the use of a meeting management solution system (in place of eBooks used previously), allowing Directors/Board Committee Members to access the online portal directly in a secure and organised manner on their iPads.

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

This latest flexibility accommodates any Board meeting's paper to be circulated to the Board members instantly. Currently the circulations of the Board papers are between 5 and 7 days before each meeting.

The Directors are required to notify the Board on changes of their other directorships and shareholdings in RHB Bank Berhad 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.

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The information on the Company's Directors' directorships in public listed companies and other public companies is available on pages 013 to 016 of this Annual Report.

Information and Advice

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

Dedicated Company Secretary

The Board acknowledges and is satisfied with the performance and support rendered by the Company Secretary. In addition to acting as the custodian of the Company's and the Group'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 properly 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 on meeting with regulatory requirements and best practices specifically pertaining to Board governance. This includes proposing transparency and mandatory/voluntary disclosure on governance issues which are relevant and materially important to the stakeholders.

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

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

Remuneration Strategies

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

The Group has also established a common reference incorporating the Non-Executive Directors' ("NED") Remuneration Framework. It is aimed at applying the general principles for the remuneration of NEDs to ensure that remuneration levels are commensurate with the responsibilities, risks and time commitment of Boards/Board Committees. The level of remuneration reflects the level of responsibility undertaken by the particular NED concerned within the Company. It also takes into consideration practices within the industry and is reviewed at least once every two years.

The remuneration structure of the NEDs of the Group is laid out as follows:

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

Notes:

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

1) **Directors' Fees**

NEDs are entitled to annual Directors' fees, which are subject to shareholders' approval at the Annual General Meeting ("AGM") of the Company. The existing fees structure for the Company's Non-Executive Directors on the basis of RM150,000 per annum for Non-Executive Chairman and of RM120,000.00 per annum for every NED, is based on the Group's Directors' Fees structure.

2) **Board Committee Allowances**

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

3) **Chairmen's Premium**

NEDs who sit on various Boards and Board Committees as the chairman are entitled to receive a premium above the normal respective Board and Board Committee allowances, which shall be paid on an annual basis at the end of each financial year.

4) **Emoluments**

NEDs are awarded with 'On-Going Recognition & Appreciation Service Award' scheme ("Service Award") and the Group Chairman is accorded with a special allowance, in recognition of their services and commitments to the Group. Effective 1 January 2017, the Service Award was discontinued and being replaced by 'Farewell Pot' scheme for all the NEDs.

5) **Benefits-in-kind**

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

6) **Meeting attendance allowance**

NEDs are also entitled to meeting attendance allowances when they attend any Board/Board Committee meetings. Total allowances are subject to number of Board/Board Committee sittings and number of meetings attended by each Company's Non-Executive Director.

7) **Directors' & Officers' ("D&O") Liability Insurance**

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

CHAIRMEN
ARE ENTITLED TO A PREMIUM
ABOVE NORMAL BOARD/
COMMITTEES' ALLOWANCES

The information on the total remuneration of the Directors from the Company is available under Note 30 to the Financial Statements on pages 111 to 112 in the accompanying Financial Statements 2016 Report.

The MD is not paid a Director's fee nor is he entitled to receive any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration, which includes salary and bonus, either as short term or long term incentives, in cash or benefits-in-kind, is derived from the Company.

The Group has also established a remuneration framework for key Senior Management, consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with contributions to the organisation. Key Senior Management Officers are defined per term of references of the BNRC as Group Managing Director ("Group MD"), Chief Executive Officer/Managing Director who is the Direct Report to the Group MD and any persons as decided by the Committee.

Their aggregated total remuneration package amounting **RM15.7 million** for FYE 2016, includes basic salary, allowances, benefits in-kind and bonuses. The Board however believes that disclosure of the remuneration package of each key Senior Officer personnel in details would be disadvantageous for the Group's business interests, as poaching of executives is rather norm due to limited pool of executive talents and expertise within the local financial services industry.

DIRECTORS' ORIENTATION, CONTINUING EDUCATION AND TRAINING

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

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

Learning Process for New Director

One new INED was appointed to the Board of the Company in the beginning of 2017. The newly appointed Company's NED would attend an induction programme organised by the Management of the Group to provide them with in-depth information of the industry as well as an overview of the Group's business operations. During the induction programme, the NED will be briefed by relevant Management on the functions and areas of responsibility of their respective divisions. This enables the new NEDs to familiarise himself with the Group's operations and organisational structure and also helps him to establish effective channels of communication and interaction with Management.

In addition, the new NED is also provided with a comprehensive Director's induction kit to assist him in building a detailed understanding of the Group's operations, its longer-term direction and statutory obligations.

Apart therefrom, the new NED is required to complete the Financial Institutions Directors' Education ("FIDE") programme within one year of his respective appointments. The FIDE programme aims to enhance boardroom governance within the financial sector and develop world class directors who are advocates of best practices and excellence in corporate governance.

2016 DIRECTORS' TRAINING BUDGET

AMOUNTING RM15.7 MILLION

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

Name of Director(s)	Training Programme Attended	Training Scope & Description
Tuan Haji Md Ja'far Abdul Carrim	Bank Negara Malaysia Annual Report 2015/ Financial Stability and Payments Systems Report 2015 Briefing Session	• Financial Stability • Payment Systems Report
	Corporate Directors Advanced Programme (CDAP) 2016 – Cyber Security Risk Management For Boardroom and C-Suite	• Cyber Security Fundamentals & Overview • Introduction to Risk Management • Identifying Security Gaps & Handling Threats • Summarising the Role of the Board in Cyber Security Risk Management
	Briefing on Trans-Pacific Partnership Agreement (TPPA) by PwC to Board of Directors & Senior Management	• Economic impact of TPPA • Overall economy • Sectoral analysis • Potential impact of TPPA on RHB Group and related key client segments 16 • Thematic issues
	Invitation to the launch of Directors Register	• Board Leadership Framework for Financial Institutions in Malaysia • Board composition and managing succession planning
	FIDE FORUM: 2nd Distinguished Board Leadership Series – "Avoiding Financial Myopia" by Professor Jeffrey L. Sampler	• Identify sources of qualitative risk
	BNM – FIDE FORUM Dialogue with Deputy Governor on the Corporate Governance Concept Paper	• Corporate Governance Concept Paper
	Directors Duties, Business Ethics & Governance Seminar 2016 (MICG)	• Corporate Governance the challenges and Board Responsibilities • Board and ethical governance understanding business integrity • Implementing an effective and efficient Board • Compliance and risk management BODs' regulatory obligation
	Digital Signature Training To RHB Board of Directors	• Perform the Digital Signing
	Exclusive Session for Directors: Implementation of FIDE FORUM's Directors Register	• Board Leadership Framework

Name of Director(s)	Training Programme Attended	Training Scope & Description
Tuan Haji Md Ja'far Abdul Carrim (continued)	Presentation on MFRS9 by Ernst & Young (EY) To The Board of Directors	• Implication and challenges of implementing IFRS9 • IAS 39
	FIDE FORUM Securities Commission-FIDE FORUM Dialogue: FinTech's Impact on Financial	• Current marketplace in crowd funding and P2P lending • Impact of FinTech platforms-key risk/concerns to financial stability and various stakeholder • View on responsible innovation in the financial services industry
	Shariah Awareness Programme For Board of Directors and Senior Management	• Islamic Banking: Compliance, Innovation, Profitability • Social Entrepreneur/Social Responsibility Investment
	FIDE Elective Programme Advanced Risk Governance and Risk Management	• Managing assets and liabilities, liquidity, and solvency • Leverage policy • Risk governance and credit risk concentration • Islamic banking and liquidity management
	Anti-Money Laundering/Counter Financing of Terrorism for RHB Banking Group BODs & GMCs and Heads	• Scope of Money Laundering Problem • Money Laundering: International Actions • Objectives of AMLA/AMLATFA/AMLATFPUA
	Briefing on Companies Act 2016	• Status of new Companies Act • General Impact of the new Companies Act 2016 • Contents of the Companies Act 2016
	FIDE Forum: Technology-based Innovation that Counts	• Technology and its role in the financial services industry
YBhg Datuk Haji Faisal @ Ibrahim bin Siraj	Briefing on Trans-Pacific Partnership Agreement (TPPA) by PwC to Board of Directors & Senior Management	• Economic impact of TPPA • Overall economy • Sectoral analysis • Potential impact of TPPA on RHB Group and related key client segments 16 • Thematic issues
	Digital Signature Training To RHB Board of Directors	• Perform the Digital Signing
	Anti-Money Laundering/Counter Financing of Terrorism for RHB Banking Group BODs & GMCs and Heads	• Scope of Money Laundering Problem • Money Laundering: International Actions • Objectives of AMLA/AMLATFA/AMLATFPUA
	Briefing on Companies Act 2016	• Status of new Companies Act • General Impact of the new Companies Act 2016 • Contents of the Companies Act 2016

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	FIDE Core Programme Module A – (Bank)	• Understanding of the role of the board • Equip directors with tools and strategies • Responsibility of the board for promoting a strong risk control culture • Explore plausible and extreme stress scenarios
	Briefing on Trans-Pacific Partnership Agreement (TPPA) by PwC to Board of Directors & Senior Management	• Economic impact of TPPA • Overall economy • Sectoral analysis • Potential impact of TPPA on RHB Group and related key client segments 16 • Thematic issues
	FIDE Core Programme Module B – (Bank)	• To deepen boards' understanding of principles of sound governance • The adoption of more structured and robust processes for the selection of board members • Understanding of the key issues in financial reporting • Common pitfalls in strategy execution
	Digital Signature Training To RHB Board of Directors	• Perform the Digital Signing
	Presentation on MFRS9 by Ernst & Young (EY) To The Board of Directors	• Implication and challenges of implementing IFRS9 • IAS 39
	Shariah Awareness Programme For Board of Directors and Senior Management	• Islamic Banking: Compliance, Innovation, Profitability • Social Entrepreneur/Social Responsibility Investment
YBhg Dato' Mohd Ali Mohd Tahir	Briefing on Trans-Pacific Partnership Agreement (TPPA) by PwC to Board of Directors & Senior Management	• Economic impact of TPPA • Overall economy • Sectoral analysis • Potential impact of TPPA on RHB Group and related key client segments 16 • Thematic issues
	Directors Duties, Business Ethics & Governance Seminar 2016 (MICG)	• Corporate Governance the challenges and Board Responsibilities • Board and ethical governance understanding business integrity • Implementing an effective and efficient Board • Compliance and risk management BODs' regulatory obligation

Name of Director(s)	Training Programme Attended	Training Scope & Description
YBhg Dato' Mohd Ali Mohd Tahir (continued)	Anti-Money Laundering/Counter Financing of Terrorism for RHB Banking Group BODs & GMCs and Heads	• Scope of Money Laundering Problem • Money Laundering: International Actions • Objectives of AMLA/AMLATFA/AMLATFPUA
	Briefing on Companies Act 2016	• Status of new Companies Act • General Impact of the new Companies Act 2016 • Contents of the Companies Act 2016
YBhg Dato' Adissadikin Ali	Islamic Finance Awareness Program 2016: Islamic Deposit and Investment Account by IBFIM	• Fundamentals of Shariah in Islamic Banking • Islamic Banking Products and Services
	BNM Future Finance Conference	• Deliberate and identify solutions for issues covering the areas of financial inclusion, community empowerment, financial technology and in increasing insurance and takaful penetration
	Global Symposium on Innovative Financial Inclusion	• Boarder understanding of innovative financial inclusion • Showcase high-impact innovative financial inclusion channels and platforms

BOARD COMMITTEES

To ensure effectiveness in discharging its roles and responsibilities, the Board delegates specific authorities to the relevant Board Committees. This delegation of authority is expressly stipulated in the Terms of References ("TOR") of the respective Board Committees. The TORs are reviewed periodically to ensure effective and efficient decision making in the Group. The Board Committees also act as oversight committees, evaluating and recommending matters under their purview for the Board to consider and approve.

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

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/Board Committees/Shariah Committees.

- Provide oversight and direction on HR matters and operations, and recommend to the Boards for approval of remuneration and human resource strategies.

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 Tan Sri Saw Choo Boon, the SINED of RHB Bank Berhad.

Board Risk Committee

The Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and safeguard shareholders' investments as well as the Company's and the Group's assets. The Board Risk Committee ("BRC") provides oversight and governance of risks for the Group to ensure that the Group's risk management process is functional and effective.

The BRC also oversees Senior Management's activities in managing risk, ensuring that the risk management process in each of the Group's entities 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 four NEDs, of whom two are INEDs and two NINEDs, representing the respective entities within the Group. The BRC met 12 times during the financial year 2016. The composition of the BRC and the attendance of the members at meetings held in 2016 are as follows:

Name of Directors	Attendance at Meetings
YBhg Tan Sri Saw Choo Boon (INED/Chairman)#	12/12 (100%)
Mr Patrick Chin Yoke Chung (NINED)	11/12 (92%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	12/12 (100%)
Mr Chin Yoong Kheong (INED)	11/12 (92%)
Tuan Haji Khairuddin Ahmad (INED/Chairman)^	4/4 (100%)
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (INED)*	5/6 (83%)

Notes:

* *Resigned with effect from 27 June 2016.*
\# *Redesignated as BRC Chairman on 11 May 2016.*
^ *Retired from BRC on 11 May 2016.*

Board Audit Committee

The Board Audit Committee ("BAC") comprises four INEDs representing RHBIB and its major operating subsidiaries. The BAC provides independent oversight of the Group's financial reporting and internal control system, ensuring checks and balances for entities within the Group. 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 reviews the integrity and reliability of the Company's and the Group's financial statements on a quarterly basis, prior to recommending the same for the Board's approval and issuance to stakeholders.

THE BOARD RISK COMMITTEE ("BRC") PROVIDES
OVERSIGHT AND GOVERNANCE OF RISKS FOR THE GROUP

During the reviews, the Group Chief Financial Officer provides assurance to the BAC that:

- Adequate processes and controls are in place for an effective and efficient financial statement close process;
- Appropriate accounting policies have been adopted and applied consistently; and
- The relevant financial statements give a true and fair view of the state of affairs of the Company and the Group in compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Companies Act 1965.

The BAC also meets twice a year with the external auditors, without the presence of the Management and the executive Board members, to discuss any key issues/areas that require attention of the BAC and the Board.

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.

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Detailed disclosures on BAC's governance structure and primary activities are available on pages 048 to 051 of this Annual Report.

Board Credit Committee

The Board Credit Committee ("BCC") comprises five NEDs, of whom three 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 underwriting applications for amounts above the defined thresholds of the Group Credit Committee and/or Group the Investment & Underwriting Committee. It also endorses and recommends write-offs as well as approves all policy loans/financing and loans/financing which are required by BNM to be approved by the respective Boards.

Board Technology Committee

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

Board Committees

In addition to the above, the following Board Committees reside at RHB Islamic Bank to assist the Board and the Management in governing Islamic business activities and Shariah-based operations within the Group.

(a) Shariah Committee

The Shariah Committee is housed at RHB Islamic Bank and comprises six (6) qualified local Shariah scholars.

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

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

(b) Islamic Risk Management Committee

The Islamic Risk Management Committee ("IRMC") resides at RHB Islamic Bank and comprises three (3) NEDs of RHB Islamic Bank, of whom two are NINEDs and one is INED. The IRMC provides risk oversight and guidance to ensure that the management of risk exposures in RHB Islamic Bank are aligned to the principles of Islamic Banking as guided by the relevant regulatory authority, as well as to ensure that core risk policies are consistent with the Group's. The IRMC also oversees the execution of risk policies and related decisions by RHB Islamic Bank's Board, and provides oversight for major risk categories which are unique to Islamic finance. These include displaced commercial risk, withdrawal risk, rate of return risk, fiduciary risk and Shariah non-compliance risk.

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INVESTOR RELATIONS AND STAKEHOLDER COMMUNICATIONS

Corporate Disclosure

Since 2013, the Group has adopted a media communication plan which defined the roles and responsibilities of the Chairman and Senior Management together with levels of authority in handling the disclosure of material corporate, business and financial information to the public via media channels.

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

Corporate Website

In view of the importance of the corporate website to promote the Group's branding and image, our intranet has been restructured to enhance our internal communication channel and landing platform for knowledge repository within the Group. The corporate section on the Group's website, on the other hand, makes all relevant information (including information on dividend, capital & debt instruments, credit rating, all announcements released to media and Bursa Malaysia website, annual reports, corporate structure, corporate governance statement, notice of general meetings and minutes of general meetings) on the holding company, RHB Bank Berhad and its main operating subsidiaries publicly accessible.

UPHOLDING INTEGRITY

Compliance with Financial Reporting Standards

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

Relationship with Internal and External Auditors

Internal audit

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

Follow-up actions and a review of the status of actions taken as per the auditors' recommendations are carried out by the Management via the various Management Audit Committees established within the Group. The Group internal auditors also work closely with the external auditors to resolve any control issues as raised by them to ensure that all issues are duly acted on by the Management. Further details of the activities of the GIA function are set out in the Statement on Internal Audit on pages 052 to 056 of this Annual Report.

The Group's current Internal Audit Charter is up-to-date 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. Among the criteria set are that the auditors are registered auditors with professional competence, their objectivity/independence are not impaired, their background are free from criminal dishonesty acts and disciplinary actions taken by the Malaysian Institute of Accountant, and also their tenure of appointment as engagement partner not exceeding 5 continuous years with the Company. For the current financial year, the engagement partner and the concurring partner of the external auditors have been changed and replaced by new partners in consistent with the regulatory requirement.

In addition, the performance of the external auditors is assessed through a survey amongst the management requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the financial reporting year. The survey covers areas such as quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness, relationship management and staff continuity.

Having satisfied itself with their performance and fulfilment of criteria as set out in BNM's Guidelines, the BAC will recommend the re-appointment of the external auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC 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 quarterly. This is to ensure the independence of the external auditors and its compliance with the Policy and terms of all relevant professional and regulatory requirements when rendering its audit and non-audit services. During the financial year, the external auditors made written assurance that they have maintained their independence for the audit of the Group's financial statements and for all the non-audit engagements undertaken, in accordance with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants.

Group Whistle Blower Policy

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

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

Code of Ethics

The Board is committed to inculcating a corporate culture which engenders ethical conduct throughout the Company 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.

The Group has also implemented a Group Code of Ethics and Conduct ("Code") for its employees to ensure a high standard of ethical and professional conduct in performing their duties and responsibilities. The said Code establishes the standards that govern the way employees deal with each other, our shareholders, customers, suppliers, competitors and communities. Within this framework, employees are expected to exercise good 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 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. It is also part of the overall anti-bribery and corruption initiative currently pursued by the Group.

Corporate Responsibility

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

The framework will ensure that EES issues are integrated into the Group's daily business practices to promote its sustainability. Sustainability is defined as conducting business responsibly and ethically by factoring in 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, promote a culture of respect and care for its workforce and the public, all of which, appropriately implements good governance.

The Board also acknowledges that a sustainable approach to investing is vital to the interests of long-term 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, environmental and social 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 responsibility. Therefore, EES issues 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 and 2012, respectively), which guides the review and reporting of all related party transactions. Under this policy, all related party transactions are reviewed by Group Legal prior to independent review by Group Internal Audit before any submission is made to the BAC for deliberation.

Sanctions and penalties

For the financial year 2016, no public reprimands, sanctions and/or material penalties were imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies.

Material contracts involving Directors' and major shareholders' interest

RHBIB did not have any material contracts involving Directors' and major shareholders' interests in the 12-month financial period from 1 January 2016 to 31 December 2016. The material contracts in this case do not include financing to parties connected to Directors which are conducted in accordance with the relevant BNM's guidelines.

COMPLIANCE STATEMENT

In carrying out fiduciary duties, the Board of Directors ("Board") of RHBIB is pleased to disclose that the Company for the Financial Year Ended (FYE) 31 December 2016 has satisfied the following:

- The Company's financial statements were prepared in compliance with the approved accounting standards and disclosure requirements set out in the Companies Act 2016
- All material aspects of the principles stipulated by Bank Negara Malaysia (Central Bank of Malaysia)'s Policy on Corporate Governance are complied

This Corporate Governance Statement and the disclosures in this report have been approved by the Board on 25 April 2017.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

RESPONSIBILITY

The Board acknowledges its overall responsibility in establishing a sound risk management and internal control system and for assessing its effectiveness. Such a system is designed to manage risks within the established risk appetite and risk tolerance rather than total elimination of risks to achieve RHB Islamic Bank Berhad ("Bank")'s business objectives. The system can therefore only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board is assisted by the Board Risk Committee ("BRC"), Board Audit Committee ("BAC") and Islamic Risk Management Committee ("IRMC") which have been delegated with primary oversight responsibilities on the Bank's risk management and internal control system.

The Board is further assisted by the Management who is responsible for implementing the Bank's policies and processes to identify, evaluate, monitor and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely corrective actions as required, and to provide assurance to the Board that the processes have been carried out.

RISK MANAGEMENT FRAMEWORK

The Group has put in place a risk management framework approved by the Board for identifying, evaluating, monitoring and reporting of significant risks faced by the Group and the Bank that may affect the achievement of the Group's and Bank's business objectives.

Risk Governance and Oversight

The Group's risk management framework seeks to ensure that there is an effective on-going process in place to manage risk across the Group. This process is regularly reviewed by the Board through the BRC which provides oversight over the risk management activities for the Group to ensure that the Group's risk management process is functioning effectively.

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

Group Risk & Credit Management function provides independent oversight on business activities and implements the Group's risk management framework in order to protect and safeguard the Group's and the Bank's assets, and to prevent and mitigate financial and reputational losses to the Group and the Bank. 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. On a monthly basis, a Group Risk Management Report prepared by Group Risk & Credit Management function which includes the entities and the Group's risk metrics and tolerance dashboard is presented to the Board for information, deliberation or decision making.

In addition to the risk management framework, the Group has implemented the Internal Capital Adequacy Assessment Process ("ICAAP") framework to ensure that the Group and the Bank maintains adequate capital levels consistent with the risk profiles including capital buffers to support the Group's and the Bank'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, Islamic Risk Management Committee, Board Credit Committee and Board Technology Committee with their scope of responsibility as defined in their respective terms of reference.

Risk Appetite

The Board, through the BRC, IRMC, GCRC and Group Risk & Credit Management function, establishes the risk appetite and risk tolerance for the Group and relevant entities.

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

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

Risk Culture

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

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

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

The implementation of the BRCO program is in line with the 'Three Lines of Defence' model practised globally and is depicted in the diagram below:

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

Risk and Control Self-Assessment

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

INTERNAL CONTROL SYSTEM

The Group's internal control system which encompasses the policies, procedures, processes, organisational structures, tasks and other control aspects is implemented for assuring the achievement of the Group's and the Bank's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies.

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 effective supervision of day-to-day business conduct and accountability.

Policies and Procedures

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

Authority Limits

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

Information Technology (IT) Security

The 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 ensuring reliability and continuous availability of the computerised data processing systems.

IT security in the Group is achieved through the implementation of control processes which include documented policies, standards, procedures and guidelines as well as organisational structures and software control functions. IT security controls protect the Group's information and data from a wide range of threats and safeguard its confidentiality, integrity and availability.

Computer equipment and information assets of various forms are provided to enable employees of the Group and relevant third parties to satisfactorily complete their duties. These assets, depending on its value and risk exposure, are subjected to controls that are designed to protect them from accidental or intentional loss, or unauthorised access, modification, manipulation or disclosure.

Budgeting Process

A robust budgeting process is established requiring all key operating companies in the Group to prepare budgets and business plans annually for approval by the respective Boards. The Group's budget and business plans as well as strategic initiatives, taking into account the established risk appetite, are deliberated at the Board where the group budget is presented.

Human Capital Management

One of the key constituents of any internal control system is its people and that our system of risk management and internal control is dependent on the responsibility, integrity and sound judgement that employees apply to their work. Hence, the Group has in place policies and procedures that govern recruitment, appointment, performance management, compensation and reward as well as policies and procedures that govern discipline, termination and dismissal.

For sustainable growth, the Group places emphasis on human capital development, talent management and succession planning. To enhance staff competencies, structured and technical trainings as well as management and leadership workshops 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 continuous supply of high potentials and suitable successors for future leadership roles.

Group Code of Ethics and Conduct

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

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

Group Anti-Money Laundering/Counter Financing of Terrorism Policy

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

Pursuant to the Group AML/CFT Policy, the entities within the Group are required to adopt and implement the AML/CFT Compliance Programme framework which includes customer due diligence ("CDD") requirements, tracking, monitoring and reporting of suspicious transactions, record keeping, AML/CFT training, duty of care on customer information, and enforcement actions for non-compliance to the requirements.

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

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

Group Fraud Risk Management Policy

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

Business Continuity Management

The Group recognises and is fully committed to the need to provide uninterrupted critical services to its customers, ensure the safety of its employees, protect its assets/data and safeguard the interest of its key stakeholders that collectively ensure the viability of the organisation. 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 life crisis. The BCP Programmes are subject to regular testing/exercising to ensure their efficacy, reliability and functionality. Simulation exercises and drills are conducted to familiarise and equip staff with the skills and techniques required to identify, assess, respond and cope with any untoward situations.

Information and Communication

Performance Review

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

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

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 the decision makers to undertake informed decision making and be kept up to date on situations as well as manage risks effectively.

Monitoring

Board Committees

Board Committees have been set up to assist the Board to perform its oversight functions, namely the BRC, BAC, Board Nominating & Remuneration Committee, Board Credit Committee, Board Technology Committee and Islamic Risk Management Committee. These Board Committees have been delegated with specific duties to review and consider all matters within their scope of responsibility as defined in their respective terms of reference.

Group Management Committee

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

Management Audit Committee

Management Audit Committee ("MAC") is established at the Bank to ensure timely rectification of any audit findings and control lapses highlighted by the internal and external auditors, and regulators.

The MAC comprising senior level representatives from different business/ functional groups is chaired by the Managing Director of the Bank. The MAC meets monthly and the minutes of meetings together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

Group Compliance

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Group. Therefore, everyone concerned is expected to promote self-regulation and be accountable for his or her own activities while maintaining ethical principles and behaviour in everything that he or she does.

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

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 the Bank.

The Boards and Senior Management are also further apprised of the Bank's state of compliance through the submission of the Group Shariah Business Compliance report on a periodic basis.

Shariah Compliance

In line with the Guidelines on Shariah Governance Framework for Islamic Financial Institutions issued by BNM, the Management is responsible for observing and implementing the respective Shariah rulings and decisions.

The Shariah Framework of the Bank has also been put in place which encompasses the concept of Shariah, Shariah governance and its reporting structures, roles and responsibilities, and the key principles underpinning the components of the Shariah governance structure.

Various activities involving Shariah reviews, Shariah compliance advisory, Shariah control self-assessment, trainings and briefings aimed at creating awareness as well as continuous learning programmes were conducted throughout the year in mitigating Shariah non-compliance risks.

INTERNAL AUDIT

Group Internal Audit ("GIA") function assists the Board and BAC by providing independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the Group's risk management framework, control and governance processes implemented across the Group.

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

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

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

Further information on the GIA function is provided in the Statement on Internal Audit of this Annual Report.

CONCLUSION

The Board has received assurance from the Bank Managing Director and Group Chief Financial Officer as well as the Group Chief Risk Officer that the Bank's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management model adopted by the Bank. The Board also receives monthly updates on key risk management and internal control matters through its BRC, BAC and IRMC 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 the Bank's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this statement.

BOARD AUDIT COMMITTEE REPORT

COMPOSITION AND ATTENDANCE OF MEETINGS

During the financial year ended 31 December 2016 (“year”), a total of thirteen (13) 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:

No	Composition of BAC	Attendance at Meetings
1.	Tan Sri Dr Rebecca Fatima Sta Maria (Chairperson/Independent Non-Executive Director) – Appointed as Chairperson on 1 November 2016	2/2 (100%)
2.	Mr Ong Seng Pheow (Member/Independent Non-Executive Director) – Re-designated from Chairman to Member on 1 November 2016	13/13 (100%)
3.	Tan Sri Saw Choo Boon (Member/Independent Non-Executive Director)	13/13 (100%)
4.	Dato’ Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (Member/Independent Non-Executive Director) – Appointed as Member on 15 June 2016	8/8 (100%)
5.	Dato’ Othman Jusoh (Member/Independent Non-Executive Director) – Retired as Member on 11 May 2016	4/4 (100%)
6.	Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director) – Ceased to be Member on 15 June 2016	5/5 (100%)
7.	Dato’ Abdul Rahman Ahmad (Member/Independent Non-Executive Director) – Appointed as Member on 15 June 2016 and resigned w.e.f. 30 September 2016	5/5 (100%)

In compliance with Paragraphs 15.09(1) and 15.09(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), the BAC membership comprises all Independent Non-Executive Directors with no alternate director appointed as a member and at least one member has membership with the Malaysian Institute of Accountants.

The BAC meetings were also attended by the Group Chief Financial Officer, being the Chairman of the Management Audit Committee (“MAC”) and the Group Chief Internal Auditor while the attendance of other Senior Management is by invitation depending on the matters deliberated by the BAC.

Matters deliberated at the BAC meetings together with the BAC’s recommendations and decisions are summarised and presented to the Board in the same month by the Chairperson of the BAC. This allows the Board to be timely apprised of significant matters deliberated by the BAC and for the Board to provide any direction, if necessary.

SUMMARY OF BAC'S WORK

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

1. Financial Reporting

a) Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Bank Berhad ("RHB Bank" or "the Bank") and the Group as well as the announcements to Bank Negara Malaysia ("BNM") and Bursa Securities before recommending them for approval by the Board. The review process encompassed the following:

- Reviewed on any significant changes in accounting policy and adoption of new or updated accounting standards, and its impact to the financial statements.
- Reviewed the financial statements and made enquiries on any material changes between the current and preceding or corresponding quarter/year as well as any items that may appear uncorrelated to assess their reasonableness.
- Reviewed and deliberated on the key accounting estimates and assumptions used that are significant to the financial statements to assess their reasonableness based on available information and current/expected market condition. Details of the key estimates and assumptions applied are outlined below:

  (i) Allowance for impairment of financial assets

  In determining the impairment of financial assets, Management has considered the objective evidence of impairment and exercised judgement in estimating its cash flow and collateral value. Management's judgement was made in the estimation of the amount and timing of future cash flows in assessing the allowance for impairment of financial assets.

  (ii) Goodwill impairment

  Goodwill is tested at least annually for impairment. Testing of goodwill for impairment involves a significant amount of estimation which includes the identification of independent Cash Generating Units ("CGU") and allocation of goodwill to these units. Estimating the value in use requires the Bank and the Group to make an estimate of the expected future cash flows from the CGU.

- Noted the highlights on the overall financial performance of RHB Bank and the Group, and the main factors contributing to the Bank and the Group's revenue and operating expenses.

b) Reviewed the proposed dividend payout for the financial year, the dividend payout trend and its financial impact on RHB Bank and RHB Bank Group before recommending for the Board's approval.

2. Internal Audit

a) Reviewed and approved the Group Internal Audit ("GIA")'s annual audit plan for the financial year 2016 in November 2015 to ensure adequacy of scope, coverage and resources for the identified auditable areas.

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

c) Reviewed the audit activities of GIA for the financial year 2015 covering the planned audit assignments, ad-hoc audit projects, review of policies, processes and procedures, and IT project participation to ensure that the audit assignments were completed for the year.

d) Reviewed and appraised the performance of the Group Chief Internal Auditor and assessed the effectiveness of the internal audit function.

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

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

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

h) Reviewed the minutes of meetings of the Audit Committees of the overseas subsidiaries to the extent permitted by the relevant regulatory authorities to satisfy itself that all matters arising therefrom had been appropriately addressed by these Audit Committees.

i) Reviewed the proposed changes to the Internal Audit Charter ("Audit Charter") at the BAC meeting in September 2016 in order to align the Audit Charter with the BNM Guidelines, and The Institute of Internal Auditors' mandatory guidance, which includes the "Definition of Internal Auditing", the "Code of Ethics" and the "International Standards for the Professional Practice of Internal Auditing" prior to recommending the same for the Board's approval.

Further information on the GIA function is provided in the Statement on Internal Audit of this Annual Report.

3. External Audit

a) Reviewed the 2016 audit plan of the external auditors for RHB Banking Group at the BAC meeting held on 26 September 2016 covering the audit strategy, risk assessment, areas of audit emphasis for the year and the new auditors' report as per the new and amended International Standards on Auditing which are effective for financial year ended on or after 15 December 2016. The new auditors' report for RHB Bank, being a listed company, is required to disclose key audit matters relating to the audit of the Bank.

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

Audit Report issued by External Auditors in 2016	Date tabled to BAC
Final Audit Committee Report for the financial year 2015	22 January 2016
Internal Control Report for the financial year 2015	22 April 2016
Limited review of the unaudited financial statements of RHB Bank and RHB Islamic Bank for the financial period ended 30 June 2016	22 July 2016
Interim Audit Committee Report for the financial year 2016	9 December 2016

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

c) Met twice with the external auditors on 22 January 2016 and 9 December 2016 without the presence of Management to enable open discussion between the auditors and the BAC on any issues of concern to the auditors arising from their half year limited review and the annual statutory audit.

d) Reviewed and recommended for the Board's approval, the appointment of the external auditors for the provision of non-audit services after considering among others, the expertise, adequacy of knowledge and experience required for the services rendered and the competitiveness of fees quoted.

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. The total non-audit fees incurred as a percentage of the total statutory audit and other audit related services fees for the financial year 2016 for RHB Banking Group was 29.98% which is well within the policy threshold.

For the financial year 2016, the main non-audit services rendered by the external auditors are as follows:

- Conduct gap assessment, technical consultation and validation for the purpose of Malaysian Financial Reporting Standard ("MFRS") 9 implementation;
- Act as the Reporting Accountant for the USD5.0 Billion Euro Medium Term Note Programme update; and
- Perform statutory requirement of Perbadanan Insurans Deposit Malaysia ("PIDM") validation programme for assessment year 2016.

e) Reviewed the external auditors' performance and independence before recommending them to the Board for reappointment as external auditors for the Group:

- The external auditors have declared in their 2016 audit plan which was tabled to the BAC in September 2016 that they have maintained their independence for the audit of the financial statements of the Group in accordance with the firm's requirements and with the provisions of the By-Laws on Professional Independence of the Malaysian Institute of Accountants. They have further declared that the non-audit services provided to the Group during the year have not compromised their independence as external auditors of the Group.
- Evaluated the performance of the external auditors based on the results of assessment of their work by the relevant Management staff of the Group following the completion of the annual statutory audit covering the categories of people, meeting objectives, responsiveness, knowledge of business, adding value and communications.
- A comprehensive review was conducted on the external auditors to assess its independence and the potential risk of familiarity threat at all the banking entities within the Group to determine whether a change of external auditors is warranted. The comprehensive review covered three main categories, namely:

	Categories	Main areas assessed
(i)	Governance and independence	Rotation of audit partner and key engagement team staff; meeting with the BAC without Management to discuss their objectivity and independence; any relationship between the external auditors, its staff and the Group; any safeguards in place to protect the external auditors' independence when approving non-audit services; nature of non-audit services provided by the external auditors to the Group; etc.
(ii)	Communication and interaction	Communication to the BAC on a timely basis in relation to audit planning, audit strategy, significant audit and accounting issues, and related risks and control weaknesses, areas of significant judgements made by Management and their impact on the financial statements; etc.
(iii)	Quality of services and resources	Audit firm's presence internationally; external auditors demonstrate appropriate technical knowledge and expertise; external audit team made up of sufficient and suitably experienced staff; meeting deadlines in providing their services; responded timely to issues; etc.

The results of the comprehensive review were deliberated and concurred by the BAC at its meeting in July 2016. The BAC has further decided that the familiarity threat review on the external auditors shall be conducted annually prior to its reappointment.

- Reviewed and recommended to the Board a policy to address the issue of long association and familiarity threat of the external auditors. The policy was approved by the Board in July 2016 upon recommendation by the BAC.

4. Related Party Transactions

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

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

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

TRAINING

During the year, the BAC members have attended various training programmes, conferences and seminars to enhance their knowledge in order to efficiently discharge their duties as Independent Non-Executive Directors of the Bank.

Details of the trainings attended by BAC members are included in the Statement of Corporate Governance of the annual report.

STATEMENT ON INTERNAL AUDIT

RHB Banking Group (the "Group") has an in-house internal audit function which is guided by its Internal Audit Charter, Bank Negara Malaysia ("BNM") Guidelines on Internal Audit Function of Licensed Institutions (BNM GL13-4) and the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. Group Internal Audit ("GIA")'s 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 Group Chief Internal Auditor ("Group CIA") reports functionally to the Board Audit Committee ("BAC") of 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). To further preserve the independence of the GIA function, the Group CIA's performance is appraised by the BAC.

INTERNAL AUDIT CHARTER

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

The Audit Charter is reviewed by the Group CIA every two years to assess whether the GIA's purpose, authority and responsibility, as defined in the Audit Charter, continue to be adequate and relevant to enable the audit function to accomplish its objectives. Following the recent review, the updated Audit Charter was approved by the respective Boards in October 2016.

AUDIT SCOPE AND COVERAGE

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

The 2016 audit plan for RHB Banking Group which includes the audit objectives and scope, and manpower requirements for each planned auditable unit as well as GIA's risk assessment methodology was reviewed and approved by the BAC in November 2015.

The key areas covered by GIA during the financial year 2016 include amongst others, the Branches, Credit Underwriting, Business Centres, Treasury Operations, Information Technology Security and Enterprise Applications, Shariah Business Compliance and Shariah Advisory, Investment Banking Business, Asset Management, Overseas Operations, etc.

GIA had also conducted audits as per regulatory requirements such as compliance with BNM's Guidelines on Anti-Money Laundering and Counter Financing of Terrorism, Disclosure of Customer Documents or Information, Single Counterparty Exposure Limit, Product Transparency & Disclosure, MyClear's applicable rules, procedures and manual for payment and debt securities systems, etc.

In addition to the planned audits, the key tasks performed by GIA during the financial year are as follows:

- Investigations and special reviews as requested by the Senior Management, BAC, Board or regulators.
- Review of policies, procedures and processes as requested by Management to provide feedback on the adequacy of internal control systems.
- Participated in system or product development activities to provide recommendations upfront on the relevant control features to be considered by Management.

REPORTING AND MONITORING

Upon completion of the audits, all audit reports on the results of work undertaken together with the recommended mitigation plans and their implementation status are presented to the respective Management Audit Committees ("MACs"). The MACs are established at the key operating entities in the Group to ensure timely rectification of any audit findings and control lapses highlighted by the internal and external auditors, and regulators. The status of rectification of all audit findings are closely monitored by the MACs at every meeting.

The MACs comprising senior level representatives from different business/functional groups are chaired by the Group Chief Financial Officer/Managing Director/Chief Executive Officer of the entity concerned. The MACs meet on a monthly/bi-monthly basis and the minutes of meetings together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

INTERNAL AUDIT RESOURCES

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

As at 31 December 2016, GIA has 160 internal auditors with relevant academic/professional qualifications and experience to carry out the activities of the internal audit function.

PROFESSIONAL PROFICIENCY

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

Based on each staff's Individual Development Plan for the year 2016, the internal auditors attended the relevant technical as well as leadership and management programmes offered by RHB Academy, the Group's Learning and Development Centre and external programmes. For the year 2016, the internal auditors attended a total of 1,054 days of training which translates to 6.5 days per auditor.

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

INTERNAL AUDIT QUALITY ASSURANCE REVIEW

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

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

In addition to the internal assessment, external quality assessment is conducted by a qualified independent reviewer covering a broad scope that includes conformance with the Definition of Internal Auditing, the Standards, and the Code of Ethics, and the internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and BNM guidelines. The external quality assessment is conducted once every three years and the appointment of independent reviewer is subjected to the Group's established procurement process and endorsed by the BAC.

The results as well as recommendations for improvement of both the internal and external assessments are tabled to the BAC for deliberation and guidance or direction, if necessary.

SHARIAH COMMITTEE REPORT

INTRODUCTION

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

1. To perform an oversight and independent advisory role to the Board of Directors and/or the Management of the Bank on Shariah matters pertaining to the Bank's Islamic banking and finance business and operations.

2. To ensure effective working arrangements are established between the Shariah Committee, the Shariah Advisory Council ("SAC") of Bank Negara Malaysia ("BNM") as well as that of the Securities Commission ("SC").

3. To ensure the establishment of appropriate procedures in leading to the prompt compliance with Shariah principles.

SHARIAH GOVERNANCE

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

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

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

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

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

v. Shariah Review and Assurance to conduct regular assessment on Shariah compliance in the activities and operations of the Bank;

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

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

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

SHARIAH COMMITTEE MEMBERS

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

The Shariah Committee members are:

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

DUTIES & RESPONSIBILITIES

The main duties and responsibilities of the Shariah Committee are:

1. Advise the Bank on Shariah matters in order to ensure that the Islamic banking and financing business and operations are Shariah compliant at all times;

2. Endorse the all framework, policies, manuals and procedures prepared by the Bank which have Shariah concern and to ensure that the contents do not contain any elements which are not in line with Shariah;

3. Endorse and validate the following documentation to ensure that the products comply with Shariah principles:

    i. the terms and conditions contained in proposal forms, contracts, agreements or other legal documentation used in executing transactions; and

    ii. the product manual, marketing advertisement, sales illustration and brochures used to describe a product.

4. Assess the work carried out by Shariah Compliance and Shariah Audit in order to ensure compliance with Shariah matters.

5. Provide advice to the Bank's legal counsel, auditor or consultant on Shariah matters as and when required to ensure compliance with Shariah principles;

6. Advise on matters to be referred to SAC of BNM, particularly matters which have not be resolved or endorsed by the SAC of BNM;

7. Provide written Shariah opinions particularly in the following circumstances:

    i. Where the Bank makes reference to the SAC of BNM for advice; or

    ii. Where the Bank submits applications to BNM or SC for new product approval in accordance with guidelines on product approval issued by BNM and SC.

8. Articulate Shariah issues involved and ensure that all advice and/or opinion be supported by relevant Shariah jurisprudential literature from established sources. The Shariah Committee is also expected to assist the SAC of BNM on any matters referred by the Bank.

9. Ensure that SAC of BNM's decisions/opinion/advice are properly implemented and adhered to by the Bank;

10. Prepare a report to certify the Annual Audited Account of RHB Islamic Bank for the financial period concerned.

11. In respect of matters concerning Islamic Capital Market (upon mandated):

    i. Ensure that the instruments are managed and administered in accordance with Shariah principles;

    ii. Provide expertise and guidance in all matters relating to Shariah principles, including the instrument's deed and prospectus, its structure and investment process, and other operational and administrative matters;

    iii. Scrutinise the instrument's compliance report as provided by the compliance officer, and investment transaction reports provided by, or duly approved by, the trustee to ensure that the investments are in line with Shariah principles; and

    iv. Prepare a report to be included in the interim and annual reports certifying whether the instrument had been managed and administered in accordance to Shariah principles for the period concerned.

12. Advise on payment of Zakat to the appropriate authority.

MEETINGS

A total of nine (9) meetings were held during the financial year ended 31 December 2016. All members have satisfied the minimum attendance requirement under BNM's Shariah Governance Framework which provides that a Shariah Committee member is required to attend at least 75% of the Shariah Committee meetings held in each financial year. Details of attendance of each member are as follows:

Name of Shariah Committee Member	Number of Meetings	
	Held	Attended
Dr. Ghazali Jaapar	9	8
Prof. Dr. Joni Tamkin Borhan	9	9
Assoc. Prof. Dr. Amir Shaharuddin	9	9
En. Mohd Fadhly Md. Yusoff	9	8
En. Wan Abdul Rahim Kamil	9	9
Pn. Shabnam Mohamad Mokhtar	9	9

SPECIAL ENGAGEMENT & TRAINING

As part of the initiatives towards maintaining effective communication between the Shariah Committee and the Management and Board of Directors of RHB Islamic Bank, the following special engagement sessions were conducted in 2016:

1. Shariah Awareness Programme – Islamic Banking: Compliance, Innovation, Profitability and Social Entrepreneur/Social Responsibility Investment
2. Engagement Session with RHB Islamic Bank's Board of Directors
3. Offsite Brainstorming with Shariah Committee and Shariah Functions of RHB Islamic Bank
4. Offsite Meeting with Group Shariah Business Compliance and Shariah Committee

In 2016, the Shariah Committee members have successfully completed the Shariah Leaders Education Programme and thus fulfilled the compulsory requirement imposed by Bank Negara Malaysia to all Shariah Committee members of Islamic financial institutions. The programme is developed and managed by the International Centre for Leadership in Finance (ICLIF).

In addition, the Shariah Committee members have actively participated in significant trainings and conferences held in 2016 as follows:

a. 10th Muzakarah Cendekiawan Syariah Nusantara 2016

b. 11th Muzakarah Penasihat Syariah Kewangan Islam 2016 (in conjunction with 13th Kuala Lumpur Islamic Finance Forum (KLIFF) 2016)

c. 5th *Ijtima' ASAS 2016*

d. 11th International Shari'ah Scholars Forum (ISSF) 2016

e. 3rd Liqa' ASAS Peringkat Kebangsaan 2016

SHARIAH COMMITTEE ASSESSMENT

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

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

STATUTORY FINANCIAL STATEMENTS

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the annual audited financial statements of the Company present a true and fair view of the state of affairs of the Company as at 31 December 2016 and of the financial results and cash flows of the Company for the financial year ended 31 December 2016.

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

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 158 of the financial statements.

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 2016.

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	324,784

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not propose any final dividend in respect of the current financial year at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

ISSUE OF SHARES

During the financial year, the Bank increased its issued and paid up share capital from RM1,173,424,002 to RM1,273,424,002 via the issuance of 100,000,000 new ordinary shares of RM1.00 each to RHB Bank Berhad ('RHB Bank'), its holding company.

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

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper actions have been taken in relation to the writing off of bad financing and advances and the making of allowance for impaired financing and advances, and satisfied themselves that all known bad financing and advances have been written-off and adequate allowance had been made for impaired financing and advances.

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

DIRECTORS' REPORT

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than financing and advances, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank, had been written down to an amount which they might be expected 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, substantially 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

DIRECTORS OF THE BANK

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

Haji Md Ja'far Abdul Carrim	
Datuk Haji Faisal Siraj	
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	
Dato' Adissadikin Ali	(appointed on 1 August 2016)
Dato' Abd Rahman Dato' Md Khalid	(appointed on 2 January 2017)
Dato' Mohd Ali Mohd Tahir	(resigned on 28 February 2017)
Charles Lew Foon Keong	(retired at Annual General Meeting on 11 May 2016)
Haji Ibrahim Hassan	(resigned on 1 August 2016)

In accordance with Article 68 of the Bank's Articles of Association, Haji Md Ja'far Abdul Carrim retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 73 of the Bank's Articles of Association, Dato' Adissadikin Ali and Dato' Abd Rahman Dato' Md Khalid retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 30 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.

HOLDING COMPANY

The Directors regard RHB Bank, a company incorporated in Malaysia, as the holding company.

DIRECTORS' REPORT

ZAKAT OBLIGATION

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

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

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur
28 February 2017

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 the 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 2016.

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 2016 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
28 February 2017

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Cash and short-term funds	2	**3,436,239**	6,149,038
Securities purchased under resale agreements	3	**2,353,950**	–
Deposits and placements with banks and other financial institutions	4	**537,141**	618,072
Financial assets held-for-trading ('HFT')	5	**10,177**	20,248
Financial investments available-for-sale ('AFS')	6	**3,459,647**	3,062,645
Financial investments held-to-maturity ('HTM')	7	**2,820,123**	1,861,693
Financing and advances	8	**33,841,566**	30,890,427
Other assets	9	**171,730**	133,284
Derivative assets	10	**402,763**	146,922
Statutory deposits with Bank Negara Malaysia ('BNM')	11	**1,051,050**	1,168,500
Deferred tax assets	12	**20,929**	11,964
Property, plant and equipment	13	**6,576**	8,384
Intangible assets	14	**4,750**	5,564
TOTAL ASSETS		**48,116,641**	44,076,741
LIABILITIES AND EQUITY			
Deposits from customers	15	**29,419,928**	27,928,029
Deposits and placements of banks and other financial institutions	16	**6,430,194**	5,310,572
Investment account due to designated financial institutions	17	**6,622,471**	6,350,654
Bills and acceptances payable		**9,050**	5,549
Derivative liabilities	10	**400,812**	129,106
Recourse obligation on financing sold to Cagamas Berhad ('Cagamas')	18	**815,243**	982,760
Subordinated obligations	19	**503,187**	503,119
Other liabilities	20	**957,863**	349,613
Provision for tax and zakat		**29,451**	20,932
TOTAL LIABILITIES		**45,188,199**	41,580,334
Share capital	21	**1,273,424**	1,173,424
Reserves	22	**1,655,018**	1,322,983
TOTAL EQUITY		**2,928,442**	2,496,407
TOTAL LIABILITIES AND EQUITY		**48,116,641**	44,076,741
COMMITMENTS AND CONTINGENCIES	35	**21,492,582**	13,611,181

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

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds	23	**1,750,096**	1,581,366
Income derived from investment account funds	24	**317,988**	139,228
Income derived from investment of shareholders' funds	25	**170,420**	139,087
Allowance for impairment on financing and advances	26	**(70,168)**	(56,173)
Impairment losses made on other assets		**(549)**	–
Total distributable income		**2,167,787**	1,803,508
Income attributable to depositors	27	**(1,223,430)**	(1,112,277)
Profit distributed to investment account holders		**(260,626)**	(114,460)
		683,731	576,771
Personnel expenses	28	**(32,307)**	(44,145)
Other overheads and expenditures	29	**(219,767)**	(183,901)
Profit before zakat and taxation		**431,657**	348,725
Zakat		**(3,500)**	(3,000)
Profit after zakat before taxation		**428,157**	345,725
Taxation	31	**(103,373)**	(90,872)
Net profit for the financial year		**324,784**	254,853
Earnings per share (sen):			
– basic	32	**27.40**	21.72

GOVERNANCE

FINANCIAL STATEMENTS

BRANCH NETWORK

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 2016

	Note	2016 RM'000	2015 RM'000
Net profit for the financial year		**324,784**	254,853
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss:			
Financial investments AFS:			
– Unrealised net gain/(loss) on revaluation		**14,889**	(7,054)
– Net transfer to income statement on disposal or impairment		**(5,348)**	(6,716)
Income tax relating to components of other comprehensive (income)/loss	33	**(2,290)**	2,927
Other comprehensive income/(loss), net of tax, for the financial year		**7,251**	(10,843)
Total comprehensive income for the financial year		**332,035**	244,010

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 2016

	Note	Share Capital RM'000	Non-distributable Statutory Reserve RM'000	Non-distributable AFS Reserve RM'000	Non-distributable Regulatory Reserve RM'000	Distributable Retained Profits RM'000	Total RM'000
Balance as at 1 January 2016		1,173,424	681,192	(39,195)	160,361	520,625	2,496,407
Net profit for the financial year		–	–	–	–	324,784	324,784
Other comprehensive income/(loss) for the financial year:							
Financial investments AFS:							
– Unrealised net gain on revaluation		–	–	14,889	–	–	14,889
– Net transfer to income statement on disposal or impairment		–	–	(5,348)	–	–	(5,348)
Income tax relating to components of other comprehensive income	33	–	–	(2,290)	–	–	(2,290)
Other comprehensive income, net of tax, for the financial year		–	–	7,251	–	–	7,251
Total comprehensive income for the financial year		–	–	7,251	–	324,784	332,035
Issuance of shares	21	100,000	–	–	–	–	100,000
Transfer to statutory reserve		–	81,196	–	–	(81,196)	–
Transfer to regulatory reserve		–	–	–	(1,845)	1,845	–
Balance as at 31 December 2016		**1,273,424**	**762,388**	**(31,944)**	**158,516**	**766,058**	**2,928,442**
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	33	–	–	2,927	–	–	2,927
Other comprehensive loss, net of tax, 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

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 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	**431,657**	348,725
Adjustments for:		
Depreciation of property, plant and equipment	**1,751**	3,201
Amortisation of computer software license	**2,102**	1,884
Income from:		
– Investment on financial assets HFT	**(2,538)**	(4,397)
– Investment on financial investments AFS	**(137,371)**	(118,365)
– Investment on financial investments HTM	**(86,232)**	(87,950)
Net gain on disposal of financial investments AFS	**(5,348)**	(6,715)
Net loss on disposal of financial assets HFT	**1,372**	3,334
Net gain on early redemption of financial assets HTM	**(301)**	(498)
Net loss on fair value hedges	**799**	195
Net (gain)/loss on revaluation of derivatives	**(116)**	921
Unrealised gain from financial assets HFT	**(268)**	(1,481)
Allowance for impairment on financing and advances	**83,632**	72,279
Property plant and equipment written off	**447**	8
Intangible assets written off	**1**	–
Impairment losses on other assets	**549**	–
Operating profit before working capital changes	**290,136**	211,141
(Increase)/Decrease in operating assets:		
Securities purchased under resale agreements	**(2,353,950)**	–
Deposits and placements with banks and other financial institutions	**80,931**	275,074
Financing and advances	**(3,035,570)**	(5,697,458)
Financial assets HFT	**11,505**	334,184
Other assets	**(38,446)**	(51,089)
Statutory deposits with BNM	**117,450**	(104,800)
	(5,218,080)	(5,244,089)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	**1,491,899**	3,557,075
Deposits and placements of banks and other financial institutions	**1,119,622**	(2,089,019)
Investment account due to designated financial institutions	**271,817**	6,350,654
Bills and acceptances payable	**3,501**	(3,287)
Other liabilities	**(702)**	14,575
Amount due to holding company	**625,000**	(54,506)
Recourse obligation on financing sold to Cagamas	**(167,517)**	(164,917)
	3,343,620	7,610,575
Cash (used in)/generated from operations	**(1,584,324)**	2,577,627
Net tax and zakat paid	**(109,609)**	(82,448)
Net cash (used in)/generated from operating activities	**(1,693,933)**	2,495,179

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 2016

	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial investments AFS and HTM:			
– Purchases		**(3,398,603)**	(4,230,842)
– Proceeds from disposal		**2,065,778**	3,661,391
Property, plant and equipment:			
– Purchases		**(390)**	(1,567)
– Proceeds from disposal		**–**	1
Purchases of intangible assets		**(1,289)**	(463)
Financial assets HFT and financial investments AFS and HTM:			
– Profit income received		**133,528**	113,847
– Investment income received		**82,110**	85,831
Net cash used in investing activities		**(1,118,866)**	(371,802)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		**100,000**	–
Net cash generated from financing activities		**100,000**	–
Net (decrease)/increase in cash and cash equivalents		**(2,712,799)**	2,123,377
Cash and cash equivalents at beginning of the financial year		**6,149,038**	4,025,661
Cash and cash equivalents at end of financial year	2	**3,436,239**	6,149,038

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 2016

(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 financial years presented, unless otherwise stated.

1) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards ('IFRS') and the requirements of the Companies Act, 1965.

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.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Section (B).

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

The relevant new accounting standards and amendments to published standards and interpretations to existing accounting standards that are effective for the Bank's financial year beginning on or after 1 January 2016 are as follows:

- Annual Improvements to MFRSs 2012 – 2014 Cycle
- Amendments to MFRS 116 'Property Plant and Equipment' and MFRS 138 'Intangible Assets' – Clarification of acceptable methods of depreciation and amortisation
- Amendments to MFRS 101 'Presentation of Financial Statements' – Disclosure initiative

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(i) 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 amortised 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.

(ii) 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 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.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(ii) 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 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 (continued).

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

(iii) Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2017). The amendments clarify the requirements for recognising deferred tax assets on unrealised losses where an asset is measured at fair value and that fair value is below the asset's tax base.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

(iv) Amendments to MFRS 107 'Statements of Cash Flows' (effective from 1 January 2017). The amendments introduce additional disclosure which require an entity to evaluate changes in liabilities arising from financing activities, including cash flows and non-cash changes.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(v) MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

(vi) Annual Improvements to MFRS 2014-2016 Cycle:

- MFRS 1 'First-time Adoption of Malaysian Financial Reporting Standards' effective for annual periods beginning on or after 1 January 2018. The amendment deletes short-term exemptions covering transition provisions of MFRS 7, MFRS 10 and MFRS 119. Those reliefs provided were available for entities with reporting periods that had passed and therefore no longer applicable.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' effective for annual periods beginning on or after 1 January 2018. This interpretation applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

The adoption of the above accounting standards, amendments to published standards and interpretations are not expected to give rise to any material financial impact to the Bank except for enhanced disclosures. The Bank is in the process of reviewing the financial impact arising from the requirements of 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.

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

(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 statement.

(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 on impairment of financial assets) 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 payment 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.

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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to 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.

(b) Cash flow hedge

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

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

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5) INTANGIBLE ASSETS – COMPUTER SOFTWARE LICENSES

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

At the end of the reporting period, the Bank assesses whether there is any indication of impairment on computer software licenses. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 18 on impairment of non-financial assets.

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

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 period in which they are incurred.

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

Renovations	10%
Office equipment and furniture	20%
Computer equipment	14 1/3% 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 18 on impairment of non-financial assets.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7) FINANCIAL LIABILITIES

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

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

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

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

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are 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, investment account due to designated financial institutions, bills and acceptances payable, recourse obligation on financing sold to Cagamas and other financial liabilities.

(c) Borrowings measured at amortised cost

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the 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’)

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8) INVESTMENT ACCOUNT ('IA') (CONTINUED)

IA are contracts based on the Shariah concept below:

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

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

(c) Details of the RIA are as disclosed in Note 17 to the financial statements.

9) RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

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

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.

11) PROVISIONS

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

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

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12) FINANCIAL GUARANTEE CONTRACTS

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

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

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

13) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

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

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

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

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

(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.

(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 whether there is objective evidence of an impairment loss include:

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

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

(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 current conditions on which the historical loss experience is based on and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(iii) Regulatory reserve

The Bank has 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 against retained earnings.

(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 AFS 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

19) EMPLOYEE BENEFITS

(a) Short-term employee benefits

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

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

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Bank's contributions to defined contribution plans are charged to 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or loss.

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

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

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

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. Foreign exchange gains and losses are presented in income statement within other operating income.

Changes in the fair value of monetary securities denominated in foreign currency classified as AFS 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.

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Bank's Group 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.

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

	2016 RM'000	2015 RM'000
Cash and balances with banks and other financial institutions	**18,906**	525,119
Money at call and deposit placements maturing within one month	**3,417,333**	5,623,919
	3,436,239	6,149,038

3 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

	2016 RM'000	2015 RM'000
Malaysian Government Investment Issues	**2,353,950**	–

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 RM'000	2015 RM'000
Licensed Islamic banks	**180,771**	100,011
Other financial institutions	**356,370**	518,061
	537,141	618,072

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

	2016 RM'000	2015 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**10,177**	20,248

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

	2016 RM'000	2015 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**691,196**	705,803
Wakala Global Sukuk	**14,718**	14,175
Khazanah bonds	**8,995**	8,664
Cagamas bonds	**40,018**	60,064
Unquoted securities:		
In Malaysia		
Islamic private debt securities	**2,504,101**	2,072,777
Perpetual sukuk	**200,619**	200,587
	3,459,647	3,062,070
At cost		
Unquoted securities:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	**549**	575
	3,460,196	3,062,645
Accumulated impairment losses	**(549)**	–
	3,459,647	3,062,645
Movements in allowance for impairment losses:		
Balance as at the beginning of the financial year	**–**	–
Charge during the financial year	**549**	–
Balance as at the end of the financial year	**549**	–

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

	2016 RM'000	2015 RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Investment Issues	**402,619**	540,428
Sukuk Perumahan Kerajaan	**9,971**	9,957
Khazanah bonds	**20,872**	29,645
Cagamas bonds	**150,095**	60,619
Negotiable Islamic debt certificates	**895,234**	99,785
Unquoted securities:		
In Malaysia		
Corporate sukuk	**1,341,332**	1,121,259
	2,820,123	1,861,693

Included in financial investments HTM are Restricted Investment account ('RIA'), as part of arrangement between the Bank and RHB Bank. As at 31 December 2016, the gross exposure to RIA financing is RM199,000,000 (2015: RM21,000,000).

8 FINANCING AND ADVANCES

2016	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah RM'000	Murabahah RM'000	Musyarakah RM'000	Bai'Inah RM'000	Others RM'000	Total RM'000
At amortised cost							
Cashline	–	–	401,337	–	–	1,463	402,800
Term financing:							
– Housing financing	512,215	–	2,913	8,541,764	–	454	9,057,346
– Syndicated term financing	–	93,884	1,309,912	–	–	18,899	1,422,695
– Hire purchase receivables	–	5,600,165	–	–	–	33,345	5,633,510
– Other term financing	3,126	494,435	13,103,916	–	1,862,705	12,204	15,476,386
Bills receivables	–	–	790,186	–	–	3,097	793,283
Trust receipts	–	–	13,773	–	–	253	14,026
Staff financing	3,394	–	–	–	–	–	3,394
Credit/charge card receivables	–	–	–	–	–	274,532	274,532
Revolving financing	–	–	1,009,152	–	–	–	1,009,152
Gross financing and advances	518,735	6,188,484	16,631,189	8,541,764	1,862,705	344,247	34,087,124
Fair value changes arising from fair value hedge							6,831
							34,093,955
Allowance for impaired financing and advances:							
– Individual impairment allowance							(15,864)
– Collective impairment allowance							(236,525)
Net financing and advances							33,841,566

8 FINANCING AND ADVANCES (CONTINUED)

2015	Bai' Bithaman Ajil ('BBA') RM'000	Ijarah RM'000	Murabahah RM'000	Musyarakah RM'000	Bai'Inah RM'000	Others RM'000	Total RM'000
At amortised cost							
Cashline	–	–	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

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

As at 31 December 2016, the gross exposures to RIA financing are RM5,804,399,000 (2015: RM6,056,618,000) and the portfolio allowance for impairment losses for financing and advances relating to RIA amounting to RM33,626,000 (2015: RM41,906,000) 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 and other term financing sold to Cagamas amounting to RM791,238,000 (2015: RM976,993,000).

8 FINANCING AND ADVANCES (CONTINUED)

	2016 RM'000	2015 RM'000
(i) By remaining contractual maturities		
Maturing within one year	**3,681,561**	3,026,772
One to three years	**2,945,639**	2,594,196
Three to five years	**6,443,749**	5,900,673
Over five years	**21,016,175**	19,602,681
	34,087,124	31,124,322
(ii) By type of customer		
Domestic non-bank financial institutions:		
– Others	**995,486**	1,250,142
Domestic business enterprises:		
– Small medium enterprises	**2,526,817**	2,365,515
– Others	**10,374,884**	8,566,221
Government and statutory bodies	**3,087,891**	3,355,987
Individuals	**16,688,969**	15,304,462
Other domestic entities	**103,742**	106,447
Foreign entities	**309,335**	175,548
	34,087,124	31,124,322
(iii) By profit rate sensitivity		
Fixed rate:		
– Housing financing	**512,441**	580,869
– Hire purchase receivables	**5,633,510**	5,930,758
– Other fixed rate financing	**7,277,587**	8,015,107
Variable rate:		
– BFR plus	**19,856,277**	16,137,587
– Cost-plus	**807,309**	460,001
	34,087,124	31,124,322

8 FINANCING AND ADVANCES (CONTINUED)

	2016 RM'000	2015 RM'000
(iv) By purpose		
Purchase of securities	**65,524**	–
Purchase of transport vehicles	**5,573,799**	5,904,916
Purchase of landed property:		
– Residential	**8,709,537**	7,320,047
– Non-residential	**2,536,021**	1,993,971
Purchase of property, plant and equipment other than land and building	**755,946**	752,254
Personal use	**2,162,519**	1,899,384
Credit card	**274,532**	251,270
Purchase of consumer durables	**–**	2
Construction	**550,030**	168,231
Working capital	**7,422,039**	6,948,924
Merger and acquisition	**1,437,555**	1,184,073
Other purposes	**4,599,622**	4,701,250
	34,087,124	31,124,322

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.

(v) By geographical distribution

	2016 RM'000	2015 RM'000
Malaysia	**34,087,124**	31,124,322

8 FINANCING AND ADVANCES (CONTINUED)

(vi) Impaired financing and advances

	2016 RM'000	2015 RM'000
(i) Movement in impaired financing and advances		
Balance as at the beginning of the financial year	**362,736**	330,701
Classified as impaired during the financial year	**514,915**	627,425
Reclassified as non-impaired	**(352,703)**	(411,779)
Amount recovered	**(78,617)**	(121,031)
Amount written off	**(53,235)**	(62,580)
Balance as at the end of the financial year	**393,096**	362,736
(ii) By purpose		
Purchase of transport vehicles	**54,189**	52,176
Purchase of landed property:		
– Residential	**159,833**	132,862
– Non-residential	**47,259**	28,845
Purchase of property, plant and equipment other than land and building	**2,826**	7,823
Personal use	**4,869**	2,800
Credit card	**5,362**	5,763
Working capital	**96,456**	110,167
Other purposes	**22,302**	22,300
	393,096	362,736
(iii) By geographical distribution		
Malaysia	**393,096**	362,736

(vii) Movement in allowance for impaired financing and advances

	2016 RM'000	2015 RM'000
Individual impairment allowance		
Balance as at the beginning of the financial year	**22,649**	25,289
Net allowance written back	**(3,438)**	(2,640)
Amount written off	**(3,347)**	–
Balance as at the end of the financial year	**15,864**	22,649
Collective impairment allowance		
Balance as at the beginning of the financial year	**199,653**	187,307
Net allowance made	**77,902**	65,749
Amount written off	**(41,030)**	(53,403)
Balance as at the end of the financial year	**236,525**	199,653
Collective impairment allowance as % of gross financing and advances (excluding RIA financing) less individual impairment allowance	**0.84%**	0.80%

9 OTHER ASSETS

	2016 RM'000	2015 RM'000
Prepayments	**11,751**	10,777
Deposits	**1,305**	1,297
Amounts due from other related companies	**–**	1,739
Other receivables	**158,674**	119,471
	171,730	133,284

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

10 DERIVATIVE ASSETS/(LIABILITIES)

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

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

	2016 RM'000	2015 RM'000
Derivative assets:		
– Trading derivatives	**401,864**	139,196
– Fair value hedging derivatives	**899**	7,726
	402,763	146,922
Derivative liabilities:		
– Trading derivatives	**(392,598)**	(125,252)
– Fair value hedging derivatives	**(8,214)**	(3,854)
	(400,812)	(129,106)
	1,951	17,816

10 DERIVATIVE ASSETS/(LIABILITIES) (CONTINUED)

	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2016			
Trading derivatives:			
Foreign exchange related contracts:			
– Forwards	**7,467,323**	**310,313**	**(301,957)**
– Cross currency profit rate swaps	**1,875,919**	**88,563**	**(87,079)**
Profit rate related contracts:			
– Swaps	**597,448**	**2,988**	**(3,562)**
Fair value hedging derivatives:			
Profit rate related contracts:			
– Swaps	**1,907,000**	**899**	**(8,214)**
		402,763	**(400,812)**
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)

Fair value hedging are used by the Bank for protection against the changes in fair value of financial assets and financial liabilities due to movements in market profit rates. The Bank uses profit rate swaps to hedge against profit rate risk of specific identified fixed rate long term as well as portfolio homogenous pools of financing and advances. Included in other operating income as disclosed in Note 25 is the net gains and losses arising from fair value hedges for the financial year as follows:

	2016 RM'000	2015 RM'000
Loss on hedging instruments	**(15,725)**	(8,458)
Gain on hedged items attributable to the hedged risk	**14,926**	8,263
	(799)	(195)

11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ('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.

12 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:

	2016 RM'000	2015 RM'000
Deferred tax assets	**20,929**	11,964
Deferred tax assets:		
– Settled more than twelve months	**10,619**	13,100
– Settled within twelve months	**15,129**	3,741
Deferred tax liabilities:		
– Settled within twelve months	**(4,819)**	(4,877)
	20,929	11,964

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

	Note	Intangible assets – computer software license RM'000	Property, plant and equipment RM'000	Financial investments AFS RM'000	Other liabilities RM'000	Total RM'000
2016						
Balance as at the beginning of the financial year		**(4,877)**	**904**	**12,375**	**3,562**	**11,964**
Transfer from/(to) income statement	31	**58**	**(238)**	**–**	**11,435**	**11,255**
Transfer to equity		**–**	**–**	**(2,290)**	**–**	**(2,290)**
Balance as at the end of the financial year		**(4,819)**	**666**	**10,085**	**14,997**	**20,929**
2015						
Balance as at the beginning of the financial year		(5,555)	543	9,448	5,506	9,942
Transfer from/(to) income statement	31	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

13 PROPERTY, PLANT AND EQUIPMENT

	Note	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2016						
Cost						
Balance as at the beginning of the financial year		**17,083**	**8,916**	**12,739**	**1,634**	**40,372**
Additions		**7**	**67**	**316**	**–**	**390**
Disposal		**–**	**–**	**–**	**(477)**	**(477)**
Written off		**(1,399)**	**(656)**	**(755)**	**–**	**(2,810)**
Balance as at the end of the financial year		**15,691**	**8,327**	**12,300**	**1,157**	**37,475**
Less: Accumulated depreciation						
Balance as at the beginning of the financial year		**10,354**	**7,823**	**12,523**	**1,288**	**31,988**
Charge for the financial year		**1,629**	**373**	**(366)**	**115**	**1,751**
Disposal		**–**	**–**	**–**	**(477)**	**(477)**
Written-off		**(1,010)**	**(620)**	**(733)**	**–**	**(2,363)**
Balance as at the end of the financial year		**10,973**	**7,576**	**11,424**	**926**	**30,899**
Net book value as at the end of the financial year		**4,718**	**751**	**876**	**231**	**6,576**
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 to intangible assets	14	(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

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2016 RM'000	2015 RM'000
Cost		
Renovations	**262**	316

14 INTANGIBLE ASSETS

Computer software license

	Note	2016 RM'000	2015 RM'000
Cost			
Balance as at the beginning of the financial year		**14,182**	13,407
Additions		**1,289**	463
Written off		**(18)**	–
Reclassification from property, plant and equipment	13	**–**	312
Balance as at the end of the financial year		**15,453**	14,182
Less: Accumulated amortisation			
Balance as at the beginning of the financial year		**7,419**	5,535
Charge for the financial year		**2,102**	1,884
Written off		**(17)**	–
Balance as at the end of the financial year		**9,504**	7,419
Less: Accumulated impairment loss			
Balance as at the beginning of the financial year		**1,199**	1,199
Charge for the financial year		**–**	–
Balance as at the end of the financial year		**1,199**	1,199
Net book value as at the end of the financial year		**4,750**	5,564

15 DEPOSITS FROM CUSTOMERS

	2016 RM'000	2015 RM'000
Savings Deposits		
– Wadiah	**1,221,616**	1,129,320
Demand Deposits		
– Wadiah	**3,764,386**	3,403,515
– Commodity Murabahah	**5,926**	–
Term Deposits		
– Commodity Murabahah	**16,716,463**	10,828,229
– Wadiah Corporate Deposits	**–**	1,249,671
Specific Investment Account		
– Murabahah	**7,556,178**	11,136,182
General Investment Account		
– Mudharabah	**155,359**	181,112
	29,419,928	27,928,029

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

	2016 RM'000	2015 RM'000
Due within six months	**20,429,737**	20,371,201
Six months to one year	**3,953,480**	2,990,789
One year to three years	**44,335**	32,336
Three years to five years	**448**	868
	24,428,000	23,395,194

(b) By type of customer

	2016 RM'000	2015 RM'000
Government and statutory bodies	**3,993,795**	4,540,209
Business enterprises	**19,129,387**	18,539,375
Individuals	**5,735,775**	4,297,238
Others	**560,971**	551,207
	29,419,928	27,928,029

16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 RM'000	2015 RM'000
Non-Mudharabah Funds:		
– Licensed Islamic banks	**4,179,222**	1,853,985
– Licensed banks	**1,591,693**	2,749,230
– Licensed investments banks	**99,761**	248,847
– BNM	**3,890**	1,150
	5,874,566	4,853,212
Mudharabah Funds:		
– Other financial institutions	**555,628**	457,360
	6,430,194	5,310,572

17 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS

Mudharabah Restricted Investment Account

	2016 RM'000	2015 RM'000
Funding inflows/(outflows):		
Balance as at the beginning of the financial year	**6,084,508**	–
Reclassification from deposits and placements with banks and other financial institutions	**–**	4,823,890
New placement during the financial year	**4,408,821**	1,270,000
Redemption during the financial year	**(4,155,883)**	(9,382)
Total principal (Note a)	**6,337,446**	6,084,508
Profit attributable to investment account holders:		
Balance as at the beginning of the financial year	**266,146**	–
Reclassification from deposits and placements with banks and other financial institutions	**–**	221,696
Profit distributed to investment account holders during the financial year	**260,622**	114,460
Profit paid to investment account holders during the financial year	**(241,743)**	(70,010)
Total profit payable	**285,025**	266,146
Balance as at the end of the financial year	**6,622,471**	6,350,654

17 INVESTMENT ACCOUNT DUE TO DESIGNATED FINANCIAL INSTITUTIONS (CONTINUED)

	2016 RM'000	2015 RM'000
(a) Investment asset (principal):		
Housing financing	**300,000**	397,110
Hire purchase receivables	**700,000**	700,000
Other term financing	**4,804,399**	4,959,508
Short term fund	**334,047**	6,890
Marketable securities	**199,000**	21,000
Total investment	**6,337,446**	6,084,508
(b) By type of counterparty		
– Licensed banks	**6,622,471**	6,350,654

	Average profit sharing ratio %	Average rate of return %
2016		
– Between 1 to 2 years	**88**	**4.28**
– Between 2 to 5 years	**74**	**4.31**
2015		
– Between 1 to 2 years	86	4.07
– Between 2 to 5 years	74	4.17

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

Recourse obligation on financing sold to Cagamas represents those acquired from the originators and sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statement of financial position. The financing are not de-recognised and are analysed in Note 8.

19 SUBORDINATED OBLIGATIONS

	2016 RM'000	2015 RM'000
4.95% RM500 million Tier II Subordinated Sukuk Murabahah 2014/2024	**503,187**	503,119

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

20 OTHER LIABILITIES

	2016 RM'000	2015 RM'000
Sundry creditors	**10,692**	9,919
Amount due to holding company	**769,591**	144,591
Amounts due to other related companies	**668**	2,231
Deferred income	**43,947**	56,211
Short term employee benefits	**7,397**	8,206
Accrual for operational expenses	**9,993**	9,546
Other accruals and payables	**115,575**	118,909
	957,863	349,613

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

Included in the other accruals and payables is undistributed charity fund amounting to RM93,000 (2015: RM98,000). The funds are sourced from ta'widh/late payment charges.

20 OTHER LIABILITIES (CONTINUED)

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

	2016 RM'000	2015 RM'000
Undistributed funds as at the beginning of the financial year	**98**	340
Funds collected/received during the year	**–**	–
Uses of funds during the year	**(5)**	(242)
Contribution to non-profit organisation	**(5)**	(40)
Contribution to school and education fund	**–**	(24)
Contribution to mosque/madrasah	**–**	(178)
Undistributed funds as at the end of the financial year	**93**	98

21 SHARE CAPITAL

	2016 RM'000	2015 RM'000
Ordinary shares of RM1.00 each:		
Authorised:		
Balance as at the beginning/end of financial year	**3,000,000**	3,000,000
Issued and fully paid:		
Balance as at the beginning of financial year	**1,173,424**	1,173,424
Issued during the financial year	**100,000**	–
Balance as at the end of financial year	**1,273,424**	1,173,424

During the financial year, the Bank increased its issued and paid up share capital from RM1,173,424,002 to RM1,273,424,002 via the issuance of 100,000,000 new ordinary shares of RM1.00 each to RHB Bank, its holding company.

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

22 RESERVES

	Note	2016 RM'000	2015 RM'000
Statutory reserve	(a)	**762,388**	681,192
AFS reserve	(b)	**(31,944)**	(39,195)
Regulatory reserve	(c)	**158,516**	160,361
Retained profits	(d)	**766,058**	520,625
		1,655,018	1,322,983

(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 financial investments classified as AFS. 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 financial investments AFS at the end of the financial year is RM30,890,000 (2015: RM37,796,000).

(c) Regulatory reserve represents the Bank's compliance with 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 2016, 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 RM10,570,000, under Section 12 of the Income Tax (Amendment) Act, 1999 to pay dividends out of its retained profits as at 31 December 2016.

23 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2016 RM'000	2015 RM'000
Income derived from investment of:		
(i) General investment deposits	**8,096**	11,295
(ii) Other deposits	**1,742,000**	1,570,071
	1,750,096	1,581,366

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

	2016 RM'000	2015 RM'000
Financing and advances	**6,105**	8,766
Securities purchased under resale agreements	**263**	–
Financial assets HFT	**11**	30
Financial investments AFS	**615**	815
Financial investments HTM	**342**	602
Money at call and deposits with banks and other financial institutions	**707**	1,004
Total finance income and hibah	**8,043**	11,217
Other operating income (Note a)	**53**	78
	8,096	11,295
Of which:		
Financing income earned on impaired financing	**55**	57
(a) Other operating income comprise of:		
Commission	**24**	27
Guarantee fees	**9**	15
Net gain on revaluation of financial assets HFT	**1**	10
Net loss on disposal of financial assets HFT	**(6)**	(23)
Net gain on disposal of financial investments AFS	**24**	46
Net gain on early redemption of financial investments HTM	**1**	3
	53	78

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

(ii) Income derived from investment of other deposits:

	2016 RM'000	2015 RM'000
Financing and advances	**1,313,738**	1,218,361
Securities purchased under resale agreements	**56,534**	–
Financial assets HFT	**2,444**	4,210
Financial investments AFS	**132,272**	113,320
Financial investments HTM	**73,566**	83,640
Money at call and deposits with banks and other financial institutions	**152,163**	139,598
Total finance income and hibah	**1,730,717**	1,559,129
Other operating income (Note a)	**11,283**	10,942
	1,742,000	1,570,071
Of which:		
Financing income earned on impaired financing	**11,769**	7,911

(a) Other operating income comprise of:

	2016 RM'000	2015 RM'000
Commission	**5,070**	3,692
Guarantee fees	**1,837**	2,118
Net gain on revaluation of financial assets HFT	**258**	1,418
Net loss on disposal of financial assets HFT	**(1,321)**	(3,192)
Net gain on disposal of financial investments AFS	**5,149**	6,429
Net gain on early redemption of financial investments HTM	**290**	477
	11,283	10,942

24 INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	2016 RM'000	2015 RM'000
Financing and advances	**303,862**	135,128
Financial investments HTM	**9,830**	586
Money at call and deposits with banks and other financial institutions	**4,296**	3,514
Total finance income and hibah	**317,988**	139,228

25 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2016 RM'000	2015 RM'000
Financing and advances	**44,532**	45,479
Securities purchased under resale agreements	**1,916**	–
Financial assets HFT	**83**	157
Financial investments AFS	**4,484**	4,230
Financial investments HTM	**2,494**	3,122
Money at call and deposits with banks and other financial institutions	**5,158**	5,211
Total finance income and hibah	**58,667**	58,199
Other operating income (Note a)	**111,753**	80,888
	170,420	139,087
Of which:		
Financing income earned on impaired financing	**398**	295

(a) Other operating income comprise of:

	2016 RM'000	2015 RM'000
Commission	**13,697**	8,426
Service charges and fees	**61,453**	54,339
Guarantee fees and underwriting fees	**62**	79
Foreign exchange profit	**37,007**	18,759
Net gain on revaluation of financial assets HFT	**9**	53
Net loss on disposal of financial assets HFT	**(45)**	(119)
Net gain on disposal of financial investments AFS	**175**	240
Net gain on early redemption of financial investments HTM	**10**	18
Net loss on fair value hedges (Note 10)	**(799)**	(195)
Net gain/(loss) on revaluation of derivatives	**116**	(921)
Other income	**68**	209
	111,753	80,888

26 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2016 RM'000	2015 RM'000
Allowance for impairment on financing and advances:		
– Individual impairment written back	**(3,438)**	(2,640)
– Collective impairment allowance	**77,902**	65,749
– Impaired financing recovered	**(13,464)**	(16,106)
– Impaired financing written off	**9,168**	9,170
	70,168	56,173

27 INCOME ATTRIBUTABLE TO DEPOSITORS

	2016 RM'000	2015 RM'000
Deposits from customers:		
– Mudharabah funds	**5,064**	7,009
– Non-Mudharabah funds	**973,022**	816,741
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	**–**	109,992
– Non-Mudharabah funds	**176,872**	101,361
Subordinated obligations	**24,818**	24,750
Recourse obligations on financing sold to Cagamas	**43,654**	52,424
	1,223,430	1,112,277

28 PERSONNEL EXPENSES

	2016 RM'000	2015 RM'000
Salaries, allowances and bonuses	**25,219**	30,956
Contributions to Employees' Provident Fund	**4,081**	5,061
Other staff related costs	**3,007**	8,128
	32,307	44,145

Included in the personnel expenses is the Managing Director's remuneration (excluding benefits-in-kind) totalling RM3,532,000 (2015: RM1,755,000), as disclosed in Note 30.

29 OTHER OVERHEADS AND EXPENDITURES

	2016 RM'000	2015 RM'000
Establishment costs		
Property, plant and equipment:		
– Depreciation	**1,751**	3,201
– Written-off	**447**	8
Computer software license		
– Amortisation	**2,102**	1,884
– Written-off	**1**	–
Information technology expenses	**3,988**	2,506
Repair and maintenance	**912**	800
Rental of premises	**4,650**	5,017
Water and electricity	**857**	893
Rental of equipment	**7**	31
Printing and stationeries	**8,275**	2,816
Insurance	**3,049**	4,334
Others	**4,174**	2,870
	30,213	24,360
Marketing expenses		
Advertisement and publicity	**2,223**	4,781
Sales commission	**8,326**	5,641
Travelling expenses	**438**	772
Motor vehicle expenses	**196**	179
Others	**1,620**	2,776
	12,803	14,149
Administration and general expenses		
Auditors' remuneration:		
– Statutory audit	**164**	204
– Limited review	**55**	55
– Other audit related	**100**	100
– Non-audit	**–**	16
Communication expenses	**5,321**	4,868
Legal and professional fee	**2,489**	2,517
Management fee	**158,318**	130,124
Others	**10,304**	7,508
	176,751	145,392
	219,767	183,901

Included in the administration and general expenses of the Bank are other Director's remuneration (excluding benefits-in-kind) totaling RM977,000 (2015: RM1,100,000) as disclosed in Note 30.

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

2016	Salary and other remuneration RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Dato' Adissadikin Ali (appointed on 1 August 2016)	526	3	282	811
Haji Ibrahim Hassan (resigned on 1 August 2016)	866	7	1,858	2,731
	1,392	10	2,140	3,542

2016	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other remuneration RM'000	Total RM'000
Non-executive Directors				
Haji Md Ja'far Abdul Carrim (Chairman)	150	22	187	359
Datuk Haji Faisal Siraj	120	–	65	185
Dato' Mohd Ali Mohd Tahir	120	–	56	176
Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir	120	–	102	222
Charles Lew Foon Keong (retired at Annual General Meeting on 11 May 2016)	43	–	14	57
	553	22	424	999

2016	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	95
Prof. Dr. Joni Tamkin Borhan	84
Assoc. Prof. Dr. Amir Shaharuddin	84
Wan Abdul Rahim Kamil Wan Mohamed Ali	83
Mohd Fadhly Md. Yusoff	83
Shabnam Mohamad Mokhtar	84
	513

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

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

2015	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Other 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

2015	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

31 TAXATION

	2016 RM'000	2015 RM'000
Malaysian income tax:		
– Current tax	**113,283**	87,405
– Under provision in respect of prior financial years	**1,345**	2,562
Deferred tax (Note 12)	**(11,255)**	905
	103,373	90,872

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

	2016 %	2015 %
Tax at Malaysian statutory income tax rate	**24.0**	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**0.1**	0.3
Under provision in respect of prior financial years	**0.3**	0.7
Temporary differences not recognised in prior financial years	**(0.3)**	0.1
Non-taxable income	**(0.2)**	–
Effective tax rate	**23.9**	26.1

32 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.

	2016	2015
Net profit for the financial year (RM'000)	**324,784**	254,853
Weighted average number of ordinary shares in issue ('000)	**1,185,446**	1,173,424
Basic earnings per share (sen)	**27.40**	21.72

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

	2016			2015		
	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 gain/(loss) and net amount transfer to income statement	**9,541**	**(2,290)**	**7,251**	(13,770)	2,927	(10,843)

34 RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

Related parties	**Relationship**
RHB Bank Berhad	Holding company
Employees' Provident Fund ('EPF')	Holding company's substantial shareholder, a fund body that is significantly influenced by government
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries, associates and joint ventures of EPF as disclosed in its financial statements	Reporting entities that EPF has control or significant influence
Key management personnel	The key management personnel of the Bank consists of: – All Directors of the Bank and – Members of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

34 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 Bank Berhad Group.

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

2016	Holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
Income				
Commission	–	–	–	132
Income derived from investment of depositors' funds	58,713	30,737	–	–
Other income	–	–	–	6
	58,713	30,737	–	138
Expenditure				
Profit expense on deposits and placements	33,521	382	–	606
Profit expense on investment account	260,622	–	–	–
Reimbursement of operating expenses to holding company	158,318	–	–	–
Other expenses	1,898	–	–	3,363
	454,359	382	–	3,969
Amounts due from				
Securities purchased under resale agreements	2,353,950	–	–	–
Financing and advances	–	765,640	–	–
Derivative assets	46,452	–	–	–
	2,400,402	765,640	–	–
Amounts due to				
Derivative liabilities	364,325	–	–	–
Demand and investment deposits	1,797	382,658	77	20,564
Deposits and placements of banks and other financial institutions	1,142,864	–	–	–
Investment account due to designated financial institutions	6,622,471	–	–	–
Other liabilities	769,591	–	–	668
	8,901,048	382,658	77	21,232

34 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

2015	Immediate holding company RM'000	EPF and EPF Group of companies RM'000	Key management personnel RM'000	Other related companies RM'000
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	–	–	–
Reimbursement of operating expenses to holding company	130,124	–	–	–
Other expenses	1,126	–	–	8,014
	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

34 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	2016 RM'000	2015 RM'000
Short-term employee benefits:		
– Fees	**553**	611
– Salary and other remuneration	**3,529**	2,032
– Defined contribution plan	**427**	212
– Benefits-in-kind (based on an estimated monetary value)	**32**	39
	4,541	2,894

The above remuneration includes Directors' remuneration as disclosed in Note 30.

(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:

	2016	2015
Outstanding credit exposure with connected parties (RM'000)	**1,607,926**	1,829,266
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	**4.22**	5.33
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	**0.01**	–

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.

35 COMMITMENTS AND CONTINGENCIES

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

	2016 RM'000	2015 RM'000
Transaction-related contingent items#	**127,119**	153,039
Short-term self-liquidating trade related contingencies#	**74,479**	82,857
Obligations under underwriting agreements	**76,000**	76,000
Irrevocable commitments to extend credit:		
– Maturity more than one year	**4,824,220**	3,693,518
Foreign exchange related contracts*:		
– Less than one year	**7,577,185**	2,975,712
– One year to less than five years	**766,434**	519,494
– More than five years	**999,623**	–
Profit rate related contracts*:		
– Less than one year	**2,585,000**	850,000
– One year to less than five years	**2,279,448**	2,425,000
– More than five years	**–**	500,000
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	**2,183,074**	2,335,561
Total	**21,492,582**	13,611,181

Included in transaction-related contingent items and short-term self-liquidating trade-related contingencies are financial guarantee contracts of RM201,598,000 (2015: RM235,896,000).

* 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.

36 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:

	2016 RM'000	2015 RM'000
Within one year	**3,552**	5,148
Between one and five years	**2,103**	7,388
	5,655	12,536

37 CAPITAL COMMITMENTS

	2016 RM'000	2015 RM'000
Capital expenditure for property, plant and equipment:		
– Authorised but not contracted for	**1,794**	1,370
– Authorised and contracted for	**3,084**	1,046
	4,878	2,416

38 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

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

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

The Group Risk Management Framework governs the management of risks in the 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.

38 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') has also been established to assist the Board of Directors of the Bank on issues relevant and unique to Islamic finance.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee ('GCRC') comprising Senior Management of the Group and which reports 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 Groups ('SBGs') and Strategic Functional Groups ('SFGs') of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.

(3) Institutionalisation of a risk-focused organisation

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

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

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

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.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(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 shareholder's expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Bank is prepared to accept in delivering its strategy.

(5) Optimisation of risk-adjusted return

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

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

Major Areas of Risk

As a banking institution with key activities covering retail, business banking, corporate banking and advisory services, treasury products and services, the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

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

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

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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

Market risk

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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Credit risk

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

- International best practices are incorporated into this policy.

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

- The Bank also ensures that internal processes and credit underwriting standards are adhered to before credit 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. Financing applications within a specified limit may be jointly approved by the approving authority in business units and Group Credit Management.

- Internal credit rating models are an integral part of the Bank's credit risk management and decision-making process.

- Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

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

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 Bank' capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

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

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

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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

2016	Financing and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Assets					
Cash and short-term funds	3,436,239	–	–	–	3,436,239
Securities purchased under resale agreements	2,353,950	–	–	–	2,353,950
Deposits and placements with banks and other financial institutions	537,141	–	–	–	537,141
Financial assets HFT	–	10,177	–	–	10,177
Financial investments AFS	–	–	3,459,647	–	3,459,647
Financial investments HTM	–	–	–	2,820,123	2,820,123
Financing and advances	33,841,566	–	–	–	33,841,566
Derivative assets	–	402,763	–	–	402,763
Other financial assets	114,720	–	–	–	114,720
	40,283,616	412,940	3,459,647	2,820,123	46,976,326

	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	–	29,419,928	29,419,928
Deposits and placements of banks and other financial institutions	–	6,430,194	6,430,194
Investment account due to designated financial institutions	–	6,622,471	6,622,471
Bills and acceptances payable	–	9,050	9,050
Derivative liabilities	400,812	–	400,812
Recourse obligation on financing sold to Cagamas	–	815,243	815,243
Subordinated obligations	–	503,187	503,187
Other financial liabilities	–	814,059	814,059
	400,812	44,614,132	45,014,944

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

2015	Financing and receivables RM'000	Assets at fair value through the profit and loss RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Total RM'000
Assets					
Cash and short-term funds	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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

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

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

(i) Profit rate sensitivity analysis

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

	Impact on profit after tax RM'000	Impact on equity RM'000
2016		
+100 bps	**(3,498)**	**(113,332)**
–100 bps	**3,652**	**121,600**
2015		
+100 bps	(19,815)	(93,263)
–100 bps	19,871	99,547

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 (2015: 100 bps) profit rate change impact. For assets and liabilities with non-fixed maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

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

38 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
2016	
+10%	**(632)**
–10%	**632**
2015	
+10%	(2,293)
–10%	2,293

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.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk

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

	Non-trading book								
2016	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 months RM'000	Over 3 months RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS									
Cash and short-term funds	3,414,852	–	–	–	–	–	21,387	–	3,436,239
Securities purchased under resale agreements	665,451	489,273	1,187,178	–	–	–	12,048	–	2,353,950
Deposits and placements with banks and other financial institutions	–	220,632	–	315,738	–	–	771	–	537,141
Financial assets HFT	–	–	–	–	–	–	–	10,177	10,177
Financial investments AFS	–	–	40,001	283,305	384,067	2,719,718	32,556	–	3,459,647
Financial investments HTM	25,000	1,039,234	50,033	56,224	596,555	1,033,314	19,763	–	2,820,123
Financing and advances:									
– Performing	22,469,539	525,572	336,374	49,219	623,488	9,522,874	173,793	–	33,700,859
– Impaired	–	–	–	–	–	–	140,707*	–	140,707
Other assets	–	–	–	–	–	–	171,730	–	171,730
Derivative assets	–	–	–	–	–	–	–	401,864	402,763
Statutory deposits with BNM	–	–	–	–	–	–	1,051,050	–	1,051,050
Deferred tax assets	–	–	–	–	–	–	20,929	–	20,929
Property, plant and equipment	–	–	–	–	–	–	6,576	–	6,576
Intangible assets	–	–	–	–	–	–	4,750	–	4,750
TOTAL ASSETS	26,574,842	2,274,711	1,613,586	704,486	1,605,009	13,275,906	1,656,060	412,041	48,116,641

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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

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

	Non-trading book								
2016	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 – 3 months RM'000	Over 3 months RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES									
Deposits from customers	11,279,431	6,414,917	5,135,151	3,932,822	44,092	432	2,613,083	–	29,419,928
Deposits and placements of banks and other financial institutions	2,812,328	2,640,632	49,337	315,738	400,000	160,874	51,285	–	6,430,194
Investment account due to designated financial institutions	5,662	–	5,839	417,123	1,102,815	4,806,006	285,026	–	6,622,471
Bills and acceptances payable	–	–	–	–	–	–	9,050	–	9,050
Derivative liabilities	–	–	–	678	7,525	666	–	391,943	400,812
Recourse obligation on financing sold to Cagamas	–	–	–	801,342	–	–	13,901	–	815,243
Subordinated obligations	–	–	–	–	–	500,000	3,187	–	503,187
Other liabilities	–	–	–	–	–	–	957,863	–	957,863
Provision for tax and zakat	–	–	–	–	–	–	29,451	–	29,451
TOTAL LIABILITIES	14,097,421	9,055,549	5,190,327	5,467,703	1,554,432	5,467,978	3,962,846	391,943	45,188,199
TOTAL EQUITY	–	–	–	–	–	–	2,928,442	–	2,928,442
TOTAL LIABILITIES AND EQUITY	14,097,421	9,055,549	5,190,327	5,467,703	1,554,432	5,467,978	6,891,288	391,943	48,116,641
On-balance sheet profit sensitivity gap	12,477,421	(6,780,838)	(3,576,741)	(4,763,217)	50,577	7,807,928			
Off-balance sheet profit sensitivity gap	–	–	–	(225,000)	(710,000)	(90,000)			
TOTAL PROFIT-SENSITIVITY GAP	12,477,421	(6,780,838)	(3,576,741)	(4,988,217)	(659,423)	7,717,928			

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

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

2015	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 months RM'000	Over 3 months RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
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.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

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

	Non-trading book								
2015	**Up to 1 month RM'000**	**>1 – 3 months RM'000**	**>3 – 6 months RM'000**	**>6 – 12 months RM'000**	**>1 – 3 months RM'000**	**Over 3 months RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
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	–	(150,000)	700,000	–	(50,000)	(425,000)			
TOTAL PROFIT-SENSITIVITY GAP	8,813,388	(7,450,159)	(2,217,026)	(2,330,681)	178,074	6,401,488			

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

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

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

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

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

2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	1,333,971	2,102,268	–	–	–	–	–	3,436,239
Securities purchased under resale agreements	670,558	–	490,701	1,192,691	–	–	–	2,353,950
Deposits and placements with banks and other financial institutions	–	–	221,403	–	315,738	–	–	537,141
Financial assets HFT	–	–	–	83	–	10,094	–	10,177
Financial investments AFS	2,215	9,774	10,737	49,212	283,305	2,903,785	200,619	3,459,647
Financial investments HTM	26,387	6,537	1,047,216	53,889	56,224	1,629,870	–	2,820,123
Financing and advances	779,786	1,303,962	527,374	465,980	492,250	30,272,214	–	33,841,566
Other assets	105,825	8,896	–	–	–	–	57,009	171,730
Derivative assets	14,880	12,466	71,771	102,033	125,065	76,548	–	402,763
Statutory deposits with BNM	–	–	–	–	–	–	1,051,050	1,051,050
Deferred tax assets	–	–	–	–	–	–	20,929	20,929
Property, plant and equipment	–	–	–	–	–	–	6,576	6,576
Intangible assets	–	–	–	–	–	–	4,750	4,750
TOTAL ASSETS	2,933,622	3,443,903	2,369,202	1,863,888	1,272,582	34,892,511	1,340,933	48,116,641

38 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):

2016	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	7,603,799	6,140,298	6,491,690	5,185,878	3,953,480	44,783	–	29,419,928
Deposits and placements of banks and other financial institutions	403,232	2,406,145	2,631,449	49,396	315,738	624,234	–	6,430,194
Investment account due to designated financial institutions	–	6,026	–	6,214	475,786	6,134,445	–	6,622,471
Bills and acceptances payable	9,050	–	–	–	–	–	–	9,050
Derivative liabilities	6,498	14,330	71,263	101,069	125,367	82,285	–	400,812
Recourse obligation on financing sold to Cagamas	–	–	–	–	815,243	–	–	815,243
Subordinated obligations	–	–	–	–	–	503,187	–	503,187
Other liabilities	766,026	12,311	16,652	–	19,070	–	143,804	957,863
Provision for tax and zakat	–	–	–	–	–	–	29,451	29,451
TOTAL LIABILITIES	8,788,605	8,579,110	9,211,054	5,342,557	5,704,684	7,388,934	173,255	45,188,199
TOTAL EQUITY	–	–	–	–	–	–	2,928,442	2,928,442
TOTAL LIABILITIES AND EQUITY	8,788,605	8,579,110	9,211,054	5,342,557	5,704,684	7,388,934	3,101,697	48,116,641

38 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):

2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
ASSETS								
Cash and short-term funds	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

38 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):

2015	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
LIABILITIES								
Deposits from customers	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

38 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
2016							
LIABILITIES							
Deposits from customers	**13,759,676**	**11,807,473**	**4,069,069**	**46,096**	**515**	**–**	**29,682,829**
Deposits and placements of banks and other financial institutions	**2,793,494**	**2,685,562**	**372,177**	**500,175**	**167,961**	**–**	**6,519,369**
Investment account due to designated financial institutions	**–**	**–**	**–**	**702,975**	**3,475,892**	**3,798,980**	**7,977,847**
Bills and acceptances payable	**9,051**	**–**	**–**	**–**	**–**	**–**	**9,051**
Derivative liabilities:							
– Gross settled derivatives:							
– Inflow	**(392,366)**	**(1,954,500)**	**(1,314,325)**	**(258,381)**	**(238,054)**	**(605,126)**	**(4,762,752)**
– Outflow	**414,638**	**2,131,485**	**1,411,655**	**278,096**	**242,738**	**603,019**	**5,081,631**
– Net settled derivatives	**(91)**	**1,225**	**2,064**	**755**	**(4,246)**	**–**	**(293)**
Recourse obligation on financing sold to Cagamas	**23,773**	**139,393**	**668,841**	**–**	**–**	**–**	**832,007**
Subordinated obligations	**–**	**12,375**	**512,375**	**–**	**–**	**–**	**524,750**
Other financial liabilities	**778,337**	**16,652**	**19,070**	**–**	**–**	**–**	**814,059**
TOTAL FINANCIAL LIABILITIES	**17,386,512**	**14,839,665**	**5,740,926**	**1,269,716**	**3,644,806**	**3,796,873**	**46,678,498**
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

38 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
2016			
Transaction-related contingent items	**20,413**	**106,706**	**127,119**
Short-term self-liquidating trade-related contingencies	**12,108**	**62,371**	**74,479**
Obligations under underwriting agreements	**–**	**76,000**	**76,000**
Irrevocable commitments to extend credit	**–**	**4,824,220**	**4,824,220**
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	**3,693**	**2,179,381**	**2,183,074**
TOTAL COMMITMENTS AND CONTINGENCIES	**36,214**	**7,248,678**	**7,284,892**
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

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.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Bank:

	2016 RM'000	2015 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds (exclude cash in hand)	**3,427,875**	6,138,469
Securities purchased under resale agreements	**2,353,950**	–
Deposits and placements with banks and other financial institutions	**537,141**	618,072
Financial assets and investments portfolios (exclude shares and perpetual sukuk):		
– HFT	**10,177**	20,248
– AFS	**3,259,028**	2,861,483
– HTM	**2,820,123**	1,861,693
Financing and advances	**33,841,566**	30,890,427
Other financial assets	**114,720**	84,341
Derivative assets	**402,763**	146,922
	46,767,343	42,621,655
Credit risk exposure relating to off-balance sheet assets:		
Commitments and contingencies	**7,284,892**	6,340,975
Total maximum credit risk exposure	**54,052,235**	48,962,630

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

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

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

(b) Land and/or buildings;

(c) Vessels and automobiles;

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

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

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract 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 2016 is 68.9% (2015: 55.6%). 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 degrees 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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(a) Financing and advances

Financing and advances are summarised as follows:

	2016 RM'000	2015 RM'000
Neither past due nor impaired	**29,174,659**	29,959,285
Past due but not impaired	**4,526,200**	790,708
Individually impaired	**393,096**	362,736
Gross financing and advances	**34,093,955**	31,112,729
Less: Individual impairment allowance	**(15,864)**	(22,649)
Collective impairment allowance	**(236,525)**	(199,653)
Net financing and advances	**33,841,566**	30,890,427

(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:

	2016 RM'000	2015 RM'000
Good	**15,400,194**	14,864,185
Fair	**123,738**	318,569
No Rating	**13,650,727**	14,776,531
Neither past due nor impaired	**29,174,659**	29,959,285

Financing and advances classified as non-rated mainly comprise financing under the Standardised Approach for credit risk.

38 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:

	2016 RM'000	2015 RM'000
Past due up to 30 days	**3,820,928**	45,825
Past due 31 to 60 days	**536,144**	577,960
Past due 61 to 90 days	**169,128**	166,923
Past due but not impaired	**4,526,200**	790,708

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

	2016 RM'000	2015 RM'000
Individually impaired financing	**393,096**	362,736

(b) Short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets are summarised as follows:

	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
2016							
Neither past due nor impaired	**3,965,016**	**2,353,950**	**10,177**	**3,259,028**	**2,820,123**	**114,720**	**402,763**
2015							
Neither past due nor impaired	6,756,541	–	20,248	2,861,483	1,861,693	84,341	146,922

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows:

2016	Short-term funds, deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Other financial assets RM'000	Derivative assets RM'000
AAA to AA3	356,370	2,353,950	–	1,343,937	301,722	–	68,133
A1 to A3	–	–	–	149,447	–	–	–
Non-rated of which:	3,608,646	–	10,177	1,765,644	2,518,401	114,720	334,630
– Malaysian Government Investment Issues	–	–	10,177	691,196	402,619	–	–
– BNM	3,071,576	–	–	–	–	–	–
– Private debt securities	–	–	–	1,065,453	309,289	–	–
– Khazanah bonds	–	–	–	8,995	20,872	–	–
– Negotiable Islamic debt certificates	–	–	–	–	895,234	–	–
– Others	537,070	–	–	–	890,387	114,720	334,630
	3,965,016	2,353,950	10,177	3,259,028	2,820,123	114,720	402,763

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

(c) Analysis of short-term funds, deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, other financial assets and derivative assets of the Bank that are neither past due nor impaired by rating agency definition are as follows (continued):

2015	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
AAA to AA3	518,061	–	1,480,881	237,978	–	23,320
A1 to A3	–	–	14,175	–	–	11
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

38 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:

2016	Short-term funds, and deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets HFT RM'000	Financial investments AFS@ RM'000	Financial investments HTM RM'000	Financial and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	–	204,967	100,076	865,419	–	578,728	1,749,190
Mining and quarrying	–	–	–	–	–	370,536	–	6,697	377,233
Manufacturing	–	–	–	–	–	892,318	–	481,020	1,373,338
Electricity, gas and water	–	–	–	362,654	307,829	165,035	20,685	21,780	877,983
Construction	–	–	–	139,939	200,173	1,415,337	–	1,463,291	3,218,740
Real estate	–	–	–	171,068	29,619	896,869	–	–	1,097,556
Purchase of landed property	–	–	–	–	–	9,006,419	–	806,236	9,812,655
General commerce	–	–	–	–	–	904,735	–	370,530	1,275,265
Transport, storage and communication	–	–	–	355,753	76,636	4,162,512	–	253,258	4,848,159
Finance, insurance and business services	741,886	2,353,950	–	779,403	117,774	3,936,215	68,133	1,005,975	9,003,336
Government and government agencies	3,223,130	–	10,177	799,374	1,532,491	3,018,691	309,198	–	8,893,061
Purchase of securities	–	–	–	–	–	–	–	–	–
Purchase of transport vehicles	–	–	–	–	–	–	–	–	–
Consumption credit	–	–	–	–	–	–	–	461,216	461,216
Others	–	–	–	445,870	455,525	8,444,005	119,467	1,836,161	11,301,028
	3,965,016	2,353,950	10,177	3,259,028	2,820,123	34,078,091	517,483	7,284,892	54,288,760

@ Exclude equity instrument and perpetual sukuk amounting to RM200,619,000.

\# Excludes collective impairment allowance amounting to RM236,525,000.

* Other financial assets include other assets amounting to RM114,720,000 and derivative assets amounting to RM402,763,000.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

2015	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	Financial and advances# RM'000	Other financial assets* RM'000	Commitments and contingencies RM'000	Total RM'000
Agriculture, hunting, forestry and fishing	–	–	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

@ Exclude equity instrument and perpetual sukuk amounting to RM201,162,000.
# Excludes collective impairment allowance amounting to RM199,653,000.
* Other financial assets include other assets amounting to RM84,341,000 and derivative assets amounting to RM146,922,000.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments

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

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

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

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

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2016				
Financial assets				
Financial assets HFT:				
– money market instruments	**–**	**10,177**	**–**	**10,177**
Financial investments AFS:	**–**	**3,259,028**	**200,619**	**3,459,647**
– money market instruments	**–**	**754,927**	**–**	**754,927**
– unquoted securities	**–**	**2,504,101**	**200,619**	**2,704,720**
Derivative assets	**–**	**402,763**	**–**	**402,763**
	–	**3,671,968**	**200,619**	**3,872,587**
Financial liabilities				
Derivative liabilities	**–**	**400,812**	**–**	**400,812**
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

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

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair Value of Financial Instruments (continued)

(i) Valuation techniques

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

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

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for non-transferable and non-tradable perpetual sukuk and impaired securities.

(ii) Reconciliation of fair value measurements in Level 3:

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

Financial investments AFS

	2016 RM'000	**2015 RM'000**
Balance as at the beginning of the financial year	**201,162**	201,129
Profit recognised	**11,900**	11,900
Payment received	**(11,894)**	(11,867)
Impairment losses	**(549)**	–
Balance as at the end of the financial year	**200,619**	201,162

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of each financial assets and liabilities presented on the statement of financial position of the Bank approximates the carrying amount as at the reporting date, except for the following:

	Carrying value RM'000	Fair value RM'000
2016		
Financial assets		
Deposits and placements with banks and other financial institutions	**537,141**	585,012
Financial investments HTM	**2,820,123**	2,809,581
Financing and advances	**33,841,566**	35,217,671
Financial liabilities		
Deposits from customers	**29,419,928**	29,425,141
Deposits and placements of banks and other financial institutions	**6,430,194**	6,466,056
Investment account due to designated financial institutions	**6,622,471**	6,573,820
Recourse obligation on financing sold to Cagamas	**815,243**	821,965
Subordinated obligations	**503,187**	505,572
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

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2016				
Financial assets				
Deposits and placements with banks and other financial institutions	–	585,012	–	585,012
Financial investments HTM	–	1,929,165	880,416	2,809,581
Financing and advances	–	35,217,671	–	35,217,671
Financial liabilities				
Deposits from customers	–	29,425,141	–	29,425,141
Deposits and placements of banks and other financial institutions	–	6,466,056	–	6,466,056
Investment account due to designated financial institutions	–	6,573,820	–	6,573,820
Recourse obligation on financing sold to Cagamas	–	821,965	–	821,965
Subordinated obligations	–	505,572	–	505,572
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

39 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) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using prevailing market rates for the remaining term to maturity.

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

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

(iv) Financing and advances

For floating rate financing, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risk and maturities.

The fair values of impaired financing are represented by their carrying value, net of impairment allowance.

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(v) Other assets and liabilities

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

(vi) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(vii) 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 institutions, and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities of six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

(viii) Recourse obligation on financing sold to Cagamas

For amounts due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

(ix) Subordinated obligations

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

(x) Credit related commitments and contingencies

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

(xi) Foreign exchange and profit rate related contracts

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

40 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:

	2016 RM'000	2015 RM'000
Common Equity Tier-I ('CET-l') Capital/Tier-I Capital		
Paid-up ordinary share capital	**1,273,424**	1,173,424
Retained profits	**766,058**	520,625
Statutory reserve	**762,388**	681,192
AFS reserve	**(31,944)**	(39,195)
	2,769,926	2,336,046
Less:		
Deferred tax assets	**(25,748)**	(16,840)
Intangible assets (include associated deferred tax liabilities)	**–**	(687)
Ageing Reserve and Liquidity Reserve*	**(2,891)**	(763)
Total CET-I/Total Tier-I Capital	**2,741,287**	2,317,756
Tier-II Capital		
Subordinated obligations	**500,000**	500,000
Collective impairment allowance and regulatory reserve^	**290,408**	248,696
Total Tier-II Capital	**790,408**	748,696
Total Capital	**3,531,695**	3,066,452
Capital ratios		
CET-I capital ratio	**10.868%**	11.041%
Tier-I capital ratio	**10.868%**	11.041%
Total capital ratio	**14.002%**	14.608%

40 CAPITAL ADEQUACY (CONTINUED)

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

	2016 RM'000	2015 RM'000
Credit risk-weighted assets	**29,623,743**	25,655,098
Credit risk-weighted assets absorbed by PSIA	**(5,665,344)**	(5,759,360)
Market risk-weighted assets	**63,426**	61,645
Operational risk-weighted assets	**1,200,381**	1,032,842
Total risk-weighted assets	**25,222,206**	20,990,225

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 2016, credit risks relating to RPSIA assets excluded from the RWCR calculation amounted to RM5,665,344,000 (2015: RM5,759,360,000).

^ Excludes collective 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 regulatory reserve under the Standardised Approach for non-impaired financing and advances of RM158,516,000 (2015: RM140,615,000)

* Pursuant to the Basel II Market Risk para 5.19 and 5.20 – Valuation Adjustments, the Capital Adequacy Framework (Basel II-RWA) calculation shall account for the ageing, liquidity and holding back adjustments on its trading portfolio.

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

	2016 RM'000	2015 RM'000
(i) Credit Risk		
0%	**–**	–
20%	**856,154**	651,589
35%	**806,423**	708,146
50%	**867,392**	885,733
75%	**8,799,347**	8,748,406
100%	**18,138,791**	14,531,769
150%	**155,636**	129,455
	29,623,743	25,655,098
Less: Credit risk weighted assets absorbed by PSIA	**(5,665,344)**	(5,759,360)
(ii) Market Risk Capital Adequacy Framework	**63,426**	61,645
(iii) Basic Indicator Operational Risk Capital Charge	**1,200,381**	1,032,842
	25,222,206	20,990,225

41 SEGMENT REPORTING

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

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

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

(a) Wholesale Banking

(i) Corporate and investment banking

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

(ii) Treasury

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

(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.

41 SEGMENT REPORTING (CONTINUED)

2016	Wholesale Banking: Corporate and Investment Banking RM'000	Wholesale Banking: Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
External revenue	781,774	440,380	110,557	905,793	2,238,504
Inter-segment (expense)/revenue	(161,983)	546,168	22,775	(406,960)	–
Total revenue	619,791	986,548	133,332	498,833	2,238,504
Depositors' payout	(422,431)	(854,078)	(40,770)	(166,777)	(1,484,056)
Net income	197,360	132,470	92,562	332,056	754,448
Operating overheads	(34,000)	(12,462)	(54,982)	(146,777)	(248,221)
Depreciation of property, plant and equipment	(21)	(17)	40	(1,753)	(1,751)
Amortisation of computer software	(127)	(598)	(140)	(1,237)	(2,102)
Allowance for impairment on financing and advances	(5,621)	–	(27,712)	(36,835)	(70,168)
Segmental results	157,591	119,393	9,768	145,454	432,206
Impairment losses made on other assets					(549)
Profit before taxation and zakat					431,657
Zakat					(3,500)
Profit after zakat before taxation					428,157
Taxation					(103,373)
Net profit for the financial year					324,784

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

41 SEGMENT REPORTING (CONTINUED)

2016	Wholesale Banking: Corporate and Investment Banking RM'000	Wholesale Banking: Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
Segment assets	16,372,436	11,935,707	2,257,270	17,174,445	47,739,858
Unallocated assets					355,854
Deferred tax assets					20,929
Total assets					48,116,641
Segment liabilities	13,323,951	22,332,000	2,516,061	6,028,874	44,200,886
Unallocated liabilities					987,313
					45,188,199
	69	376	57	1,177	1,679

2015	Wholesale Banking: Corporate and Investment Banking RM'000	Wholesale Banking: Treasury RM'000	Business Banking RM'000	Retail Banking RM'000	Total RM'000
External revenue	609,695	348,617	79,064	822,305	1,859,681
Inter-segment (expense)/revenue	(232,563)	618,076	23,231	(408,744)	–
Total revenue	377,132	966,693	102,295	413,561	1,859,681
Depositors' payout	(209,120)	(867,050)	(33,753)	(116,814)	(1,226,737)
Net income	168,012	99,643	68,542	296,747	632,944
Operating overheads	(38,432)	(28,903)	(26,775)	(128,851)	(222,961)
Depreciation of property, plant and equipment	(547)	(492)	(469)	(1,693)	(3,201)
Amortisation of computer software	(252)	(564)	(111)	(957)	(1,884)
Allowance for impairment on financing and advances	(2,214)	–	(32,365)	(21,594)	(56,173)
Profit before taxation and zakat	126,567	69,684	8,822	143,652	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.

41 SEGMENT REPORTING (CONTINUED)

	Wholesale Banking				
2015	**Corporate and Investment Banking RM'000**	**Treasury RM'000**	**Business Banking RM'000**	**Retail Banking RM'000**	**Total RM'000**
Segment assets	15,072,302	11,040,373	1,537,429	15,736,494	43,386,598
Unallocated assets					678,179
Deferred tax assets					11,964
Total assets					44,076,741
Segment liabilities	8,725,123	25,656,024	2,255,554	4,586,365	41,223,066
Unallocated liabilities					357,268
Total liabilities					41,580,334
Other segment items:					
Capital expenditure	104	631	70	1,225	2,030

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2017.

STATEMENT BY DIRECTORS

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

We, Haji Md Ja'far Abdul Carrim and Dato' Adissadikin Ali, being two of the Directors of RHB Islamic Bank Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 64 to 157 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2016 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

DATO' ADISSADIKIN ALI
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur
28 February 2017

STATUTORY DECLARATION

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

I, Khairul Hakeem Mohamed Sahari, the Officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 64 to 157 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 MOHAMED SAHARI

Subscribed and solemnly declared by the abovenamed Khairul Hakeem Mohamed Sahari at Kuala Lumpur in Wilayah Persekutuan on 28 February 2017.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF RHB ISLAMIC BANK BERHAD (680329-V)
INCORPORATED IN MALAYSIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Islamic Bank Berhad ('the Bank') give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2016 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 64 to 157.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report and Statement by Directors which we obtained prior to the date of this auditors' report and the 2016 Annual Report which is expected to be made available to us after that date. Other information does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements of the Bank, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the Audit of the financial statements (continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 members 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

SOO HOO KHOON YEAN
(No: 2682/10/17(J))
Chartered Accountant

Kuala Lumpur
28 February 2017

BASEL II PILLAR 3 DISCLOSURES

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LIST OF TABLES

STATEMENT BY MANAGING DIRECTOR

In accordance with the requirements of Bank Negara Malaysia's Guideline on Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), and on behalf of the Board of Directors and Senior Management of RHB Islamic Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of RHB Islamic Bank Berhad for the year ended 31 December 2016 is accurate and complete.

DATO' ADISSADIKIN BIN ALI
Managing Director

BASEL II
PILLAR 3 DISCLOSURES

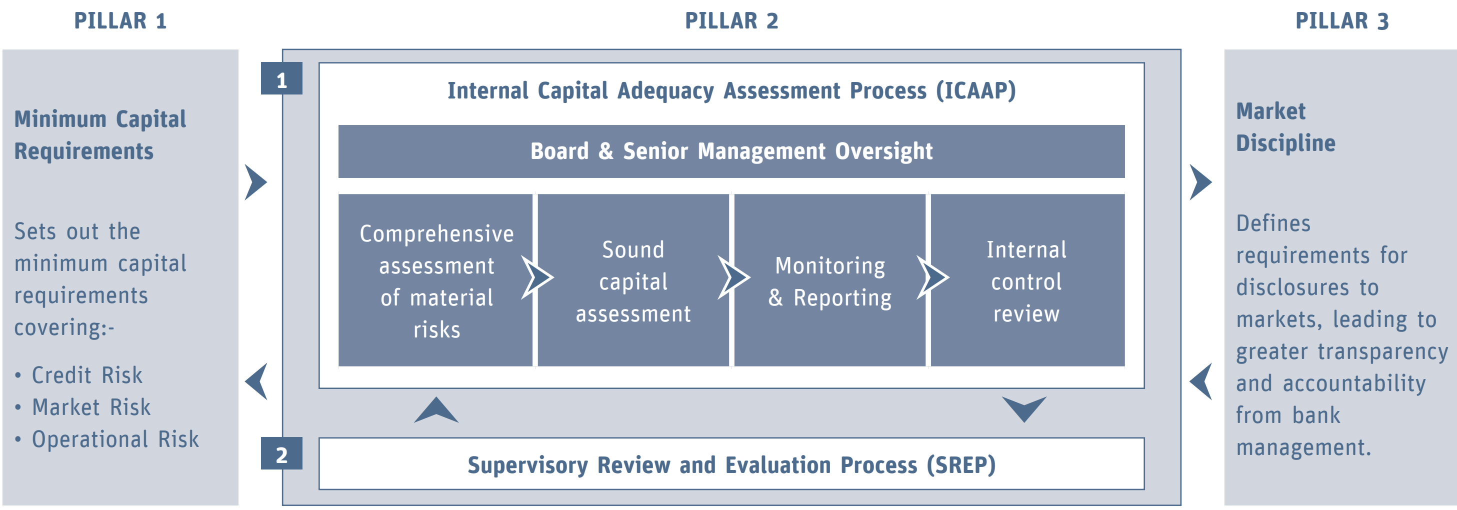
1.0 INTRODUCTION

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:



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

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

Entity	Credit Risk	Market Risk	Operational Risk
RHB Islamic Bank Berhad	Standardised Approach	Standardised Approach	Basic Indicator Approach

Pillar 2 comprises two components as follows:

- Placing obligations on banks to develop an Internal Capital Adequacy Assessment Process, and setting capital targets that commensurate with the banking institution's risk profile and control environment; and
- Placing obligations on the supervisory authority to evaluate how well banking institutions are assessing their capital needs relative to their risks and to intervene, where appropriate.

1.0 INTRODUCTION (CONTINUED)

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 2016 with comparative quantitative information of the preceding financial year 2015.

RHB Islamic Bank Berhad's Pillar 3 disclosure report is made available under the Investor Relations section of RHB Banking Group's website at www.rhbgroup.com as a separate report in annual report 2016, after the notes to the Financial Statements.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Islamic Bank Berhad's information is presented at entity level and is referred to as "the Bank". The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31 December 2016.

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 and capital allocation/structuring/optimisation.

- **Capital Strategy**

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

3.0 CAPITAL MANAGEMENT (CONTINUED)

- **Capital Planning**

Based on strategic direction and regulatory requirements, the Bank formulates a comprehensive and forward looking capital plan to:

(i) support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate and aligned with the Bank's risk appetite;

(ii) provide adequate capital for business growth, changes in asset mix or to cover unanticipated losses.

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

- **Capital Allocation/Structuring/Optimisation**

The Bank determines the amount of capital allocated to each entity and business line based on capital performance target and available funding. An efficient allocation of capital drives returns for the Bank's shareholders.

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

The Bank optimises its capital by integrating risk-based capital into strategy and aligning this with performance measurement.

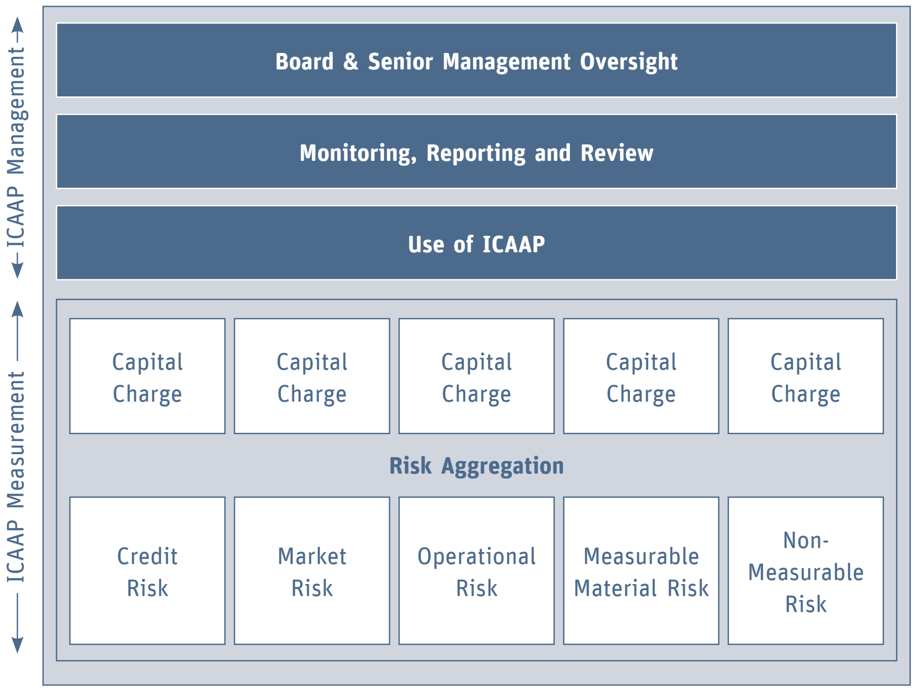
The Bank also aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

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

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



Key Requirements

- Establish rigorous corporate governance and senior management oversight.
- Establish risk-based strategy including defining and setting the Bank's appetite and tolerance for risk.
- Access and measure all material risks inherent in the Group's business.
- Review, monitor, control and report on all material risks.
- Demonstrate that ICAAP forms and integral part of day-to-day management process and decision making culture of the Group.
- Relate capital to level of risk and ensure capital adequacy using scenario analysis and stress testing methods.

3.2 Basel III Implementation

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

The Bank has implemented BNM's liquidity standards on Liquidity Coverage Ratio (LCR) effective from 1 June 2015 after reporting the LCR under observation since June 2012. BNM has adopted the 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.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios

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

Calendar Year	Common Equity Tier I (CET I) Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
2013	3.50%	4.50%	8.00%
2014	4.00%	5.50%	8.00%
2015 onwards	4.50%	6.00%	8.00%

In addition, the Bank is required to maintain additional capital buffers in the form of CET I Capital above the minimum CET I, Tier I and Total Capital Ratios set out above. The capital buffers shall comprise of capital conservation buffer (CCB) and countercyclical capital buffer (CCyB). The CCB is intended to enable the banking system to withstand future periods of stress and will be phased-in as follows:

Calendar Year	CCB
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

CCyB is determined based on the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures. This buffer is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. Application of CCyB above the minimum capital ratios is in the range of 0.0% to 2.5%. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.3 Capital Adequacy Ratios (continued)

The capital ratios of the Bank as at 31 December 2016 and 31 December 2015 are as follows:

Table 1: Capital Adequacy Ratios

	RHB Islamic Bank	
	2016	**2015**
Before Proposed Dividends:		
Common Equity Tier I Capital Ratio	**10.868%**	11.041%
Tier I Capital Ratio	**10.868%**	11.041%
Total Capital Ratio	**14.002%**	14.608%
After Proposed Dividends:		
Common Equity Tier I Capital Ratio	**10.868%**	11.041%
Tier I Capital Ratio	**10.868%**	11.041%
Total Capital Ratio	**14.002%**	14.608%

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

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 2016 and 31 December 2015:

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

	RHB Islamic Bank	
	2016 RM'000	**2015 RM'000**
Risk Types:		
Credit RWA	**29,623,743**	25,655,098
Credit RWA Absorbed by Profit Sharing Investment Account ('PSIA')	**(5,665,344)**	(5,759,360)
Market RWA	**63,426**	61,645
Operational RWA	**1,200,381**	1,032,842
TOTAL	**25,222,206**	**20,990,225**

3.0 CAPITAL MANAGEMENT (CONTINUED)

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

The following tables show the breakdown of RWA by risk types and the corresponding capital requirement as at 31 December 2016 and 31 December 2015:

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

RHB Islamic Bank	RWA		Minimum Capital Requirements	
Risk Types	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Credit Risk	**23,958,399**	19,895,738	**1,916,672**	1,591,659
Under Standardised Approach	**29,623,743**	25,655,098	**2,369,899**	2,052,408
Absorbed by PSIA under Standardised Approach	**(5,665,344)**	(5,759,360)	**(453,227)**	(460,749)
Market Risk				
Under Standardised Approach	**63,426**	61,645	**5,074**	4,932
Operational Risk				
Under Basic Indicator Approach	**1,200,381**	1,032,842	**96,030**	82,627
Total	**25,222,206**	**20,990,225**	**2,017,776**	**1,679,218**

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

The increase in Credit RWA was mostly due to increase in corporate exposures.

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

The following table represents the capital position of the Bank as at 31 December 2016 and 31 December 2015:

Table 4: Capital Structure

	RHB Islamic Bank	
	2016 RM'000	**2015 RM'000**
Common Equity Tier I Capital/Tier I Capital		
Paid up ordinary share capital	**1,273,424**	1,173,424
Retained profits	**766,058**	520,625
Other reserves	**762,388**	681,192
Unrealised losses on AFS financial instruments	**(31,944)**	(39,195)
Less:		
Deferred tax assets	**(25,748)**	(16,840)
Other intangibles	**–**	(687)
Ageing Reserves and Liquidity Reserve*	**(2,891)**	(763)
Total Common Equity Tier I Capital/Tier I Capital	**2,741,287**	**2,317,756**
Tier II Capital		
Subordinated obligations**	**500,000**	500,000
Collective impairment allowances and regulatory reserves^	**290,408**	248,696
Total Tier II Capital	**790,408**	**748,696**
Total Capital	**3,531,695**	**3,066,452**

^ 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 RM158,516,000 (31 December 2015: RM140,615,000).

* 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.

** Subordinated obligations that are recognised as Tier II capital instruments are subject to the gradual phase-out treatment effective from 1 January 2013 as prescribed under paragraph 37.7 of the BNM's Capital Adequacy Framework (Capital Components).

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

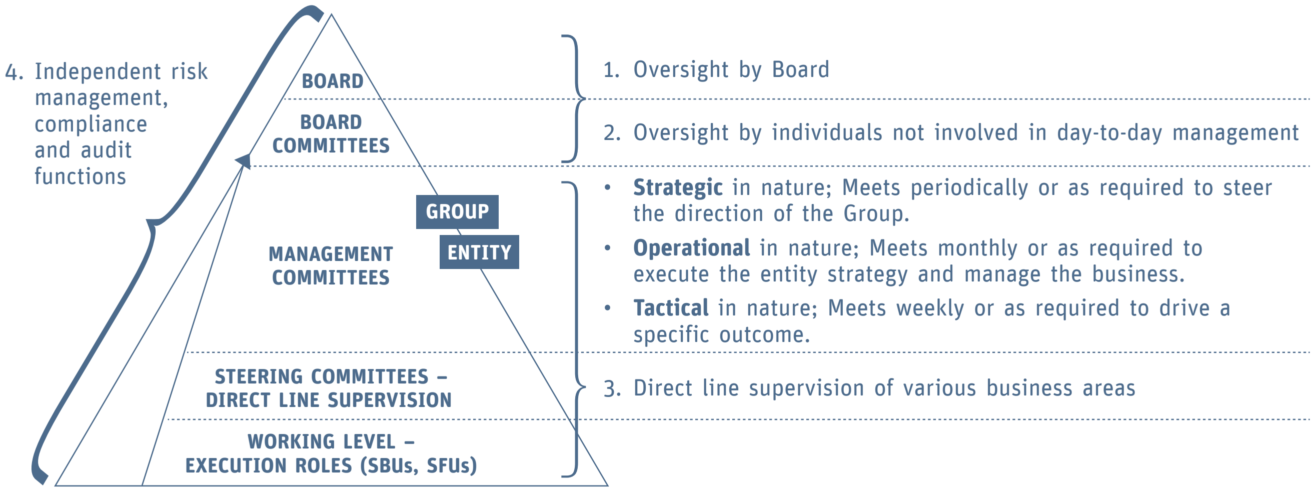
The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION

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

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports to the BRC/IRMC and the Group Management Committee (GMC). 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.

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (CONTINUED)

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.

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.

5.0 RISK MANAGEMENT (CONTINUED)

RISK GOVERNANCE AND ORGANISATION (continued)

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 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 Group is 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.

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 with the agreed terms. It stems primarily from the Group's financing, trade finance and its funding, investment and trading activities from both on and off-balance sheet transactions.

6.1 Credit Risk Management Oversight and Organisation

The Group Credit Committee (GCC) is the senior management committee 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 (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC, and (ii) overseeing the management of impaired and high risk accounts. 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 credit underwriters in Group Credit Management prior to submission to the relevant committees for approval. Financing applications within a specified limit may be jointly approved by the approving authority in 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 Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

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

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach

The Bank'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 firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit evaluation and decided upon by the management.

All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review by Group Internal Audit.

The Bank's credit risk management process is documented in the Group Credit Procedures Manual (GCPM) and Group Credit Guidelines which sets out the operational procedures and guidelines governing the credit processes within the Bank.

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 underwriters identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities. Relevant credit guidelines are established to govern the credit risk via guidance on derivatives, hedging and investment related activities of the different exposures.

Financing to Consumers and Small Businesses

For the consumer and small business sectors, credit risk is managed on a portfolio basis. Such products include home financing, credit cards, auto financing, commercial property financing, personal financing and business financing. Financing are underwritten under product programmes that clearly define the target market, underwriting criteria, terms of financing, maximum exposure, credit origination guidelines and verification process. Scoring models are used in the credit decision process to enable objective risk evaluation and consistent decisions, cost efficient processing, and behavioural score monitoring of expected portfolio performance.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach

Credit Risk Measurement

Along with judgement and experience, risk measurement or quantification plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by financing type, the Bank applies different credit risk measuring tools, so that the credit risk of each financing type is appropriately reflected.

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

1. Probability of Default (PD)

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

2. Loss Given Default (LGD)

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

3. Exposure at Default (EAD)

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

6.0 CREDIT RISK (CONTINUED)

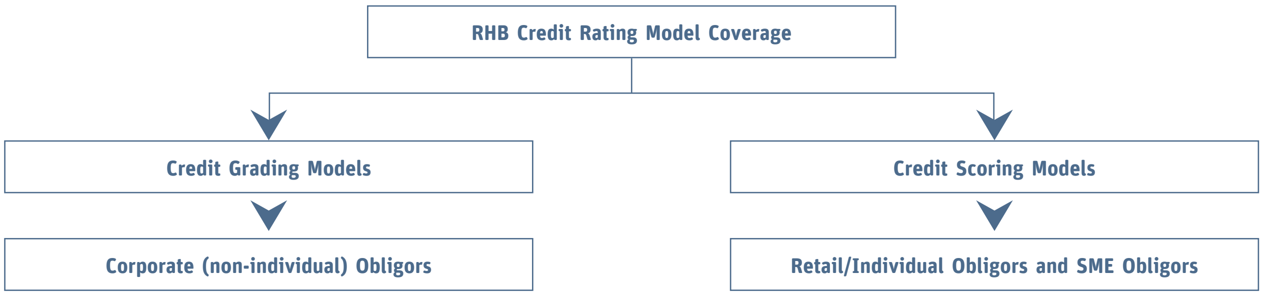
6.3 Internal Credit Rating Models

Internal credit rating models are an integral part of the Bank's credit risk management, decision-making process, and regulatory capital calculations. These internal credit rating models are developed 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.

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 2016 compared with 31 December 2015, segregated by:

- the various types of asset classes, showing details of the exposures by type of approaches, before and after credit risk mitigation (CRM), the corresponding RWA and capital requirements;
- disclosure on off-balance sheet and counterparty credit risk;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights. Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned

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 2016

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	7,599,391	7,599,391	2,984	–	2,984	239
Public Sector Entities	3,373,527	3,368,871	15,871	–	15,871	1,270
Banks, Development Financial Institutions & MDBs	1,649,807	1,649,807	328,976	–	328,976	26,318
Takaful Cos, Securities Firms & Fund Managers	279,341	279,341	279,341	–	279,341	22,347
Corporates	17,276,197	16,922,437	13,685,403	(4,833,584)	8,851,819	708,146
Regulatory Retail	13,299,274	13,182,906	10,387,378	(580,493)	9,806,885	784,551
Residential Mortgages	4,060,558	4,055,084	2,100,993	(76,830)	2,024,163	161,933
Higher Risk Assets	–	–	–	–	–	–
Other Assets	195,111	195,111	174,329	–	174,329	13,946
Defaulted Exposures	280,486	276,094	317,861	(6,556)	311,305	24,904
Total On-Balance Sheet Exposures	48,013,692	47,529,042	27,293,136	(5,497,463)	21,795,673	1,743,654
Off-Balance Sheet Exposures						
OTC Derivatives	752,161	752,161	548,880	–	548,880	43,910
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	2,618,936	2,594,554	1,778,925	(167,463)	1,611,462	128,917
Defaulted Exposures	1,873	1,873	2,802	(418)	2,384	191
Total Off-Balance Sheet Exposures	3,372,970	3,348,588	2,330,607	(167,881)	2,162,726	173,018
Total On and Off-Balance Sheet Exposures	51,386,662	50,877,630	29,623,743	(5,665,344)	23,958,399	1,916,672

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 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**

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 2016

RHB Islamic Bank Nature of Item	Principal/ Notional Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Transaction related contingent items	127,119		63,560	38,828
Short term self liquidating trade related contingencies	74,479		14,896	4,441
NIFs and obligations under underwriting agreement	76,000		38,000	38,000
Foreign exchange related contracts	9,343,242	390,248	706,694	539,070
1 year or less	*7,577,185*	*317,585*	*468,103*	*400,107*
Over 1 year to 5 years	*766,434*	*55,003*	*110,972*	*53,921*
Over 5 years	*999,623*	*17,660*	*127,619*	*85,042*
Profit rate related contracts	4,864,448	3,887	45,467	9,810
1 year or less	*2,585,000*	*–*	*2,253*	*450*
Over 1 year to 5 years	*2,279,448*	*3,887*	*43,214*	*9,360*
Over 5 years	*–*	*–*	*–*	*–*
Other commitments, such as formal standby facilities and financing lines, with original maturity of over 1 year	4,824,220		2,412,110	1,631,271
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	2,183,074		92,243	69,187
Total	21,492,582	394,135	3,372,970	2,330,607

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 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
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**

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 2016

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	-	-	-	-	-	-	-	4,144,313	3,467,552	-	-	7,611,865
Public Sector Entities	-	-	-	-	-	428	-	-	3,764,906	-	-	3,765,334
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,959,624	-	-	-	1,959,624
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	280,031	-	-	-	280,031
Corporates	1,420,131	572,876	1,035,959	360,607	2,493,970	858,732	4,453,639	7,134,288	1,072,448	-	-	19,402,650
Regulatory Retail	48,491	17,505	141,957	8,349	203,095	272,252	64,950	246,016	25,144	12,990,458	-	14,018,217
Residential Mortgages	-	-	-	-	-	-	-	-	-	4,153,830	-	4,153,830
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	195,111	195,111
Total	1,468,622	590,381	1,177,916	368,956	2,697,065	1,131,412	4,518,589	13,764,272	8,330,050	17,144,288	195,111	51,386,662

6.0 CREDIT RISK (CONTINUED)

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

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

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 2016

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	**3,150,687**	**2,554,948**	**1,906,230**	**7,611,865**
Public Sector Entities	**403,940**	**2,941,806**	**419,588**	**3,765,334**
Banks, Development Financial Institutions & MDBs	**1,666,154**	**133,803**	**159,667**	**1,959,624**
Takaful Cos, Securities Firms & Fund Managers	**1,069**	**278,962**	**–**	**280,031**
Corporates	**3,752,947**	**6,732,044**	**8,917,659**	**19,402,650**
Regulatory Retail	**534,487**	**2,631,420**	**10,852,310**	**14,018,217**
Residential Mortgages	**1,956**	**41,264**	**4,110,610**	**4,153,830**
Higher Risk Assets	**–**	**–**	**–**	**–**
Other Assets	**–**	**–**	**195,111**	**195,111**
Total	**9,511,240**	**15,314,247**	**26,561,175**	**51,386,662**

Table 8b: 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**

6.0 CREDIT RISK (CONTINUED)

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

Table 9a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2016

RHB Islamic Bank Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Takaful Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	7,584,473	3,589,517	4,926	–	1,383,301	–	–	–	20,782	–	12,582,999	–
20%	27,392	171,162	1,954,698	–	2,123,632	3,887	–	–	–	–	4,280,771	856,154
35%	–	–	–	–	–	–	2,304,065	–	–	–	2,304,065	806,423
50%	–	–	–	–	777,403	39,308	918,073	–	–	–	1,734,784	867,392
75%	–	–	–	–	–	11,704,265	28,198	–	–	–	11,732,463	8,799,347
100%	–	–	–	280,031	14,698,933	2,094,064	891,434	–	174,329	–	18,138,791	18,138,791
150%	–	–	–	–	56,813	40,664	6,280	–	–	–	103,757	155,636
Total Exposures	7,611,865	3,760,679	1,959,624	280,031	19,040,082	13,882,188	4,148,050	–	195,111	–	50,877,630	29,623,743

Table 9b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2015

RHB Islamic Bank Exposure Class	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, Development Financial Institutions & MDBs RM'000	Takaful Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
Supervisory Risk Weights (%)												
0%	9,411,307	2,417,162	4,860	–	776,648	50,007	–	–	13,535	–	12,673,519	–
20%	26,116	52,632	855,757	–	2,318,596	4,846	–	–	–	–	3,257,947	651,589
35%	–	–	–	–	–	–	2,023,273	–	–	–	2,023,273	708,146
50%	–	–	17,947	–	835,269	13,185	905,066	–	–	–	1,771,467	885,733
75%	–	–	–	–	–	11,621,112	43,429	–	–	–	11,664,541	8,748,406
100%	–	–	–	279,699	11,706,968	1,834,758	567,401	–	142,943	–	14,531,769	14,531,769
150%	–	–	–	–	50,725	30,117	5,461	–	–	–	86,303	129,455
Total Exposures	9,437,423	2,469,794	878,564	279,699	15,688,206	13,554,025	3,544,630	–	156,478	–	46,008,819	25,655,098

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Rating

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.

The following tables show the Bank's Credit Exposure for 31 December 2016 compared with 31 December 2015 according to the ratings by ECAIs:

Table 10a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2016

RHB Islamic Bank

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		–	3,303,878	–	–	456,801
Takaful Cos, Securities Firms & Fund Managers		–	–	–	–	280,031
Corporates		1,925,147	934,236	–	–	16,040,630

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Rating (continued)

Table 10a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2016 (continued)

RHB Islamic Bank

Short Term Ratings of Corporates by Approved ECAIs						
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Corporates		140,069	–	–	–	–

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	7,611,865	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		1,435,245	427,402	1,426	–	–	95,551

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Rating (continued)

Table 10b: 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						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	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	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	R&I	a-1+, a-1	a-2	a-3	b, c	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Corporates		127,136	101,244	–	–	–

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		–	9,437,423	–	–	–	–

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Rating (continued)

Table 10b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2015 (continued)

RHB Islamic Bank

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		665,107	210,203	3,254	–	–	–

6.7 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the customer, source of repayment/payment and debt/financing servicing ability.

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

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

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

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Credit Risk Mitigation (continued)

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.

The following tables show the credit risk mitigation of portfolios under the Standardised Approach as at 31 December 2016 compared with 31 December 2015:

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2016

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	7,599,391	–	–
Public Sector Entities	3,373,527	3,289,514	4,655
Banks, Development Financial Institutions & MDBs	1,649,807	4,927	–
Takaful Cos, Securities Firms & Fund Managers	279,341	–	–
Corporates	17,276,197	1,203,945	353,760
Regulatory Retail	13,299,274	3,887	116,368
Residential Mortgages	4,060,558	–	5,474
Higher Risk Assets	–	–	–
Other Assets	195,111	–	–
Defaulted Exposures	280,486	–	4,393
Total On-Balance Sheet Exposures	48,013,692	4,502,273	484,650
Off-Balance Sheet Exposures			
OTC Derivatives	752,161	–	–
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,618,936	516,667	24,382
Defaulted Exposures	1,873	–	–
Total Off-Balance Sheet Exposures	3,372,970	516,667	24,382
Total On and Off-Balance Sheet Exposures	51,386,662	5,018,940	509,032

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 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**

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

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

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

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for Senior Management, GCRC, IRMC and Board, 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 financings may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the customer exhibits early warning signals such as defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Within Group Risk & Credit Management, there is a mechanism in place for credit monitoring to flag-out problematic financing (watch list accounts) for intensive monitoring under 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 Account 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 are refined from time to time, to better identify, monitor and resolve such accounts. Dedicated teams are 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 business 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 Group's management, and relevant laws and regulations.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing

The Bank adopts BNM's guidelines on Classification and Impairment Provisions for Financing. The principles in 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/payments of the financing are scheduled on intervals of 3 months or longer, the customer is classified as impaired as soon as a default occurs, 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 cash flows/realisations of collateral that is expected to recover from the impaired customers ie net present value of future cashflows are discounted based on original effective profit rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

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 ie, based on actual incurred loss model.

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 being past due by 90 days or 3 months or less.
2. In the case of revolving facilities (eg 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/payments 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/payments 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.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

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 2016 and 2015 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 2016 compared with 31 December 2015:

Table 12a: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2016

RHB Islamic Bank Industry Sector	Impaired Financing RM'000	Past Due Financing RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	324	1,173	–	8,867
Mining & Quarrying	–	20	–	888
Manufacturing	22,105	12,169	–	24,194
Electricity, Gas & Water Supply	4,771	63	–	1,786
Construction	38,843	14,305	9,362	20,601
Wholesale, Retail Trade, Restaurants & Hotels	48,334	9,614	3,692	30,809
Transport, Storage & Communication	2,094	3,115	–	14,964
Finance, Takaful, Real Estate & Business	42,664	29,502	–	35,169
Education, Health & Others	11,568	1,103,312	2,810	7,178
Household	222,393	3,352,927	–	92,069
Others	–	–	–	–
Total	**393,096**	**4,526,200**	**15,864**	**236,525**

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

Table 12b: Impaired and Past Due Financing and Allowances for Impairment by Industry Sector as at 31 December 2015

RHB Islamic Bank

Industry Sector	Impaired Financing RM'000	Past Due Financing RM'000	Individual Impairment Allowances RM'000	Collective Impairment Allowances RM'000
Agriculture	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:
All impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia.

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

The following table shows the charges/(write-back) and write-offs for impairment by industry sector as at 31 December 2016 compared with 31 December 2015:

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

RHB Islamic Bank	Twelve Months Period Ended 2016		Twelve Months Period Ended 2015	
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	(458)	5,850	4	2,686
Electricity, Gas & Water Supply	–	–	–	–
Construction	(877)	223	(2,076)	215
Wholesale, Retail Trade, Restaurants & Hotels	(1,521)	3,938	(602)	1,305
Transport, Storage & Communication	–	–	–	–
Finance, Takaful, Real Estate & Business	–	–	–	360
Education, Health & Others	(582)	–	34	–
Household	–	32,132	–	48,698
Others	–	2,234	–	140
Total	**(3,438)**	**44,377**	**(2,640)**	**53,404**

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

The following tables show the reconciliation of changes to financing impairment allowances as at 31 December 2016 compared with 31 December 2015:

Table 14: Reconciliation of Changes to Financing Impairment Allowances

RHB Islamic Bank	**2016 RM'000**	**2015 RM'000**
Individual Impairment Allowance		
Balance as at the beginning of financial year	**22,649**	25,289
Net allowance/(written-back) made during the year	**(3,438)**	(2,640)
Amount written-off	**(3,347)**	–
Balance as at the end of financial year	**15,864**	**22,649**

RHB Islamic Bank	**2016 RM'000**	**2015 RM'000**
Collective Impairment Allowance		
Balance as at the beginning of financial year	**199,653**	187,307
Net allowance/(written-back) made during the year	**77,902**	65,749
Amount written-off	**(41,030)**	(53,403)
Balance as at the end of financial year	**236,525**	**199,653**

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.

The Bank transacts financial instruments such as debt papers and financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from the underlying instruments that can be a reference to profit rates, exchange rates, debt paper, or equity and indices. These include futures, forwards, swaps, and options transactions.

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

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 Group'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 ie cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the specific business units within the allocated limits. All trading positions are monitored independently on a daily basis and in accordance to the established escalation procedures and the key actions to be undertaken.

7.0 MARKET RISK (CONTINUED)

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Group's Hedging Policy that prescribes the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

Hedging instruments used to mitigate these risks include derivatives such as options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Bank's treasury functions with the approval of Group ALCO.

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2016 and 31 December 2015 are shown in the tables below:

Table 15a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2016

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	**248,081**	**238,572**	**10,793**	**863**
Foreign Currency Risk	**44,311**	**52,633**	**52,633**	**4,211**
Total			**63,426**	**5,074**

Table 15b: 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 2016 and 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.*

8.0 LIQUIDITY RISK

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

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Group is unable to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

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

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

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

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

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

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Rate of return risk in the banking book refers to the risk to the Group's earnings and economic value of equity due to the adverse movements in benchmark rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Rate of return risk in the banking book comprises:

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

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess rate of return risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis.

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

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

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

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

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.

The impact of changes in benchmark rates to net earnings and economic value as at 31 December 2016 and 31 December 2015 are shown in the following tables:

Table 16a: Rate of Return Risk in the Banking Book as at 31 December 2016

RHB Islamic Bank

	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	**Impact based on +100 basis points RM'000**	**Impact based on -100 basis points RM'000**	**Impact based on +100 basis points RM'000**	**Impact based on -100 basis points RM'000**
MYR – Malaysian Ringgit	**(4,173)**	**4,173**	**(335,841)**	**335,841**
USD – US Dollar	**1,122**	**(1,122)**	**367**	**(367)**
Others[1]	**(400)**	**400**	**201**	**(201)**
Total	**(3,451)**	**3,451**	**(335,273)**	**335,273**

Table 16b: 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		Increase/(Decline) in Economic Value	
Currency	**Impact based on +100 basis points RM'000**	**Impact based on -100 basis points RM'000**	**Impact based on +100 basis points RM'000**	**Impact based on -100 basis points RM'000**
MYR – Malaysian Ringgit	(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.*

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

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

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

Economic value is characterised by the impact of benchmark rates changes on the value of all net cash flows, ie, the effect on the economic value of the Group's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in benchmark rates than is offered by the earnings perspective. The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

10.0 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk is inherent in the Group'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.

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 information such as risk analysis, risk mitigation action plans, risk tools outcomes, risk appetite breaches, significant operational risk events and control failures, and lessons learnt. In addition, key operational risk incidents are reported to senior management daily. Such reporting enables Senior Management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

Operational Risk Management Processes and Tools

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 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 Group'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.

10.0 OPERATIONAL RISK (CONTINUED)

New Product and Services Approval Process

The Group has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

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

Capital Treatment for Operational Risk

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2016 and 31 December 2015, are shown below:

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

	RHB Islamic Bank	
Operational Risk	**2016 RM'000**	**2015 RM'000**
Risk-Weighted Assets	**1,200,381**	1,032,842
Minimum Capital Requirements	**96,030**	82,627

11.0 COUNTRY CROSS-BORDER RISK

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

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

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

12.0 REPUTATIONAL RISK

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

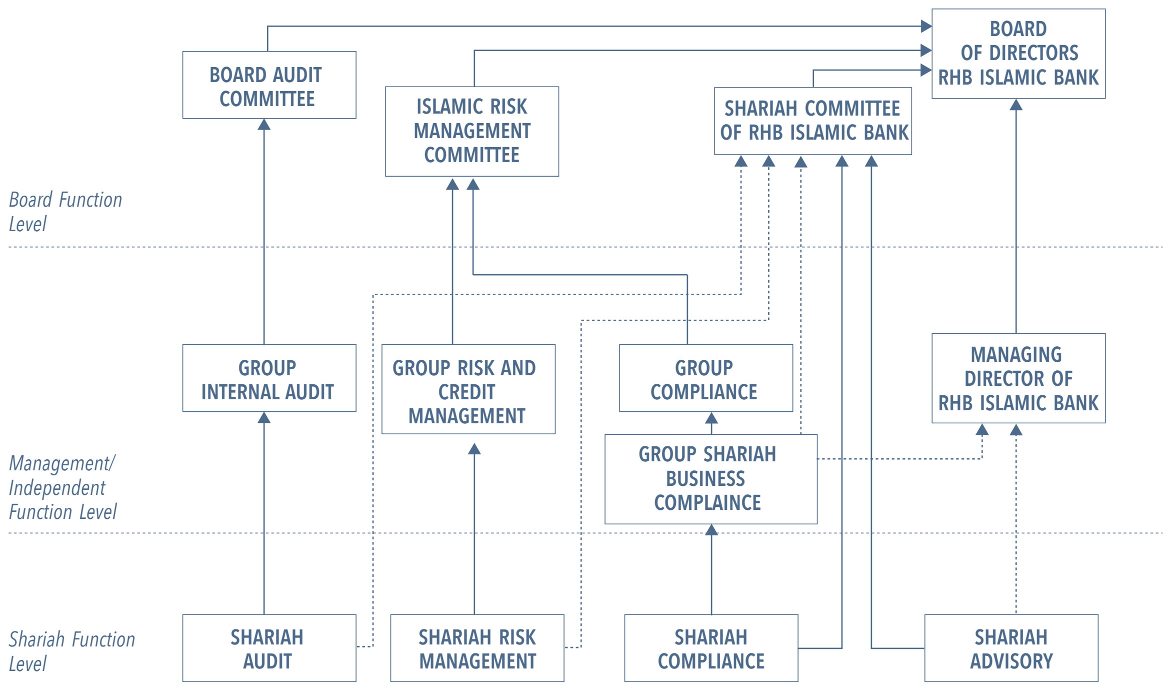
13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

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

- Ensure that the planning, development, and implementation of the Islamic Bank's products, services and conduct of business are in accordance with Shariah principles;
- Ensure that the Bank's operations do not contravene any of the Shariah principles and authorities' regulations related to the Shariah; and
- Act as a guide on the Bank's expectations to all personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE (CONTINUED)

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 Advisory, Group Shariah Risk Management, Shariah Compliance and Shariah Audit.

The Head of Shariah Advisory reports functionally to the SCR and administratively to the Managing Director of RHB Islamic Bank. The key functions of the Shariah Advisory are undertaken by two sub-units, ie Shariah Advisory and Research; and Shariah Governance and Management.

The main duties and responsibilities of Shariah Advisory and Research are to conduct reviews on the Islamic products and services, provide internal Shariah advisory support to the management of RHB Islamic Bank in its daily business and operational matters, assist SCR in elaborating and discussing on pertinent Shariah issues, provide in-depth research on competitive analysis in order to help SCR in making decision and to represent RHB Islamic Bank in any Shariah-related matters. Meanwhile, the main duties and responsibilities of Shariah Governance and Management function are to ensure the internal Shariah governance as well as the internal process flow and policies and Shariah approval process is well managed and maintained in an efficient manner, ensure the Bank is in compliance with the highest standard of Shariah governance as set by BNM, serve as the secretariat of SCR and to act as the mediator between the management and the SCR, oversee the computation and distribution of zakat and fund to be channelled to charity, and conduct Shariah-related training.

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

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 2016.

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.

14.0 FORWARD LOOKING STATEMENTS (CONTINUED)

Table 18: Glossary of Terms

ARMs	Area Account Relationship Managers
BCC	Board Credit Committee
BCP	Business Continuity Planning
BNM	Bank Negara Malaysia
Board	Board of Directors
BRC	Board Risk Committee
CAFIB	Capital Adequacy Framework for Islamic Banks
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCYb	Countercyclical Capital Buffer
CET	Common Equity Tier
CRM	Credit Risk Mitigation
EAD	Exposure at Default
EAM	Enhanced Account Management
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EL	Expected Loss
EUR	Euro Dollar
EVE	Economic Value of Equity
Fitch	Fitch Ratings
GBCSC	Group Business Continuity Steering Committee
GBP	Pound Sterling
GCPM	Group Credit Procedures Manual
GCRC	Group Capital and Risk Committee
GMC	Group Management Committee
GRM	Group Risk Management
Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management
ICAAP	Internal Capital Adequacy Assessment Process
IMLDC	Incident Management and Loss Data Collection
IRMC	Islamic Risk Management Committee
ISDA	International Swaps and Derivatives Association

14.0 FORWARD LOOKING STATEMENTS (CONTINUED)

Table 18: Glossary of Terms (continued)

KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
Moody's	Moody's Investors Service
MYR	Malaysian Ringgit
NIFs	Notes Issuance Facilities
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Probability of Default
PSIA	Profit Sharing Investment Accounts
R&I	Rating and Investment Information, Inc
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self-Assessment
RM'000	Malaysian Ringgit in nearest thousand
RWA	Risk-Weighted Assets
SA	Standardised Approach
SCR	Shariah Committee of RHB Islamic Bank
SBUs	Strategic Business Units
SFUs	Strategic Functional Units
SGD	Singapore Dollar
S&P	Standard & Poor's
SMEs	Small-and medium-sized enterprises
USD	US Dolar
VaR	Value-at-Risk

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